AG NEW MEXICO, FARM CREDIT SERVICES, ACA

2016
Quarterly Report
First Quarter

For the Quarter Ended March 31, 2016

REPORT OF MANAGEMENT

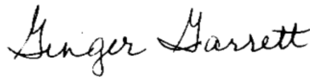
The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.

Frank Shelton, Chief Executive Officer

May 5, 2016

Mark McCollum, Board of Directors

May 5, 2016



Ginger Garrett, Chief Financial Officer

May 5, 2016

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, 2016. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2015 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, 2016, the Association continued to grow the loan portfolio as well as maintaining strong credit quality. Net interest income increased from $1,165,744 to $1,224,333 for the three months ending March 31, 2015 and 2016, respectively. Net interest income after provision for loan losses increased from $1,110,501 to $1,201,061 during the same period. The increase is attributed to an increase in loan volume and a decrease in provision for loan losses from $55,243 to $23,272 for the three months ending March 31, 2015 and 2016, respectively. Total noninterest expenses increased from $1,021,347 to $1,145,867 during the same period. Net income increased from $363,286 to $401,333 during the same period.

The Association acquired property in 2012 as a result of a loan settlement agreement. An appraisal was contracted during the second quarter of 2012 which established an appraised value of $820,000 for the acquired property. The net realizable value of the property was determined to be $675,600 after netting estimated selling expenses against the appraised value. The carrying value of the property was $3,106,950 based upon previous appraisals. The appraisal done the second quarter of 2012 resulted in setting up a provision for loss on the other property owned and allowance for loss on other property owned of $2,431,350 in the second quarter of 2012. An additional provision for loss of $153,600 was recorded in the third quarter of 2013 based on net realizable value of the updated appraisal. In 2015 an additional property was added to the Association's acquired property. The property added to acquired property in the second quarter of 2015 transferred by a deed in lieu of foreclosure. The Association book value is $71,250 on this additional property with collateral value of $85,000. Thus bringing the total number of properties held in acquired property to three, all of which are real estate properties.

Beef cattle and dairy farms continue to be the largest portfolio concentrations, which is expected due to the fact that the livestock and dairy industry are two of the largest agricultural industries statewide, based on gross receipts. Moisture conditions improved in 2015, however it appears the effects have weakened and moisture prospects for 2016 may deteriorate. Beef prices remain low, compared to the recent record high prices. However lower feed and fuel costs have helped lessen the impact of the lower market. Dairy remains the Association's 2nd largest exposure. Milk prices experienced in 2014 improved liquidity positions however prices softened in 2015. The trend of soft prices has carried into 2016. Most dairy farmers approached the softened prices with stronger liquid positions than in past periods. Other feed prices have softened and many of the dairies have a larger than normal inventory of feed on hand as last year's rains helped to produce higher than expected yields. Most of the Ag New Mexico producers have been able to generate profits and build financial strength as well as being the beneficiaries of risk management such as price protection for the near term.

Ag New Mexico Farm Credit continues to serve the rural home mortgage needs of the territory through Ag New Mexico Country Mortgage financing home mortgage loans.

Over a period of years, the Farm Credit Bank of Texas (FCBT or Bank) performed the following services for the benefit of Ag New Mexico Farm Credit Services, ACA (Association) which constituted a transfer of capital under the Farm Credit Administration (FCA) regulation 615.5171 (a)(1).

First, during the period from December of 2012 through the first two months of 2014, the Bank assigned a Bank employee to act as an Accounting Function Advisor to the Association's accounting staff to assist them with accounting issues, at the request of the Association. The Accounting Function Advisor services provided to the Association constituted a preferential transfer of capital. The assignment resulted from the Association experiencing considerable turnover in senior management, lending and operations staff between January 2010 and November 2012. During the period from December of 2012 through the first two months of 2014, the cost to the Bank for the Accounting Function Advisor and other accounting services devoted to the Association was approximately

$112,414. Of this amount, $5,965 related to the year 2012, $86,324 related to the year 2013 and $20,125 related to the year 2014. In the third quarter of 2011 and the second half of 2012, Bank accounting staff also performed services for Ag New Mexico Farm Credit Services, ACA relating to the accounting treatment of the Association's deferred tax asset representing approximately $44,740 of cost to the Bank, of which $20,879 was incurred in 2011 and $23,861 was incurred in 2012. The Association employed a chief financial officer in March 2014, and is no longer utilizing the Bank's accounting services to the same degree as it did in the period from December 2012 through February 2014. The Bank's present and future accounting services to the Association do not and are not anticipated to involve a preferential transfer of capital.

