ALABAMA AG CREDIT, ACA

2025
Quarterly Report

For the Quarter Ended June 30, 2025

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.

/s/ Nicolas Hartley
Nicolas Hartley, Chief Executive Officer
August 6, 2025

/s/ Larry H. Gibson, Jr.
Larry H. Gibson, Jr., Chairman, Board of Directors
August 6, 2025

/s/ Heather Smith
Heather Smith, Sr. VP/Chief Financial Officer
August 6, 2025

/s/ Richard M. Stabler
Richard M. Stabler, CPA, retired, Chairman, Audit Committee
August 6, 2025

Second Quarter 2025 Financial Report

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ALABAMA AG CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Alabama Ag Credit, ACA, referred to as the Association, for the quarter ended June 30, 2025. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2024 Annual Report to Stockholders.

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

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

Significant Events

In January 2025, the Farm Credit Bank of Texas' (the Bank) board approved a change to the Bank's capitalization policy. Through 2024, Associations and qualifying OFIs were required to maintain an investment in the Bank equal to 2.0 percent of their average borrowings from the Bank as determined on an annual basis. Beginning in 2025, this investment requirement will increase to 2.5 percent of their average borrowings from the Bank and will be determined on a semi-annual basis. Based on the increase in average borrowings from the Bank, the policy change required an additional $6.5 million investment by the Association that was contributed on March 1, 2025.

Loan Portfolio

Total loans outstanding at June 30, 2025, including nonaccrual loans and sales contracts, were $1,503,703,063 compared to $1,393,862,228 at December 31, 2024, reflecting an increase of 7.9 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.3 percent at June 30, 2025, compared to 0.3 percent at December 31, 2024.

The Association recorded no recoveries or charge-offs for the three months ended June 30, 2025, and $795 in recoveries and $0 in charge-offs for the three months ended June 30, 2024. The Association recorded $1,069 in recoveries and $0 in charge-offs for the six months ended June 30, 2025, and $25,460 in recoveries and $0 in charge-offs for the six months ended June 30, 2024. The Association's allowance for loan losses was 0.7% and 0.7% of total loans outstanding as of June 30, 2025, and December 31, 2024, 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, 2025	December 31, 2024
Nonaccrual loans:		
Real estate mortgage	**$ 3,219,945**	$ 2,966,082
Production and intermediate-term	**160,858**	-
Agribusiness	**1,787,818**	1,871,260
Total nonaccrual loans	**$ 5,168,621**	$ 4,837,342
Accruing loans 90 days or more past due:		
Real estate mortgage	**$ 76,964**	$ -
Production and intermediate-term	**69,224**	21,250
Total accruing loans 90 days or more past due	**$ 146,188**	$ 21,250
Total nonperforming assets	**$ 5,314,809**	$ 4,858,592
Nonaccrual loans as a percentage of total loans	**0.3%**	0.3%
Nonperforming assets as a percentage of total loans and other property owned	**0.4%**	0.3%
Nonperforming assets as a percentage of capital	**2.1%**	2.0%

Results of Operations

The Association had net income of $5,989,670 and $11,976,304 for the three and six months ended June 30, 2025, as compared to net income of $4,013,169 and $9,342,133 for the same period in 2024, reflecting an increase of 49.3 percent and 28.2 percent. Net interest income was $9,552,794 and $19,182,483 for the three and six months ended June 30, 2025, compared to $8,931,963 and $18,197,471 for the same period in 2024.

	Six Months Ended			
	June 30, 2025		June 30, 2024	
	Average Balance	Interest	Average Balance	Interest
Loans	**$ 1,445,387,067**	**$ 43,498,386**	$ 1,347,048,274	$ 39,351,382
Interest-bearing liabilities	**1,227,824,632**	**24,315,903**	1,133,999,251	21,153,911
Impact of capital	**$ 217,562,435**		$ 213,049,023	
Net interest income		**$ 19,182,483**		$ 18,197,471

	2025 Average Yield	2024 Average Yield
Yield on loans	**6.1%**	5.9%
Cost of interest-bearing liabilities	**4.0%**	3.8%
Interest rate spread	**2.1%**	2.1%
Net interest income as a percentage of average earning assets	**2.7%**	2.7%

