AG NEW MEXICO, FARM CREDIT SERVICES, ACA

2014
Quarterly Report
First Quarter

For the Quarter Ended March 31, 2014

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 his or her knowledge and belief.

Frank Shelton, Chief Executive Officer

May 8, 2014

Mark McCollum, Chairman, Board of Directors

May 8, 2014

Ginger Garrett, Chief Financial Officer

May 8, 2014

AG NEW MEXICO, FARM CREDIT SERVICES, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended March 31, 2014. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2013 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:

For the three months ending March 31, 2014, the association continued efforts towards strengthening its financial position and managing the credit risk within the loan portfolio. Net interest income of $1,154,678, remained stable compared to the first quarter of 2013, with an increase of $28,352, or 2.5 percent. Net income decreased from $986,737 to $429,565 for the three months ending March 31, 2013 and 2014, respectively. The decrease in net income is primarily attributed to a recovery of previously charged off loan principal and gains on sales of assets which occurred in the first quarter of 2013. Earnings in the first quarter of 2014 helped strengthen the association's capital position to 15.7 percent as compared to 14.6 percent in December 2013.

The association acquired property as a result of a loan settlement agreement. During the second quarter of 2012, a contracted appraisal of the property established an appraised value of $820,000. The net realizable value of the property was determined to be $675,600 after netting estimated selling expense against the appraised value. The carrying value of the property was $3,106,950 based upon previous appraisals. The appraisal resulted in setting up a provision for loss on other property owned and allowance for loss on other property owned of $2,431,350 in the second quarter of 2012. The results of this transaction triggered a violation of the net earnings covenant of the General Financing Agreement (GFA) between the association and the bank. The bank extended a limited waiver of the covenant default through September 30, 2013, subject to the association taking certain actions to correct the deficiency. The association corrected the deficiency in the second quarter of 2013 and is currently in compliance with all GFA covenants and the terms of the waiver.

Farmers and ranchers in New Mexico saw some relief from extended drought conditions with 2013 monsoon rainfall. The 2014 winter runoff is projected to be well below historical averages and reservoir levels and irrigation availability continue to be severely stressed. High feed costs have abated somewhat since 2013, and market conditions and margins for both calf producers and dairymen have strengthened in 2014. Beef cattle prices continue to show strength which has helped to mitigate the effects of drought driven herd reductions. Bred heifer prices continued to advance which will require higher capital outlays for ranchers looking to rebuild herd counts, when range conditions improve. Severe drought conditions in California may benefit southern New Mexico produce growers in 2014, based upon significant reductions in national produce production. The Association strives to timely identify trends in risk factors in the loan portfolio and to take prompt action to address those risks. The Association underwent two separate evaluations conducted in 2013, which concluded that the Association is adequately assigning correct risk ratings to loans in the Association's portfolio. Those evaluations included an examination by the Association's regulator and a review by an independent firm specializing in providing Credit Review Services for associations and other financial institutions.

Loan Portfolio:

Total loans outstanding at March 31, 2014, including nonaccrual loans and sales contracts, were $162,925,381 compared to $165,033,188 at December 31, 2013, reflecting a decrease of 1.3 percent. Nonaccrual loans as a percentage of total loans outstanding were 2.5 percent at March 31, 2014, compared to 2.6 percent at December 31, 2013.

The association recorded $0 in recoveries and $0 in charge-offs for the quarter ended March 31, 2014, and $477,567 in recoveries and $0 in charge-offs for the same period in 2013. The association's allowance for loan losses was 0.6 percent and 0.6 percent of total loans outstanding as of March 31, 2014, and December 31, 2013, 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.