Second, the Bank entered into an agreement with Ag New Mexico, Farm Credit Services, ACA in 2005 whereby FCBT agreed to hire up to two commercial lending calling officers to market loans and related services to high quality prospects in the state of New Mexico, and the Association in turn agreed to participate to FCBT any interest in such loans that the Association made but elected not to retain. Under this agreement, the calling officer would be a Bank employee who would have no loan approval authority, but who would be authorized only to market and structure loans for presentation to the Association for approval. Ag New Mexico Farm Credit Services, ACA would make the credit decision whether or not to make the loans as well as service them. The agreement was deemed to constitute a preferential transfer of capital. Since the calling officer program was first implemented in late 2005, the FCBT's total cost of providing the calling officer has totaled $2,029,156 over an eight year period. For the years 2012, 2013 and 2014, the costs amounted to $224,865, $232,377 and $341,862, respectively. FCBT terminated that arrangement with Ag New Mexico as of September 30, 2014 and entered into a new arrangement. After September 30, 2014, the individual who performed the calling officer services as a Bank employee became an employee of Ag New Mexico Farm Credit Services, ACA. FCBT has agreed with the Association that the Bank will reimburse the Association for the calling officer's salary and benefits up to a maximum of $150,000.00 per year plus the allocable cost of benefits under the Association's benefits programs up to a maximum of $50,000.00 per year for a period of up to two years after the individual becomes an Association employee. This could amount to a total additional cost of approximately $400,000.00.

Loan Portfolio:

Total loans outstanding at March 31, 2016, including nonaccrual loans and sales contracts, were $195,536,207 compared to $191,192,154 at December 31, 2015, reflecting an increase of 2.3 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.8 percent at March 31, 2016, compared to 0.9 percent at December 31, 2015.

The Association recorded $0 in recoveries and $0 in charge-offs for the quarter ended March 31, 2016, and $0 in recoveries and $0 in charge-offs for the same period in 2015. The Association's allowance for loan losses was 0.6 percent and 0.6 percent of total loans outstanding as of March 31, 2016, and December 31, 2015, 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, 2016		December 31, 2015	
	Amount	**%**	Amount	%
Nonaccrual	**$ 1,534,165**	**47.3%**	$ 1,677,696	49.2%
Formally restructured	**989,841**	**30.5%**	1,014,808	29.8%
Other property owned, net	**717,330**	**22.2%**	717,330	21.0%
Total	**$ 3,241,336**	**100.0%**	$ 3,409,834	100.0%

Results of Operations:

The Association had net income of $401,333 for the three months ended March 31, 2016, as compared to net income of $363,286 for the same period in 2015, reflecting an increase of 10.5 percent respectively. Net interest income was $1,224,333 for the three months ended March 31, 2016, compared to $1,165,744 for the same period in 2015.

	March 31, 2016		March 31, 2015	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 189,140,209**	**$ 1,915,415**	$166,463,219	$ 1,713,513
Total interest-earning assets	**189,140,209**	**1,915,415**	166,463,219	1,713,513
Interest-bearing liabilities	**161,847,679**	**691,082**	141,350,057	547,769
Impact of capital	**$ 27,292,530**		$ 25,113,162	
Net interest income		**$ 1,224,333**		$ 1,165,744

	2016 Average Yield	2015 Average Yield
Yield on loans	**4.07%**	4.17%
Yield on investments	**0.00%**	0.00%
Total yield on interest-earning assets	**4.07%**	4.17%
Cost of interest-bearing liabilities	**1.72%**	1.57%
Interest rate spread	**2.36%**	2.60%
Net interest income as a percentage of average earning assets	**2.60%**	2.84%

	March 31, 2016 vs. March 31, 2015		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 235,375**	**$ (33,473)**	**$ 201,902**
Total interest income	**235,375**	**(33,473)**	**201,902**
Interest expense	**80,095**	**63,218**	**143,313**
Net interest income	**$ 155,280**	**$ (96,691)**	**$ 58,589**