	Six Months Ended June 30, 2025 vs. June 30, 2024		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	**$ 2,864,814**	**$ 1,282,190**	**$ 4,147,004**
Interest expense	**1,745,418**	**1,416,574**	**3,161,992**
Net interest income	**$ 1,119,396**	**$ (134,384)**	**$ 985,012**

Interest income for the three and six months ended June 30, 2025, increased by $2,539,843 and $4,147,004, or 12.9 percent and 10.5 percent, respectively, from the same periods of 2024, primarily due to an increase in average loan volume. Interest expense for the three and six months ended June 30, 2025, increased by $1,919,012 and $3,161,992, or 17.8 percent and 14.9 percent, from the same periods of 2024 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the second quarter of 2025 was $1,445,387,067, compared to $1,347,048,274 in the second quarter of 2024. The average net interest rate spread on the loan portfolio for the second quarter of 2025 was 2.1 percent, compared to 2.1 percent in the second quarter of 2024.

Noninterest income for the three ended June 30, 2025, decreased by $216,825, or 13.8% while noninterest income for the six months ended June 30, 2025 increased by $33,074, or 0.0% percent, over the same period of 2023. The decrease for the three month period is due primarily to the timing of the refund from the Farm Credit System Insurance Corporation compared to the prior year offset by an increase in patronage income from the Bank. The increase in patronage income accrual is the result of the an increased average direct loan volume due to growth of the Association in the first six months of the year.

Noninterest expenses for the three months and six months ended June 30, 2025, increased by $204,415 and $483,273, or 4.6 percent and 5.2 percent, respectively from the same period in 2024. The increase is primarily due to increased salaries and benefits, travel and other noninterest expense offset by a decrease in occupancy and equipment expense and public and member relations. Salaries increased with annual increases. The increase in travel is due to an increase in costs and number of events attended. The increase in noninterest expense is due to paying FSA fees on behalf of borrowers as part of the new generation program. Occupancy and equipment decreased primarily due to computer and software licenses that were incurred in the previous year but not in the current year due to timing of payments. Public and member relations decreased primarily due to the timing of events compared to prior year.

The Association's return on average assets for the six months ended June 30, 2025, was 1.6 percent compared to 1.4 percent for the same period in 2024. The Association's return on average equity for the six months ended June 30, 2025, was 9.9 percent, compared to 8.0 percent for the same period in 2024.

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, 2025	December 31, 2024
Note payable to the Bank	$ 1,288,631,347	$ 1,171,471,511
Accrued interest on note payable	4,314,620	3,704,360
Total	**$ 1,292,945,967**	$ 1,175,175,871

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 $1,288,631,347 as of June 30, 2025, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 4.07 percent at June 30, 2025. 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, 2024, 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 $215,452,136 at June 30, 2025. The maximum amount the Association may borrow from the Bank as of June 30, 2025, was $1,405,000,000 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.

The Association is required to maintain an investment in the Bank in the form of Class A voting capital stock and allocated retained earnings. For 2024, the investment required of the Association was 2.00% of its average borrowing from the Bank, which was equalized annually. Beginning in 2025, the investment requirement of the Association increased to 2.50% of the average borrowings from the Bank, annualized semi-annually. The first semi-annual equalization resulted in an increase investment in the Bank of $6,472,480 and was recorded in the first quarter of 2025.

Capital Resources

The Association's capital position increased by $12,036,271 at June 30, 2025, compared to December 31, 2024. The Association's debt as a percentage of members' equity was 5.1:1 as of June 30, 2025, compared to 4.9:1 as of December 31, 2024.