	March 31, 2014		December 31, 2013	
	Amount	**%**	Amount	%
Nonaccrual	**$ 4,119,973**	**85.6%**	$ 4,230,564	85.9%
90 days past due and still accruing interest	**-**	**0.0%**	-	0.0%
Formally restructured	**-**	**0.0%**	-	0.0%
Other property owned, net	**695,671**	**14.4%**	695,671	14.1%
Total	**$ 4,815,644**	**100.0%**	$ 4,926,235	100.0%

Investments:

During the first quarter of 2010, the association exchanged $26.4 million of mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security. No gain or loss was recognized in the financial statements upon completion of the exchange transaction. The association continues to service the loans included in this transaction. These investments in guaranteed securities are included in this report's Consolidated Balance Sheet as investments – held-to-maturity. The Farmer Mac guaranteed agricultural mortgage-backed securities were $8.9 million at March 31, 2014.

Results of Operations:

The association had net income of $429,565 for the three months ended March 31, 2014, as compared to net income of $986,737 for the same period in 2013, reflecting a decrease of 56.5 percent. Net interest income was $1,154,678 for the three months ended March 31, 2014, compared to $1,126,326 for the same period in 2013.

	March 31, 2014		March 31, 2013	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 164,776,791**	**$ 1,604,944**	$ 162,517,492	$ 1,562,197
Investments	**9,169,480**	**104,286**	10,996,836	119,530
Total interest-earning assets	**173,946,271**	**1,709,230**	173,514,328	1,681,727
Interest-bearing liabilities	**150,516,531**	**554,552**	154,482,640	555,401
Impact of capital	**$ 23,429,740**		$ 19,031,688	
Net interest income		**$ 1,154,678**		$ 1,126,326

	2014 Average Yield	2013 Average Yield
Yield on loans	**3.95%**	3.90%
Yield on investments	**4.61%**	4.41%
Total yield on interest-earning assets	**3.99%**	3.93%
Cost of interest-bearing liabilities	**1.49%**	1.46%
Interest rate spread	**2.49%**	2.47%
Net interest income as a percentage of average earning assets	**2.69%**	2.63%

	March 31, 2014 vs. March 31, 2013		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 21,717**	**$ 21,030**	**$ 42,747**
Interest income - investments	**(19,863)**	**4,619**	**(15,244)**
Total interest income	**1,855**	**25,648**	**27,503**
Interest expense	**(14,259)**	**13,410**	**(849)**
Net interest income	**$ 16,114**	**$ 12,238**	**$ 28,352**

Interest income for the three months ended March 31, 2014, increased by $27,503 or 1.6 percent from the same period of 2013, primarily due to increases in yields on earning assets and a decrease in average loan volume. Interest expense for the three months ended March 31, 2014, decreased by $849, or 0.2 percent from the same period of 2013 due to an increase in interest rates offset by a decrease in average debt volume. Average loan volume for the first quarter of 2014 was $164,776,791, compared to $162,517,492 in the first quarter of 2013. The average net interest rate spread on the loan portfolio for the first quarter of 2014 was 2.49 percent, compared to 2.47 percent in the first quarter of 2013.

The association's return on average assets for the three months ended March 31, 2014, was 0.95 percent compared to 2.16 percent for the same period in 2013. The association's return on average equity for the three months ended March 31, 2014, was 5.39 percent, compared to 13.61 percent for the same period in 2013.

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 Systemwide obligations and with lendable equity. The following schedule summarizes the association's borrowings.

	March 31, 2014	December 31, 2013
Note payable to the bank	**$ 147,899,812**	$ 150,409,512
Accrued interest on note payable	**190,134**	193,219
Total	**$ 148,089,946**	$ 150,602,731

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2014. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $147,899,812 as of March 31, 2014, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 1.52 percent at March 31, 2014. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by a general financing agreement. The decrease in note payable to the bank and related accrued interest payable since December 31, 2013, is due to the association's decrease in assets. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $24,011,162 at March 31, 2014. The maximum amount the association may borrow from the bank as of March 31, 2014, was $171,086,268 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, 2014, 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 $363,415 at March 31, 2014, compared to December 31, 2013. The association's debt as a percentage of members' equity was 4.61:1 as of March 31, 2014, compared to 4.75:1 as of December 31, 2013.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The association's permanent capital ratio at March 31, 2014, was 15.8 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at March 31, 2014, were 15.6 and 15.6 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012, and for nonpublic entities for annual periods beginning after December 15, 2013. The association has adopted this guidance, which did not impact the financial condition or results of operations, but resulted in additional disclosures which are included in Note 7 – Employee Benefit Plans.