Interest income for the three months ended March 31, 2016, increased by $201,902, or 11.8 percent, respectively, from the same period of 2015, due to an increase in average loan volume offset by a decrease in rate. Interest expense for the three months ended March 31, 2016, increased by $143,313, or 26.2 percent from the same period of 2015 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the first quarter of 2016 was $189,140,209, compared to $166,463,219 in the first quarter of 2015. The average net interest rate spread on the loan portfolio for the first quarter of 2016 was 2.36 percent, compared to 2.60 percent in the first quarter of 2015. Overall risk in the portfolio has declined both in existing loans as well as new customers. Spreads have contracted as a direct result, as higher quality loans generate greater interest rate competition in the marketplace.

The Association's return on average assets for the three months ended March 31, 2016, was 0.81 percent compared to 0.83 percent for the same period in 2015. The Association's return on average equity for the three months ended March 31, 2016, was 4.58 percent, compared to 4.42 percent for the same period in 2015.

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, 2016	December 31, 2015
Note payable to the bank	**$ 167,598,163**	$ 163,466,735
Accrued interest on note payable	**238,717**	219,390
Total	**$ 167,836,880**	$ 163,686,125

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2016. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $167,598,163 as of March 31, 2016, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.71 percent at March 31, 2016. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2015, is due to the Association's continued loan growth. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $28,007,682 at March 31, 2016. The maximum amount the Association may borrow from the Bank as of March 31, 2016, was $27,463,998 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, 2016, 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.

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First, during the period from December of 2012 through the first two months of 2014, the Bank assigned a Bank employee to act as an Accounting Function Advisor to the Association's accounting staff to assist them with accounting issues, at the request of the Association. The Accounting Function Advisor services provided to the Association constituted a preferential transfer of capital. The assignment resulted from the Association experiencing considerable turnover in senior management, lending and operations staff between January 2010 and November 2012. During the period from December of 2012 through the first two months of 2014, the cost to the Bank for the Accounting Function Advisor and other accounting services devoted to the Association was approximately $112,414. Of this amount, $5,965 related to the year 2012, $86,324 related to the year 2013 and $20,125 related to the year 2014. In the third quarter of 2011 and the second half of 2012, Bank accounting staff also performed services for Ag New Mexico Farm Credit Services, ACA relating to the accounting treatment of the Association's deferred tax asset representing approximately $44,740 of cost to the Bank, of which $20,879 was incurred in 2011 and $23,861 was incurred in 2012. The Association employed a chief financial officer in March 2014, and is no longer utilizing the Bank's accounting services to the same degree as it did in the period from December 2012 through February 2014. The Bank's present and future accounting services to the Association do not and are not anticipated to involve a preferential transfer of capital.

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Capital Resources:

The Association's capital position increased by $44,308 at March 31, 2016, compared to December 31, 2015. The Association's debt as a percentage of members' equity was 4.84:1 as of March 31, 2016, compared to 4.73:1 as of December 31, 2015.

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, 2016, was 16.1 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, 2016, were 15.9 and 15.9 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled "Presentation of Financial Statements — Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August, 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on its financial condition or results of operations.

Regulatory Matters:

Supervisory Agreement

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 superseded 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 required 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, disclosure obligations and establishment of a compliance committee. In addition, the Supervisory Agreement prohibited 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 included portfolio credit quality deterioration, weaknesses in board governance, loan portfolio management, participations purchased and perceived weakness with respect to certain internal controls.

On November 16, 2015, the FCA terminated the Supervisory Agreement and placed the Association under Special Supervision, which is a reduced level of supervision from a Supervisory Agreement, but is heightened over normal supervision. As a condition to

termination of the Supervisory Agreement, the board addressed certain weaknesses identified by the FCA as yet to be fully resolved in 2016. These include director fiduciary duties and governance, risk assessment and audit plan, borrower concentration and collateral risk, nominating committee procedures, business planning, the CEO position and human capital development, management reporting, credit administration and related staff training, borrower rights and consumer compliance, allowance for loan loss, and earnings. In addition, the requirements of Special Supervision continue to prohibit the Association from distributing patronage or dividends from past, present or future earnings without prior FCA consent if any of the following conditions exist, or will result in the Association's Permanent Capital to be less than 15 percent; cause the Association's Core Surplus, Permanent Capital, or Total Capital ratios to decline more than 1 percent; or result in a Return on Assets ratio of less than 1 percent using a rolling 12-month average. Although the Association has made progress on these items, the following corrective actions are also being taken to address certain weaknesses noted by FCA:

- Continue to maintain a compliance committee to monitor management's progress with the corrective actions identified in the Supervisory Letter as well as any other audits identifying necessary corrective actions;
- Develop a corrective action plan to correct any remaining weaknesses identified by FCA in the Supervisory Letter prior to June 30, 2016;
- Annual review by a third-party of the Association's actions in response to all audits, reviews, and the Supervisory Letter; and
- Continue to engage an outside 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 Letter.

The Association's board and senior management are committed to continuing the administration of the Association in a safe and sound manner, compliant with all regulations of the FCA, and remain dedicated to meeting their obligation in complying with the requirements of Special Supervision.

Other Regulatory Matters

On June 12, 2014, the Farm Credit Administration approved a proposed rule to revise the requirements governing the eligibility of investments for System banks and Associations. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and Associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks, and
- To revise the investment regulation for System Associations to improve their investment management practices so they are more resilient to risk.

The public comment period ended on October 23, 2014. According to its Spring 2016 Regulatory Projects Plan, FCA anticipates adopting a final rule in July, 2016.

On March 10, 2016, the Farm Credit Administration approved a final rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government sponsored enterprise,
- To ensure the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System,
- To make System regulatory capital requirements more transparent, and
- To meet the requirements of section 939A of the Dodd-Frank Act.

The final rule is effective on January 1, 2017.

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 2015 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, 233 Fairway Terrace North, Clovis, New Mexico 88101or calling (575) 762-3828. The annual and quarterly stockholder reports for the Association are also available on its website at *www.agnewmexico.com.* Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *Ginger.Garrett@Farmcreditbank.com.*

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash	**$ 102,657**	$ 103,286
Loans	**195,536,207**	191,192,154
Less: allowance for loan losses	**1,123,197**	1,098,182
Net loans	**194,413,010**	190,093,972
Accrued interest receivable	**1,868,110**	1,912,084
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**3,909,090**	3,909,090
Other	**379,588**	404,575
Deferred taxes, net	**412,282**	460,714
Other property owned, net	**717,330**	717,330
Premises and equipment, net	**3,119,325**	3,069,177
Other assets	**373,320**	524,715
Total assets	**$ 205,294,712**	$ 201,194,943
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 167,598,163**	$ 163,466,735
Advance conditional payments	**239,135**	388,022
Accrued interest payable	**238,695**	219,390
Drafts outstanding	**79**	166,124
Patronage distributions payable	**379,797**	(203)
Other liabilities	**1,672,161**	1,832,501
Total liabilities	**170,128,030**	166,072,569
MEMBERS' EQUITY		
Capital stock and participation certificates	**372,390**	354,975
Unallocated retained earnings	**35,141,856**	35,120,525
Accumulated other comprehensive income (loss)	**(347,564)**	(353,126)
Total members' equity	**35,166,682**	35,122,374
Total liabilities and members' equity	**$ 205,294,712**	$ 201,194,943

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 & Year Ended March 31,	
	2016	2015
INTEREST INCOME		
Loans	**$ 1,915,415**	$ 1,713,513
Total interest income	**1,915,415**	1,713,513
INTEREST EXPENSE		
Note payable to the Farm Credit Bank of Texas	**691,082**	547,769
Total interest expense	**691,082**	547,769
Net interest income	**1,224,333**	1,165,744
PROVISION FOR LOAN LOSSES	**23,272**	55,243
Net interest income after provision for loan losses	**1,201,061**	1,110,501
NONINTEREST INCOME		
Income from the Farm Credit Bank of Texas:		
Patronage income	**271,149**	298,088
Loan fees	**40,658**	28,040
Financially related services income	**529**	444
Gain (loss) on other property owned, net	**(1,741)**	484
Gain (loss) on sale of premises and equipment, net	**42,754**	-
Other noninterest income	**41,221**	12,900
Total noninterest income	**394,570**	339,956
NONINTEREST EXPENSES		
Salaries and employee benefits	**759,206**	645,856
Directors' expense	**45,447**	40,155
Purchased services	**55,099**	43,353
Travel	**53,535**	44,184
Occupancy and equipment	**66,084**	72,352
Communications	**3,434**	6,793
Advertising	**5,482**	7,377
Public and member relations	**17,744**	16,957
Supervisory and exam expense	**38,043**	38,278
Insurance Fund premiums	**55,080**	41,055
Other noninterest expense	**46,712**	64,987
Total noninterest expenses	**1,145,866**	1,021,347
Income before income taxes	**449,765**	429,110
Provision for (benefit from) income taxes	**48,432**	65,824
NET INCOME	**401,333**	363,286
Other comprehensive income:		
Change in postretirement benefit plans	**5,562**	8,619
Other comprehensive income, net of tax	**5,562**	8,619
COMPREHENSIVE INCOME	**$ 406,895**	$ 371,905