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 June 30, 2025, 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 2024 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

	June 30, 2025 (unaudited)	December 31, 2024
ASSETS		
Cash	**$ 27,102**	$ 11,967
Loans	**1,503,703,063**	1,393,862,228
Less: allowance for credit losses on loans	**10,255,479**	10,100,143
Net loans	**1,493,447,584**	1,383,762,085
Accrued interest receivable	**15,233,706**	13,467,459
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**29,181,740**	22,709,260
Accrued Patronage Receivable	**3,422,869**	4,412,424
Other	**909,011**	2,725,523
Premises and equipment, net	**6,734,088**	6,611,319
Other assets	**1,508,584**	1,703,731
Total assets	**$ 1,550,464,684**	$ 1,435,403,768
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 1,288,631,347**	1,171,471,511
Accrued interest payable	**4,314,710**	3,704,360
Drafts outstanding	**119,633**	514,463
Patronage distributions payable	**24,017**	12,349,651
Other liabilities	**6,656,941**	8,682,018
Total liabilities	**1,299,746,648**	1,196,722,003
MEMBERS' EQUITY		
Capital stock and participation certificates	**4,662,920**	4,580,405
Unallocated retained earnings	**245,598,023**	233,621,719
Accumulated other comprehensive income	**457,093**	479,641
Total members' equity	**250,718,036**	238,681,765
Total liabilities and members' equity	**$ 1,550,464,684**	$ 1,435,403,768

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 June 30,		Six Months Ended June 30,	
	2025	2024	**2025**	2024
INTEREST INCOME				
Loans	**$ 22,241,375**	$ 19,701,532	**$ 43,498,386**	$ 39,351,382
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**12,688,581**	10,769,569	**24,315,903**	21,153,911
Net interest income	**9,552,794**	8,931,963	**19,182,483**	18,197,471
PROVISION FOR LOAN LOSSES	**302,450**	2,079,360	**162,549**	2,261,907
Net interest income after provision for credit losses on loans	**9,250,344**	6,852,603	**19,019,934**	15,935,564
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**1,137,306**	983,433	**2,108,897**	1,964,729
Loan fees	**115,450**	105,275	**224,648**	189,184
Gain (loss) on sale of premises and equipment, ne	**(27,441)**	910	**(24,863)**	16,033
Other noninterest income	**125,864**	478,386	**453,440**	559,102
Total noninterest income	**1,351,179**	1,568,004	**2,762,122**	2,729,048
NONINTEREST EXPENSES				
Salaries and employee benefits	**2,941,819**	2,760,852	**6,108,841**	5,637,758
Directors' expense	**79,271**	97,992	**185,967**	170,354
Purchased services	**131,467**	131,246	**295,412**	263,461
Travel	**267,066**	216,750	**453,455**	393,372
Occupancy and equipment	**272,142**	359,634	**715,491**	906,925
Communications	**78,379**	76,333	**151,352**	149,214
Advertising	**114,350**	109,837	**198,024**	198,780
Public and member relations	**141,949**	137,908	**264,843**	294,699
Supervisory and exam expense	**94,648**	118,608	**218,209**	237,215
Insurance fund premiums	**302,521**	267,998	**844,478**	807,438
Other components of net periodic postretirement benefit cost	**23,072**	8,697	**46,144**	17,394
Other noninterest expense	**165,169**	121,583	**323,536**	245,869
Total noninterest expenses	**4,611,853**	4,407,438	**9,805,752**	9,322,479
NET INCOME	**5,989,670**	4,013,169	**11,976,304**	9,342,133
Other comprehensive income:				
Change in postretirement benefit plans	**(11,274)**	(7,517)	**(22,548)**	(15,033)
COMPREHENSIVE INCOME	**$ 5,978,396**	$ 4,005,652	**$ 11,953,756**	$ 9,327,100

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, 2023	$ 4,467,215	$ 224,465,834	$ 358,957	$ 229,292,006
Net income	-	9,342,133	-	9,342,133
Other comprehensive income	-	-	(15,033)	(15,033)
Capital stock/participation certificates	316,615	-	-	316,615
Capital stock/participation certificates	(255,745)	-	-	(255,745)
Patronage refunds:				
Change in patronage declared and paid	-	2,223	-	2,223
Balance at June 30, 2024	$ 4,528,085	$ 233,810,190	$ 343,924	$ 238,682,199
Balance at December 31, 2024	**$ 4,580,405**	**$ 233,621,719**	**$ 479,641**	**$ 238,681,765**
Net income	**-**	**11,976,304**	**-**	**11,976,304**
Other comprehensive income	**-**	**-**	**(22,548)**	**(22,548)**
Capital stock/participation certificates	**394,125**	**-**	**-**	**394,125**
Capital stock/participation certificates	**(311,610)**	**-**	**-**	**(311,610)**
Balance at June 30, 2025	**$ 4,662,920**	**$ 245,598,023**	**$ 457,093**	**$ 250,718,036**