Regulatory Matters:

As disclosed in the 2012 annual report, the Association and its regulator, Farm Credit Administration ("FCA"), entered into a Supervisory Agreement (the "Supervisory Agreement") effective March 20, 2012, that, among other things, placed additional reporting requirements on the Association and required the board to take certain other actions. The Supervisory Agreement supersedes that certain Supervisory Agreement with the FCA dated January 20, 2010, and the FCA Supervisory Letters dated June 25, 2009, November 13, 2009 and December 13, 2011. The Supervisory Agreement requires that the board take certain corrective and precautionary measures with respect to some of the Association's practices, including board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, the CEO position and human capital development, policies and procedures regarding loan participations, management reporting, and disclosure obligations. In addition, the Supervisory Agreement prohibits the Association from distributing patronage or dividends from past, present or future earnings without prior FCA consent. The conditions and events that led to the need for the Supervisory Agreement include portfolio credit quality deterioration, perceived weaknesses in board governance, loan portfolio management, participations purchased and perceived weakness with respect to certain internal controls.

In response to the Supervisory Agreement, the board adopted a multi-step detailed Plan of Action designed to address the requirements mandated in the Supervisory Agreement. In addition to taking actions to address the additional reporting requirements, the board has:

- Engaged an outside consultant to advise the board in regards to fulfilling its fiduciary duties and improving board operations and governance;
- Revised its committee structure by adding governance and risk management committees;
- Revised its nominating committee by adding a third meeting at least 180 days prior to the election;
- Prepared a board and an individual board member training plan designed to strengthen the board's expertise and improve the governance of the Association;
- Hired a new CEO beginning on October 22, 2012, to replace the previous CEO who retired;
- Hired a new Chief Credit Officer on June 1, 2013;
- Progressed further with implementing the Association's staffing plan for filling senior management and other key positions, including the commencement of recruiting activities in search of a qualified CFO candidate;
- Established a Compliance Committee to monitor management's progress in implementing the corrective actions of items identified in the Supervisory Agreement;
- Engaged an outside consultant to assist in developing and implementing an overall comprehensive audit plan and internal operational audits;
- Engaged an outside consultant to review and assist with review of the Association's existing policies and procedures and updates thereto.

In December 2013, the Association received a letter from the FCA related to the FCA's ongoing oversight of the Association and the evaluation of the Association's asset quality and financial condition as of September 30, 2013. The letter reported that the board and management have made a good faith effort to develop corrective action plans to meet the requirements of the Supervisory Agreement and were generally in compliance or substantial compliance with more than a majority of the requirements of the Supervisory Agreement. Although the Association has made significant progress, the letter noted some areas (as discussed below) that still require additional actions. In addition to the ongoing corrective actions noted above, other actions being taken target the following areas:

- Continuing to ensure adherence to the board member training plan designed to strengthen the board's expertise and improve the governance of the Association and compliance with the FCA's regulations;
- Continuing to review and evaluate the business plan of the Association, including providing oversight to ensure that continued action is taken to identify and address weaknesses or variances with the business plan;

- Continuing to review senior management staffing to ensure satisfactory staffing with skilled and qualified candidates at all positions;
- Continued review by the board of participations purchased, and the incorporation into the Association's audit plan of an annual independent review of participations purchased; and
- Continuing to review the FCA's regulations with respect to disclosure obligations to ensure compliance therewith.