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	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2014	$ 328,290	$ 33,179,163	$ (378,384)	$ 33,129,069
Comprehensive income	-	363,286	8,819	418,754
Capital stock/participation certificates				
and allocated retained earnings issued	18,335	-	-	18,335
Capital stock/participation certificates				
and allocated retained earnings retired	(11,745)	-	-	(11,745)
Patronage refunds:				
Cash	-	(43,749)	-	(43,749)
Balance at March 31, 2015	$ 334,880	$ 33,498,700	$ (369,565)	$ 33,510,664
Balance at December 31, 2015	$ 354,975	$ 35,120,310	$ (353,126)	$ 35,122,159
Comprehensive income	-	401,331	5,562	406,893
Capital stock/participation certificates				
and allocated retained earnings issued	22,265	-	-	22,265
Capital stock/participation certificates				
and allocated retained earnings retired	(4,850)	-	-	(4,850)
Patronage refunds:				
Cash	-	(379,797)	-	(379,797)
Balance at March 31, 2016	**$ 372,390**	**$ 35,141,844**	**$ (347,564)**	**$ 35,166,670**

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AG NEW MEXICO, FARM CREDIT SERVICES, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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 in the state of New Mexico with the exception of San Juan County and that portion of Rio Arriba County lying west of the Continental Divide. 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.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2015, as contained in the 2015 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, Associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2015, as contained in the 2015 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, 2016. Descriptions of the significant accounting policies are included in the 2015 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 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled "Presentation of Financial Statements- Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new

revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on its financial condition or results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended March 31, 2016, are not necessarily indicative of the results to be expected for the year ended December 31, 2016. 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, approximately $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.

Effective April 1, 2014, The Farm Credit Bank of Texas (the bank) purchased Ag New Mexico's securitized Farmer Mac Agricultural Mortgage Backed Securities (AMBS) Investments. The purchase of $9,051,849 included outstanding principal and accrued interest as of that date. There was no gain or loss recognized by the Association on this transaction. The Association will continue to service the underlying loans that were included in this security. Also, for 2014 there was no effect to Ag New Mexico's income based on this transaction as the bank was able to pay the Association a patronage equivalent to the net interest that it would have earned on the AMBS investment. The amount of patronage received in 2015 was $150,146. However, for future years, the bank's payment of patronage is at the discretion of the bank's board of directors.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**March 31, 2016 Amount**	December 31, 2015 Amount
Production agriculture:		
Real estate mortgage	**$ 68,885,010**	$ 67,686,188
Production and intermediate term	**48,013,073**	53,564,534
Agribusiness:		
Loans to cooperatives	**4,787,185**	1,533,572
Processing and marketing	**41,996,996**	36,624,378
Farm-related business	**8,194,943**	8,265,507
Communication	**2,479,821**	2,587,331
Energy	**13,346,399**	12,113,947
Water and waste water	**2,236,925**	2,214,937
Rural residential real estate	**7,463,966**	6,601,760
Total	**$ 197,404,318**	$ 191,192,154

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, 2016:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 10,028,441	$ 14,230,294	$ -	$ -	$ 10,028,441	$ 14,230,294
Production and intermediate term	5,612,505	12,458,376	-	-	5,612,505	12,458,376
Agribusiness	39,786,265	12,584,687	-	-	39,786,265	12,584,687
Communication	2,479,603	-	-	-	2,479,603	-
Energy	13,280,784	-	-	-	13,280,784	-
Water and waste water	2,226,618	-	-	-	2,226,618	-
Total	$ 73,414,215	$ 39,273,358	$ -	$ -	$ 73,414,215	$ 39,273,358

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 currently not paid by the Association on such balances. Balances of ACPs were $1,011,581 and $1,177,659 at March 31, 2016, and December 31, 2015, respectively.