The accompanying notes are an integral part of these combined 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 U.S generally accepted accounting principles (GAAP) for interim financial information. Certain disclosures included in the annual financial statements have been condensed or omitted from these financial statements as they are not required for interim financial statements under GAAP and the rules of the Farm Credit Administration (FCA). This report should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2024, as contained in the 2024 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, 2025. Descriptions of the significant accounting policies are included in the 2024 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 or Issued Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board (FASB) issued 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. Income taxes paid will require disaggregated disclosure by federal, state and foreign jurisdictions for amounts exceeding a quantitative threshold of greater than five percent of total income taxes paid. 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 Institution’s financial condition, results of operations or cash flows.

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

A summary of loans follows:

Loan Type	June 30, 2025 Amount	December 31, 2024 Amount
Production agriculture:		
Real estate mortgage	**$ 1,059,498,590**	$ 1,000,832,985
Production and intermediate-term	**164,239,048**	155,858,822
Agribusiness:		
Loans to cooperatives	**10,183,009**	8,902,927
Processing and marketing	**131,584,745**	97,992,108
Farm-related business	**26,243,536**	21,787,590
Communication	**11,956,166**	12,014,400
Energy	**15,893,945**	13,409,807
Water and waste-water	**8,215,139**	13,359,815
Rural residential real estate	**65,364,267**	61,269,467
Agricultural export finance	**10,524,618**	8,434,307
Total	**$ 1,503,703,063**	$ 1,393,862,228

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, 2025:

	Other Farm Credit Institutions	
	Participations Purchased	**Participations Sold**
Real estate mortgage	$ 23,725,462	$ 77,368,463
Production and intermediate-term	30,853,856	5,584,452
Agribusiness	130,129,255	73,707,326
Communication	11,956,166	-
Energy	15,893,945	-
Water and waste-water	8,215,139	-
Agricultural export finance	10,524,618	-
Total	$ 231,298,441	$ 156,660,241

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 $11,534,205 and $10,174,533 at June 30, 2025, and December 31, 2024, 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 the amortized cost of loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type as of June 30, 2025 and December 31, 2024:

	June 30, 2025	December 31, 2024
Real estate mortgage		
Acceptable	**97.5 %**	98.3 %
OAEM	**1.5**	1.0
Substandard/doubtful	**1.0**	0.7
	100.0	100.0
Production and intermediate-term		
Acceptable	**93.66**	98.7
OAEM	**4.75**	1.2
Substandard/doubtful	**1.59**	0.1
	100.0	100.0
Agribusiness		
Acceptable	**94.3**	92.1
OAEM	**4.7**	6.4
Substandard/doubtful	**1.1**	1.5
	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	**99.91**	99.3
OAEM	**0.07**	0.3
Substandard/doubtful	**0.01**	0.4
	100.0	100.0
Agricultural export finance		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**96.9**	97.9
OAEM	**2.1**	1.1
Substandard/doubtful	**1.0**	1.0
	100.0 %	100.0 %

Accrued interest receivable on loans of $15,233,706 and $13,467,459 at June 30, 2025, and December 31, 2024, has 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 and six months ended June 30, 2025, respectively.