The board will continue engaging a consultant to provide the board advice with respect to understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the Supervisory Agreement. The board and senior management are committed to continuing the administration of the Association in a sound manner, compliant with all regulations of the FCA and remain dedicated to meeting their obligation in complying with the Supervisory Agreement.

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 2013 Annual Report of Ag New Mexico, Farm Credit Services, ACA more fully describe the association's relationship with the bank.

The Texas Farm Credit District's (district) annual and quarterly stockholder reports, as well as those of the bank, are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports also can be requested by e-mail at *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports for the bank and the district 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 Ag New Mexico, Farm Credit Services, ACA, PO Box 1328, 233 Fairway Terrace North, Clovis, New Mexico 88102-1328 or calling (575) 762-3828. Copies of the association's quarterly stockholder reports can also be requested by e-mailing ginger.garrett@farmcreditbank.com. The association makes it annual and quarterly stockholder report available on its website at www.agnewmexico.com.

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash	$ 103,046	$ 156,191
Investments	8,984,097	9,333,112
Loans	162,925,381	165,033,188
Less: allowance for loan losses	933,992	915,778
Net loans	161,991,389	164,117,410
Accrued interest receivable	1,564,923	1,706,349
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	3,995,410	3,995,410
Other	397,734	278,486
Deferred taxes, net	748,805	878,369
Other property owned, net	695,671	695,671
Premises and equipment	3,127,936	3,127,472
Other assets	343,147	189,950
Total assets	$ 181,952,158	$ 184,478,420
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ 147,899,812	$ 150,409,512
Advance conditional payments	209,722	269,678
Accrued interest payable	190,112	193,219
Drafts outstanding	19,250	132,610
Other liabilities	1,202,492	1,406,046
Total liabilities	149,521,388	152,411,065
MEMBERS' EQUITY		
Capital stock and participation certificates	301,515	301,170
Unallocated retained earnings	32,323,495	31,906,873
Accumulated other comprehensive income (loss)	(194,240)	(140,688)
Total members' equity	32,430,770	32,067,355
Total liabilities and members' equity	$ 181,952,158	$ 184,478,420

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended March 31, 2014	Quarter Ended March 31, 2013
INTEREST INCOME		
Loans	**$ 1,604,944**	$ 1,562,197
Investments	**104,286**	119,530
Total interest income	**1,709,230**	1,681,727
INTEREST EXPENSE		
Note payable to the Farm Credit Bank of Texas	**554,552**	555,401
Total interest expense	**554,552**	555,401
Net interest income	**1,154,678**	1,126,326
PROVISION FOR LOAN LOSSES	**18,214**	(490,798)
Net interest income after provision for loan losses	**1,136,464**	1,617,124
NONINTEREST INCOME		
Income from the Farm Credit Bank of Texas:		
Patronage income	**192,986**	221,526
Loan fees	**(2,803)**	20,691
Financially related services income	**907**	4,290
Gain (loss) on other property owned, net	**(1,626)**	82,216
Gain (loss) on sale of premises and equipment, net	**-**	50,500
Other noninterest income	**38,096**	20,757
Total noninterest income	**227,560**	**399,980**
NONINTEREST EXPENSES		
Salaries and employee benefits	**503,093**	492,269
Directors' expense	**46,374**	64,017
Purchased services	**33,010**	55,760
Travel	**32,776**	37,191
Occupancy and equipment	**62,840**	64,870
Communications	**7,436**	6,443
Advertising	**5,784**	17,786
Public and member relations	**19,430**	15,759
Supervisory and exam expense	**39,786**	30,694
Insurance Fund premiums	**40,873**	42,730
Other noninterest expense	**83,348**	77,834
Total noninterest expenses	**874,750**	905,353
Income before income taxes	**489,274**	1,111,751
Provision for income taxes	**59,709**	125,014
NET INCOME	**429,565**	986,737
Other comprehensive income:		
Change in postretirement benefit plans	**(53,552)**	(70,745)
Income tax expense related to items of other comprehensive income	**-**	-
Other comprehensive income, net of tax	**(53,552)**	(70,745)
COMPREHENSIVE INCOME	**$ 376,013**	$ 915,992

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2012	$ 311,950	$ -	$ -	$ 29,013,737	$ (369,186)	$ 28,956,501
Comprehensive income	-	-	-	986,737	9,198	995,935
Capital stock/participation certificates and allocated retained earnings issued	2,460	-	-	-	-	2,460
Capital stock/participation certificates and allocated retained earnings retired	(8,565)	-	-	-	-	(8,565)
Stock equalization	-	-	-	-	-	-
Balance at March 31, 2013	$ 305,845	$ -	$ -	$ 30,000,474	$ (359,988)	$ 29,946,331
Balance at December 31, 2013	$ 301,170	$ -	$ -	$ 31,906,873	$ (140,688)	$ 32,067,355
Comprehensive income	-	-	-	429,566	(53,552)	376,014
Capital stock/participation certificates and allocated retained earnings issued	12,115	-	-	-	-	12,115
Capital stock/participation certificates and allocated retained earnings retired	(11,770)	-	-	-	-	(11,770)
Other adjustment				(12,944)		(12,944)
Balance at March 31, 2014	**$ 301,515**	**$ -**	**$ -**	**$ 32,323,495**	**$ (194,240)**	**$ 32,430,770**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Ag New Mexico, Farm Credit Services, 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 all counties of New Mexico, with the exception of San Juan County and that portion of Rio Arriba County lying west of the Continental Divide; in the state of Texas, Cochran County. In addition, the association and Farm Credit Services of New Mexico, ACA have entered into an agreement that allows the association to make mortgage loans in New Mexico, on a statewide basis, without obtaining territorial approval. 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.

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, 2013, as contained in the 2013 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, 2014. Descriptions of the significant accounting policies are included in the 2013 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 February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012, and for nonpublic entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures (See Note 7 – Employee Benefit Plans).

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 March 31, 2014, are not necessarily indicative of the results to be expected for the year ended December 31, 2014. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

Effective March, 2010, $26.4 million of agricultural mortgage loans previously covered under a long-term standby commitment to purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

	March 31, 2014				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Agricultural mortgage-backed securities	**$ 8,984,097**	**$ -**	**$ (44)**	**$ 8,984,053**	**4.40 %**

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 9,333,112	$ -	$ (54,447)	$ 9,278,665	4.40 %

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**March 31, 2014 Amount**	December 31, 2013 Amount
Production agriculture:		
Real estate mortgage	**$ 68,158,589**	$ 66,997,984
Production and intermediate term	**44,528,369**	48,644,117
Agribusiness:		
Loans to cooperatives	**2,246,855**	1,393,238
Processing and marketing	**24,579,919**	23,342,002
Farm-related business	**3,391,481**	3,459,331
Communication	**3,240,026**	3,305,012
Energy	**13,528,715**	14,576,781
Water and waste water	**2,301,680**	2,319,128
Rural residential real estate	**949,747**	995,595
Total	**$ 162,925,381**	$ 165,033,188

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2014:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,620,081	$ 19,062,119	$ -	$ -	$ 9,620,081	$ 19,062,119
Production and intermediate term	8,421,298	15,005,978	-	-	8,421,298	15,005,978
Agribusiness	23,356,000	3,643,842	-	-	23,356,000	3,643,842
Communication	3,245,755	-	-	-	3,245,755	-
Energy	13,545,018	-	-	-	13,545,018	-
Water and waste water	2,305,071	-	-	-	2,305,071	-
Total	$ 60,493,223	$ 37,711,939	$ -	$ -	$ 60,493,223	$ 37,711,939

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 $627,488 and $707,516 at March 31, 2014, and December 31, 2013, respectively.