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:

	June 30, 2025	December 31, 2024
Nonaccrual loans:		
Real estate mortgage	**$ 3,219,945**	$ 2,966,082
Production and intermediate-term	**160,858**	-
Agribusiness	**1,787,818**	1,871,260
Total nonaccrual loans	**$ 5,168,621**	$ 4,837,342
Accruing loans 90 days or more past due:		
Real estate mortgage	**$ 76,964**	$ -
Production and intermediate-term	**69,224**	21,250
Total accruing loans 90 days or more past due	**$ 146,188**	$ 21,250
Total nonperforming assets	**$ 5,314,809**	$ 4,858,592
Nonaccrual loans as a percentage of total loans	**0.3%**	0.3%
Nonperforming assets as a percentage of total loans and other property owned	**0.4%**	0.3%
Nonperforming assets as a percentage of capital	**2.1%**	2.0%

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:

	June 30, 2025			**Interest Income Recognized**	
	Amortized Cost with Allowance	**Amortized Cost without Allowance**	**Total**	**For the Three Months Ended June 30, 2025**	**For the Six Months Ended June 30, 2025**
Nonaccrual loans:					
Real estate mortgage	$ 586,444	$ 2,633,501	$ 3,219,945	$ 2,159	$ 80,988
Production and intermediate-term	-	160,858	160,858	-	-
Agribusiness	1,787,818	-	1,787,818	-	-
Total nonaccrual loans	$ 2,374,262	$ 2,794,359	$ 5,168,621	$ 2,159	$ 80,988

	December 31, 2024			Interest Income Recognized	
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Three Months Ended June 30, 2024	For the Six Months Ended June 30, 2024
Nonaccrual loans:					
Real estate mortgage	$ 474,447	$ 2,491,635	$ 2,966,082	$ -	$ 224,125
Agribusiness	1,871,260	-	1,871,260	-	-
Total nonaccrual loans	$ 2,345,707	$ 2,491,635	$ 4,837,342	$ -	$ 224,125

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

June 30, 2025	**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 Past Due and Accruing**
Real estate mortgage	$ 5,877,049	$ 3,004,008	$ 8,881,057	$ 1,050,617,533	$ 1,059,498,590	$ 76,964
Production and intermediate term	332,752	202,086	534,838	163,704,210	164,239,048	69,224
Loans to cooperatives	-	-	-	10,183,009	10,183,009	-
Processing and marketing	-	-	-	131,584,745	131,584,745	-
Farm-related business	-	1,787,818	1,787,818	24,455,718	26,243,536	-
Communication	-	-	-	11,956,166	11,956,166	-
Energy	-	-	-	15,893,945	15,893,945	-
Water and waste-water	-	-	-	8,215,139	8,215,139	-
Rural residential real estate	535,661	-	535,661	64,828,606	65,364,267	-
Agricultural export finance	-	-	-	10,524,618	10,524,618	-
Total	$ 6,745,462	$ 4,993,912	$ 11,739,374	$ 1,491,963,689	$ 1,503,703,063	$ 146,188

December 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 Past Due and Accruing
Real estate mortgage	$ 7,248,912	$ 2,290,822	$ 9,539,734	$ 991,293,251	$ 1,000,832,985	$ -
Production and intermediate term	266,412	21,250	287,662	155,571,160	155,858,822	21,250
Loans to cooperatives	-	-	-	8,902,927	8,902,927	-
Processing and marketing	-	-	-	97,992,108	97,992,108	-
Farm-related business	1,871,260	-	1,871,260	19,916,330	21,787,590	-
Communication	-	-	-	12,014,400	12,014,400	-
Energy	-	-	-	13,409,807	13,409,807	-
Water and waste-water	-	-	-	13,359,815	13,359,815	-
Rural residential real estate	1,209,666	-	1,209,666	60,059,801	61,269,467	-
Agricultural export finance	-	-	-	8,434,307	8,434,307	-
Total	$ 10,596,250	$ 2,312,072	$ 12,908,322	$ 1,380,953,906	$ 1,393,862,228	$ 21,250

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

For loan modifications granted to borrowers during the three months ended June 30, 2025, the following table shows the amortized cost basis of the outstanding balances reflected in our Balance Sheet as of June 30, 2025, disaggregated by loan type and type of modification granted.

	For the Three Months Ended June 30, 2025(1)		
	Term Extension	Total	Percentage of Total by Loan Type
Real estate mortgage	$ 3,308,299	$ 3,308,299	100%
Production and Intermediate-Term	2,259,949	2,259,949	100
Total	$ 5,568,248	$ 5,568,248	100%

(1) Excludes loans that were modified during the period but were paid off, sold or charged-off prior to period end.