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

	March 31, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	**$ 3,518,625**	$ 3,665,521
Production and intermediate term	**601,348**	565,043
Total nonaccrual loans	**4,119,973**	4,230,564
Total nonperforming loans	**4,119,973**	4,230,564
Other property owned	**695,671**	695,671
Total nonperforming assets	**$ 4,815,644**	$ 4,926,235

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:

	March 31, 2014	December 31, 2013
Real estate mortgage		
Acceptable	**93.1** %	92.2 %
OAEM	**0.3**	0.3
Substandard/doubtful	**6.6**	7.5
	100.0	100.0
Production and intermediate term		
Acceptable	**89.1**	89.7
OAEM	**4.6**	4.6
Substandard/doubtful	**6.3**	5.7
	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**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**94.1**	93.8
OAEM	**1.4**	1.5
Substandard/doubtful	**4.5**	4.7
	100.0 %	100.0 %

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

March 31, 2014	**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	**$ 1,187,450**	**$ 1,722,018**	**$ 2,909,468**	**$ 66,061,136**	**$ 68,970,604**	**$ -**
Production and intermediate term	**601,348**	**180**	**601,528**	**44,353,289**	**44,954,817**	**-**
Loans to cooperatives	**-**	**-**	**-**	**2,252,819**	**2,252,819**	**-**
Processing and marketing	**-**	**10**	**10**	**24,667,526**	**24,667,536**	**-**
Farm-related business	**-**	**-**	**-**	**3,418,275**	**3,418,275**	**-**
Communication	**-**	**-**	**-**	**3,240,312**	**3,240,312**	**-**
Energy	**-**	**-**	**-**	**13,601,200**	**13,601,200**	**-**
Water and waste water	**-**	**-**	**-**	**2,303,636**	**2,303,636**	**-**
Rural residential real estate	**-**	**-**	**-**	**952,010**	**952,010**	**-**
Total	**$ 1,788,798**	**$ 1,722,208**	**$ 3,511,006**	**$ 160,850,203**	**$ 164,361,209**	**$ -**

December 31, 2013	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	$ 1,630,698	$ 1,683,282	$ 3,313,980	$ 64,454,413	$ 67,768,393	$ -
Production and intermediate term	-	352	352	49,255,609	49,255,961	-
Loans to cooperatives	-	-	-	1,398,972	1,398,972	-
Processing and marketing	-	9	9	23,375,892	23,375,901	-
Farm-related business	-	-	-	3,491,732	3,491,732	-
Communication	-	-	-	3,305,324	3,305,324	-
Energy	-	-	-	14,626,417	14,626,417	-
Water and waste water	-	-	-	2,320,165	2,320,165	-
Rural residential real estate	-	-	-	999,537	999,537	-
Total	$ 1,630,698	$ 1,683,643	$ 3,314,341	$ 163,228,061	$ 166,542,402	$ -

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 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.

The association did not have any troubled debt restructured loans for the first quarter of 2014 or for the preceding twelve months.

Additional impaired loan information is as follows:

	March 31, 2014			December 31, 2013		
	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	**$ 831,001**	**$ 1,107,597**	**$ 376,990**	$ 830,866	$ 1,107,462	$ 376,990
Production and intermediate term	**-**	**-**	**-**	565,043	565,043	-
Total	**$ 831,001**	**$ 1,107,597**	**$ 376,990**	$ 1,395,909	$ 1,672,505	$ 376,990
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 2,687,625**	**$ 2,756,313**	**$ -**	$ 2,834,655	$ 2,903,344	$ -
Production and intermediate term	**601,348**	**1,456,612**	**-**	-	855,264	-
Total	**$ 3,288,973**	**$ 4,212,925**	**$ -**	$ 2,834,655	$ 3,758,608	$ -
Total impaired loans:						
Real estate mortgage	**$ 3,518,626**	**$ 3,863,910**	**$ 376,990**	$ 3,665,521	$ 4,010,806	$ 376,990
Production and intermediate term	**601,348**	**1,456,612**	**-**	565,043	1,420,307	-
Total	**$ 4,119,974**	**$ 5,320,522**	**$ 376,990**	$ 4,230,564	$ 5,431,113	$ 376,990

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Quarter & Year Ended March 31, 2014		For the Quarter & Year Ended March 31, 2013	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 830,908**	**$ -**	$ 2,106,732	$ -
Total	**$ 830,908**	**$ -**	$ 2,106,732	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 2,749,221**	**$ -**	$ 853,519	$ -
Production and intermediate term	**598,539**	**-**	-	-
Total	**$ 3,347,760**	**$ -**	$ 853,519	$ -
Total impaired loans:				
Real estate mortgage	**$ 3,580,129**	**$ -**	$ 2,960,251	$ -
Production and intermediate term	**598,539**	**-**	-	-
Total	**$ 4,178,668**	**$ -**	$ 2,960,251	$ -

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	Total
Allowance for Credit Losses:							
Balance at December 31, 2013	$ 554,834	$ 254,449	$ 67,375	$ 5,652	$ 32,956	$ 512	$ 915,778
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(5,438)	18,689	1,968	232	2,769	(6)	18,214
Balance at March 31, 2014	$ 549,396	$ 273,138	$ 69,343	$ 5,884	$ 35,725	$ 506	$ 933,992
Ending Balance:							
Individually evaluated for impairment	$ 376,990	$ -	$ -	$ -	$ -	$ -	$ 376,990
Collectively evaluated for impairment	172,406	273,138	69,343	5,884	35,725	506	557,002
Balance at March 31, 2014	$ 549,396	$ 273,138	$ 69,343	$ 5,884	$ 35,725	$ 506	$ 933,992
Balance at December 31, 2012	$ 535,831	$ 216,997	$ 76,781	$ 8,168	$ 31,947	$ 651	$ 870,375
Charge-offs	-	-	-	-	-	-	-
Recoveries	477,567	-	-	-	-	-	477,567
Provision for loan losses	(482,743)	(17,709)	11,021	(2,222)	876	(21)	(490,798)
Balance at March 31, 2013	$ 530,655	$ 199,288	$ 87,802	$ 5,946	$ 32,823	$ 630	$ 857,144
Ending Balance:							
Individually evaluated for impairment	$ 399,655	$ -	$ -	$ -	$ -	$ -	$ 399,655
Collectively evaluated for impairment	131,000	199,288	87,802	5,946	32,823	630	457,489
Balance at March 31, 2013	$ 530,655	$ 199,288	$ 87,802	$ 5,946	$ 32,823	$ 630	$ 857,144

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at March 31, 2014	$ 68,970,604	$ 44,954,816	$30,338,631	$ 3,240,312	$ 15,904,836	$ 952,010	$ 164,361,209
Individually evaluated for impairment	$ 3,580,130	$ 598,540	$ -	$ -	$ -	$ -	$ 4,178,670
Collectively evaluated for impairment	$ 65,390,474	$ 44,356,276	$30,338,631	$ 3,240,312	$ 15,904,836	$ 952,010	$ 160,182,539
Ending Balance at March 31, 2013	$ 62,110,340	$ 46,195,497	$33,055,675	$ 3,180,403	$ 15,922,228	$ 1,090,516	$ 161,554,659
Individually evaluated for impairment	$ 2,896,197	$ -	$ -	$ -	$ -	$ -	$ 2,896,197
Collectively evaluated for impairment	$ 59,214,143	$ 46,195,497	$33,055,675	$ 3,180,403	$ 15,922,228	$ 1,090,516	$ 158,658,462

NOTE 4 — 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.