In the three months ended June 30, 2024, the Association did not have any loan modifications related to interest rate reduction, term extension, principal forgiveness, or payment deferral.

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the three months ended June 30, 2025 and 2024 was $459,463 and $0, respectively.

For loan modifications granted to borrowers during the six months ended June 30, 2025, the following table shows the amortized cost basis of the outstanding balances reflected in our Balance Sheet as of June 30, 2025, disaggregated by loan type and type of modification granted.

	For the Six Months Ended June 30, 2025		
	Term Extension	Total	Percentage of Total by Loan Type
Real estate mortgage	$ 3,308,299	$ 3,308,299	100%
Production and Intermediate-Term	2,259,949	2,259,949	100
Total	$ 5,568,248	$ 5,568,248	100%

In the six months ended June 30, 2024, the Association did not have any loan modifications related to interest rate reduction, term extension, principal forgiveness, or payment deferral.

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the six months ended June 30, 2025 and 2024 was $459,463 and $0, respectively.

The following tables describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the three months ended June 30, 2025:

	Financial Effect For the Three Months Ended June 30, 2025
	Term Extension
Real estate mortgage	**104 days**
Production and Intermediate Term	**104 days**

The following tables describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the six months ended June 30, 2025:

	Financial Effect For the Six Months Ended June 30, 2025
	Term Extension
Real estate mortgage	**104 days**
Production and Intermediate Term	**104 days**

The following table sets forth an aging analysis at June 30, 2025 of loans to borrowers experiencing financial difficulty that were modified during the twelve months prior to June 30, 2025:

	Payment Status of Loans Modified in the Past 12 Months		
	Current	**30-89 Days Past Due**	**90 Days or More Past Due**
Real estate mortgage	**$ 3,308,299**	**$ -**	**$ -**
Production and intermediate-term	**2,259,949**	**-**	**-**
Total	**$ 5,568,248**	**$ -**	**$ -**

There were no loans that were modified in the 12 months prior to June 30, 2025 that defaulted during the three or six months ended June 30, 2025. There were no loans modified in the 12 months prior to June 30, 2024 that subsequently defaulted during the three or six months ended June 30, 2024.

The following table sets forth an aging analysis at June 30, 2024 of loans to borrowers experiencing financial difficulty that were modified during the twelve months prior to June 30, 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	$ 112,712	$ -	$ -

There were no additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified during the three months ended June 30, 2025 and during the year ended December 2024.

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 for the three and six months ended June 30, 2025 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 March 31, 2025	$ 6,279,516	$ 1,250,062	$ 2,118,415	$ 25,352	$ 25,187	$ 269,743	$ 3,609	$ 9,971,884
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for credit losses (credit loss reversal)	676,090	(468,845)	73,102	55	(753)	4,106	(160)	283,595
Balance at June 30, 2025	$ 6,955,606	$ 781,217	$ 2,191,517	$ 25,407	$ 24,434	$ 273,849	$ 3,449	$ 10,255,479
Allowance for credit losses on unfunded commitments:								
Balance at March 31, 2025	$ 7,574	$ 31,977	$ 15,406	$ 1,778	$ 7,043	$ 1,473	$ 1,829	$ 67,080
Provision for unfunded commitments	10,639	(2,103)	9,070	(3)	(2,304)	837	(359)	15,777
Balance at June 30, 2025	$ 18,213	$ 29,874	$ 24,476	$ 1,775	$ 4,739	$ 2,310	$ 1,470	$ 82,857

	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, 2024	$ 6,414,160	$ 1,237,901	$ 2,111,125	$ 26,305	$ 26,057	$ 280,503	$ 4,092	$ 10,100,143
Recoveries	1,070	-	-	-	-	-	-	1,070
Provision for credit losses/(credit loss reversal)	540,376	(456,684)	80,392	(898)	(1,623)	(6,654)	(643)	154,266
Balance at June 30, 2025	$ 6,955,606	$ 781,217	$ 2,191,517	$ 25,407	$ 24,434	$ 273,849	$ 3,449	$ 10,255,479
Allowance for credit losses on unfunded commitments:								
Balance at December 31, 2024	$ 10,833	$ 33,281	$ 19,123	$ 1,835	$ 9,210	$ 1,100	$ 2,271	$ 77,653
Provision for unfunded commitments	7,380	(3,407)	5,353	(60)	(4,471)	1,210	(801)	5,204
Balance at June 30, 2025	$ 18,213	$ 29,874	$ 24,476	$ 1,775	$ 4,739	$ 2,310	$ 1,470	$ 82,857