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

March 31, 2014	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ 246,451**	**$ 52,211**	**$ 194,240**
Total	**$ 246,451**	**$ 52,211**	**$ 194,240**

March 31, 2013	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ 359,988	$ -	$ 359,988
Total	$ 359,988	$ -	$ 359,988

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive income (loss) for:

	2014	2013
Accumulated other comprehensive income (loss) at January 1	**$ (140,688)**	$ (369,186)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(6,313)**	(6,313)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**4,971**	15,511
Income tax expense related to items of other comprehensive income	**(52,211)**	-
Other comprehensive income (loss), net of tax	**(53,553)**	9,198
Accumulated other comprehensive income at March 31	**$ (194,241)**	$ (359,988)

NOTE 5 — INCOME TAXES:

Ag New Mexico, Farm Credit Services, ACA and its subsidiary 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 earnings that will not be distributed as qualified patronage refunds. During the three months ended March 31, 2014, the association did participate in a patronage program. 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. For the three months ended March 31, 2014, and 2013, net income for tax purposes amounted to $156,165 and $271,987, respectively.

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

March 31, 2014	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	**$ -**	**$ -**	**$ 3,742,983**	**$ 3,742,983**	**$ -**
Other property owned	**-**	**-**	**695,671**	**695,671**	**-**

December 31, 2013	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans*	$ -	$ -	$ 3,853,574	$ 3,853,574	$ -
Other property owned	-	-	775,968	775,968	-

*Represents the fair value of certain loans that were evaluated for impairment under 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.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans were collateral-dependent. 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. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

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

Cash

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

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

	Other Benefits	
	2014	2013
Service cost	**$ 5,147**	$ 5,705
Interest cost	**12,670**	12,231
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(6,313)**	(15,178)
Amortization of net actuarial (gain) loss	**4,971**	10,359
Net periodic benefit cost	**$ 16,475**	$ 13,117

The association's liability for the unfunded accumulated obligation for these benefits at March 31, 2014, was $1,003,174 and is included in "Other Liabilities" in the balance sheet.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2013, that it expected to contribute $108,664 to the district's defined benefit pension plan in 2014. As of March 31, 2014, $27,169 of contributions have been made.

NOTE 8 — 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 9 — SUBSEQUENT EVENTS:

In April 2014, the Association entered into a Capitalized Participation Pool agreement with the Bank whereas the Bank purchased a pool of Federal Agricultural Mortgage Corporation (Farmer Mac) mortgage-backed securities (AMBS) with a book value of $9.1 million from the Association in exchange for the Association agreeing to purchase Bank stock equivalent to 1.6 percentage of the pool's par value. The Association will continue to service the underlying loans in the AMBS. The goal of the program is to better utilize capital between the Association and Bank, while neutralizing the net earnings result at the Association level. At the discretion of the Bank, the association expects to receive a patronage from the AMBS sold to the Bank equal to the amount it would have earned had it held the investment. The Association did not recognize any gain or loss on the AMBS sale to the Bank since the loans are at a market rate already guaranteed by Farmer Mac and the servicing fee adequately compensates us for the cost to service.

Additionally, in April 2014, the Association participated $4.2 million of loans originated by the Association to the Farm Credit Bank of Texas Capitalized Participation Pool (CPP). The Association maintains a minimum of 20 percent interest in the loans participated. The capitalization requirement stipulates that 8 percent of the loan's par value be invested in Bank stock. This requirement results in a net investment of 6 percent since a 2 percent investment in Bank stock based upon each Association's average direct note balance is already required. At the discretion of the Bank, the association expects to receive a patronage from the portion of loans sold to the Bank equal to the interest rate of the loans less cost of funds, provision for loan loss and insurance premiums which will approximate the profit earned on loans retained in the association's loan portfolio. The intent of the program is to better utilize capital between the association and the bank thereby enhancing the bank's net collateral ratio and improving the association's regulatory capital ratios. The association will continue to provide servicing for the loan pool as per agreement.

Dividend and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. Patronage distributions of $360,000 were declared in December 2013 with scheduled payment prior to September 15, 2014.

The association has evaluated subsequent events through May 8, 2014, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 8, 2014.