A summary of changes in the allowance for credit losses by portfolio segment for the three and six months ended June 30, 2025 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 March 31, 2024	$ 7,354,697	$ 234,390	$ 1,156,420	$ 4,528	$ 16,436	$ 232,404	$ 4,831	$ 9,003,707
Recoveries	795	-	-	-	-	-	-	795
Provision for loan losses (credit loss reversal)	(163,968)	20,648	2,155,085	(155)	3,871	51,921	(376)	2,067,026
Balance at June 30, 2024	$ 7,191,524	$ 255,038	$ 3,311,505	$ 4,373	$ 20,307	$ 284,325	$ 4,455	$ 11,071,528
Allowance for credit losses on unfunded commitments:								
Balance at March 31, 2024	$ 3,903	$ 26,774	$ 17,232	$ -	$ 922	$ 874	$ 3,269	$ 52,974
Provision for unfunded commitments	(1,264)	2,961	977	-	10,451	(396)	(395)	12,334
Balance at June 30, 2024	$ 2,639	$ 29,735	$ 18,209	$ -	$ 11,373	$ 478	$ 2,874	$ 65,308

	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
Recoveries	25,460	-	-	-	-	-	-	25,460
Provision for loan losses (credit loss reversal)	(959,587)	37,005	3,134,725	(391)	2,613	36,006	(866)	2,249,505
Balance at June 30, 2024	$ 7,191,524	$ 255,038	$ 3,311,506	$ 4,373	$ 20,307	$ 284,325	$ 4,455	$ 11,071,528
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	(3,272)	1,866	4,459	-	10,352	(408)	(593)	12,404
Balance at June 30, 2024	$ 2,639	$ 29,735	$ 18,209	$ -	$ 11,373	$ 478	$ 2,874	$ 65,308

Discussion of Changes in Allowance for Credit Losses

The ACL increased $155,336 to $10,255,479 at June 30, 2025, as compared to $10,100,143 at December 31, 2024. This is largely due to increase in loan volume during first half of 2025 and PD migration of loans. The increase in the allowance was partially offset by a decrease in a qualitative provision adjustment for row crop concentrations.

The Association's macroeconomic forecasts includes a weighted average selection of a third-party vendor's economic scenarios over a reasonable and supportable forecast period of two years. The economic scenarios utilized in the June 30, 2025, estimate for the allowance for credit losses were based on the following: a baseline scenario, which represents a relatively stable economic environment; a downside scenario reflecting an economic recession during the forecast period; and an upside scenario that considers the potential for economic improvement relative to the baseline scenario. The economic forecast incorporate macroeconomic variables, including the U.S. unemployment rate, Dow Jones Total Stock Market Index and U.S. corporate bond spreads.

NOTE 3 — CAPITAL:

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

Regulatory Capitalization Requirements

Risk-adjusted:	**Regulatory Minimums wih Buffer**	**As of June 30, 2025**
Common equity tier 1 ratio	7.0%	14.0%
Tier 1 capital ratio	8.5%	14.0%
Total capital ratio	10.5%	14.7%
Permanent capital ratio	7.0%	14.1%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.0%	14.5%
UREE leverage ratio	1.5%	14.2%

The details for the amounts used in the calculation of the regulatory capital ratios as of June 30, 2025:

Risk-adjusted Capital Ratios

	Common equity tier 1 ratio	**Tier 1 capital ratio**	**Total capital ratio**	**Permanent capital ratio**
Numerator:				
Unallocated retained earnings	**$ 241,409,280**	**$ 241,409,280**	**$ 241,409,280**	**$ 241,409,280**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**4,638,397**	**4,638,397**	**4,638,397**	**4,638,397**
Allowance for loan losses and reserve for credit losses subject to certain limitations	**-**	**-**	**10,038,186**	**-**
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(30,090,751)**	**(30,090,751)**	**(30,090,751)**	**(30,090,751)**
	$ 215,956,926	$ 215,956,926	$ 225,995,112	$ 215,956,926
Denominator:				
Risk-adjusted assets excluding allowance	**$ 1,573,022,710**	**$ 1,573,022,710**	**$ 1,573,022,710**	**$ 1,573,022,710**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(30,090,751)**	**(30,090,751)**	**(30,090,751)**	**(30,090,751)**
Allowance for loan losses	**-**	**-**	**-**	**(9,970,931)**
	$ 1,542,931,959	$ 1,542,931,959	$ 1,542,931,959	$ 1,532,961,028

Non-risk-adjusted Capital Ratios

		Tier 1 leverage ratio		UREE leverage ratio
Numerator:				
Unallocated retained earnings	$	**241,409,280**	$	**241,409,280**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock		**4,638,397**		**-**
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions		**(30,090,751)**		**(30,090,751)**
	$	**215,956,926**	$	**211,318,529**
Denominator:				
Total Assets	$	**1,518,596,627**	$	**1,518,596,627**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in tier 1 capital		**(31,458,199)**		**(31,458,199)**
	$	1,487,138,428	$	1,487,138,428

Describe any significant capitalization bylaw changes during the second quarter of 2025 and noncompliance with FCA capital regulations, if applicable, and the current status of capital plans (if status has changed from that reported in the 2024 Annual Report to Stockholders).

		June 30, 2025		December 31, 2024
Capital stock and participation certificates	**$**	**4,662,920**	$	4,580,405
Accumulated other comprehensive loss		**457,093**		479,641
Retained earnings		**245,598,023**		233,621,719
Total Capital	$	250,718,036	$	238,681,765

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 six months ended June 30:

	2025	2024
Accumulated other comprehensive income (loss) at January 1	**$ 479,641**	$ 358,957
Amortization of actuarial (gain) loss included in salaries and employee benefits	**(22,548)**	(15,033)
Accumulated other comprehensive income (loss) at June 30	**$ 457,093**	$ 343,924

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 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 7 — 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 2024 Annual Report to Stockholders for a more complete description.

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

June 30, 2025	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in non-qualified benefits trusts	$ 284,569	-	-	$ 284,569

December 31, 2024	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in non-qualified benefits trusts	$ 261,836	-	-	$ 261,836

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

June 30, 2025	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 492,622	$ 492,622

December 31, 2024	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 365,071	$ 365,071

*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.

Quantitative 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 2024 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 2024 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 2024 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 June 30:

	2025	2024
DB Contribution	$ 232,478	$ 217,392
YTD Amortization	116,239	108,696
Unamortized Contributions	$ 116,239	$ 108,696

Association contributions to the DC Plan are expensed as incurred. For the three months ended June 30, 2025 and 2024, the Association recognized pension costs for the DC Plan of $99,598 and $97,325, 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 $66,564 and $67,372 for the three months ended June 30, 2025 and 2024, 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 other postretirement benefit costs for the three and six months ended June 30:

	Other Benefits	
Three months ended June 30:	**2025**	**2024**
Service cost	**$ 4,053**	$ 8,702
Interest cost	**34,348**	36,096
Amortization of prior service (credits) costs	**(1,062)**	(5,056)
Amortization of net actuarial (gain) loss	**(10,214)**	(2,461)
Net periodic benefit cost	**$ 27,125**	$ 37,281

	Other Benefits	
Six months ended June 30:	**2025**	**2024**
Service cost	**$ 8,107**	$ 17,405
Interest cost	**68,695**	72,192
Amortization of prior service (credits) costs	**(2,124)**	(10,112)
Amortization of net actuarial (gain) loss	**(20,427)**	(4,922)
Net periodic benefit cost	**$ 54,251**	$ 74,563

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2025, was $2,643,631 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 6, 2025, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 6, 2025.