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

	March 31, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	**$ 1,534,165**	$ 1,677,696
Total nonaccrual loans	**1,534,165**	1,677,696
Accruing restructured loans:		
Real estate mortgage	**581,824**	592,668
Production and intermediate term	**408,017**	422,140
Total accruing restructured loans	**989,841**	1,014,808
Accruing loans 90 days or more past due:		
Total accruing loans 90 days or more past due	**-**	-
Total nonperforming loans	**2,524,006**	2,692,504
Other property owned	**717,330**	717,330
Total nonperforming assets	**$ 3,241,336**	$ 3,409,834

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, 2016	December 31, 2015
Real estate mortgage		
Acceptable	**95.3** %	94.9 %
OAEM	**0.8**	1.0
Substandard/doubtful	**3.9**	4.1
	100.0	100.0
Production and intermediate term		
Acceptable	**94.2**	94.8
OAEM	**0.9**	0.8
Substandard/doubtful	**4.9**	4.4
	100.0	100.0
Agribusiness		
Acceptable	**97.9**	97.5
OAEM	**2.1**	2.5
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	**96.4**	95.7
OAEM	**1.1**	0.7
Substandard/doubtful	**2.5**	3.6
	100.0 %	100.0 %

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

March 31, 2016	**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	**$ -**	**$ 687,737**	**$ 687,737**	**$ 68,197,273**	**$ 68,885,010**	**$ -**
Production and intermediate term	**1,425,856**	**-**	**1,425,856**	**46,587,217**	**48,013,073**	**-**
Loans to cooperatives	**-**	**-**	**-**	**4,787,185**	**4,787,185**	**-**
Processing and marketing	**-**	**-**	**-**	**41,996,996**	**41,996,996**	**-**
Farm-related business	**-**	**-**	**-**	**8,194,943**	**8,194,943**	**-**
Communication	**-**	**-**	**-**	**2,479,821**	**2,479,821**	**-**
Energy	**-**	**-**	**-**	**13,346,399**	**13,346,399**	**-**
Water and waste water	**-**	**-**	**-**	**2,236,925**	**2,236,925**	**-**
Rural residential real estate	**-**	**-**	**-**	**7,463,966**	**7,463,966**	**-**
Total	**$ 1,425,856**	**$ 687,737**	**$ 2,113,593**	**$ 195,290,725**	**$ 197,404,318**	**$ -**

December 31, 2015	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	$ 26,019	$ 673,234	$ 699,253	$ 67,996,557	$ 68,695,809	$ -
Production and intermediate term	-	-	-	54,165,591	54,165,591	-
Loans to cooperatives	-	-	-	1,538,121	1,538,121	-
Processing and marketing	-	-	-	36,740,789	36,740,789	-
Farm-related business	-	-	-	8,359,396	8,359,396	-
Communication	-	-	-	2,587,642	2,587,642	-
Energy	-	-	-	12,153,511	12,153,511	-
Water and waste water	-	-	-	2,245,295	2,245,295	-
Rural residential real estate	-	-	-	6,618,084	6,618,084	-
Total	$ 26,019	$ 673,234	$ 699,253	$ 192,404,986	$ 193,104,238	$ -

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.

As of March 31, 2016, the total recorded investment of troubled debt restructured loans was $989,841, classified as accrual, with no specific allowance for loan losses. As of March 31, 2016, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructure.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Real estate mortgage	$ 581,824	$ 592,668	$ -	$ -
Production and intermediate term	408,017	422,140	-	-
Total	$ 989,841	$ 1,014,808	$ -	$ -

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

Additional impaired loan information is as follows:

	March 31, 2016			December 31, 2015		
	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	**$ 687,737**	**$ 964,333**	**$671,378**	$ 673,234	**$ 949,830**	**$ 656,875**
Total	**$ 687,737**	**$ 964,333**	**$671,378**	$ 673,234	**$ 949,830**	**$ 656,875**
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$1,428,239**	**$ 1,492,699**	**$ -**	$ 2,019,265	**$2,921,916**	**$ -**
Production and intermediate term	**408,019**	**1,246,210**	**-**	-	**-**	**-**
Total	**$1,836,258**	**$ 2,738,909**	**$ -**	$ 2,019,265	**$2,921,916**	**$ -**
Total impaired loans:						
Real estate mortgage	**$2,115,976**	**$ 2,457,032**	**$671,378**	$ 2,692,499	**$3,871,746**	**$ 656,875**
Production and intermediate term	**408,019**	**1,246,210**	**-**	-	**-**	**-**
Total	**$2,523,995**	**$ 3,703,242**	**$671,378**	$ 2,692,499	**$3,871,746**	**$ 656,875**

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

	For the Quarter & Year Ended March 31, 2016		For the Quarter & Year Ended March 31, 2015	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 679,928**	**$ -**	$ 967,607	$ -
Rural residential real estate	**-**	**-**	86,554	-
Total	**$ 679,928**	**$ -**	$ 1,054,161	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$1,466,158**	**$ 6,477**	$ 1,661,074	$ 21,609
Production and intermediate term	**416,978**	**4,226**	442,416	24,032
Total	**$1,883,136**	**$ 10,703**	$ 2,103,490	$ 45,641
Total impaired loans:				
Real estate mortgage	**$2,146,086**	**$ 6,477**	$ 2,628,681	$ 21,609
Production and intermediate term	**416,978**	**4,226**	442,416	24,032
Rural residential real estate	**-**	**-**	86,554	-
Total	**$2,563,064**	**$ 10,703**	$ 3,157,651	$ 45,641

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, 2015	$ 762,906	$ 187,289	$ 98,919	$ 7,319	$ 31,775	$ 9,974	$ 1,098,182
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	15,806	4,399	2,050	152	658	207	23,272
Other	-	1,743	-	-	-	-	1,743
Balance at March 31, 2016	$ 778,712	$ 193,431	$ 100,969	$ 7,471	$ 32,433	$ 10,181	$ 1,123,197
Ending Balance:							
Individually evaluated for impairment	671,378	-	-	-	-	-	671,378
Collectively evaluated for impairment	107,334	193,431	100,969	7,471	32,433	10,181	451,819
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Balance at March 31, 2016	$ 778,712	$ 193,431	$ 100,969	$ 7,471	$ 32,433	$ 10,181	$ 1,123,197
Balance at December 31, 2014	$ 513,674	$ 242,173	$ 97,659	$ 4,390	$ 31,297	$ 2,125	$ 891,318
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	55,243	-	-	-	-	-	55,243
Other	-	-	-	-	-	-	-
Balance at March 31, 2015	$ 568,917	$ 242,173	$ 97,659	$ 4,390	$ 31,297	$ 2,125	$ 946,561
Ending Balance:							
Individually evaluated for impairment	$ 500,976	$ -	$ -	$ -	$ -	$ -	$ 500,976
Collectively evaluated for impairment	67,941	242,173	97,659	4,390	31,297	2,125	445,585
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Balance at March 31, 2015	$ 568,917	$ 242,173	$ 97,659	$ 4,390	$ 31,297	$ 2,125	$ 946,561

	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, 2016	$ 69,133,024	$ 47,808,640	$ 54,979,124	$ 2,479,821	$ 15,583,324	$7,463,966	$197,447,899
Individually evaluated for impairment	$ 2,221,902	$ 408,019	$ -	$ -	$ -	$ -	$ 2,629,921
Collectively evaluated for impairment	$ 66,911,122	$ 47,400,621	$ 54,979,124	$ 2,479,821	$ 15,583,324	$7,463,966	$194,817,978
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance at March 31, 2015	$ 66,688,128	$ 45,797,954	$ 36,500,581	$ 2,907,670	$ 13,014,391	$3,128,656	$168,037,380
Individually evaluated for impairment	$ 1,126,702	$ -	$ -	$ -	$ -	$ -	$ 1,126,702
Collectively evaluated for impairment	$ 65,561,426	$ 45,797,954	$ 36,500,581	$ 2,907,670	$ 13,014,391	$3,128,656	$166,910,678
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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, 2016	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ 347,564**	**$ -**	**$ 347,564**
Total	**$ 347,564**	**$ -**	**$ 347,564**

March 31, 2015	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ 369,765	$ -	$ 369,765
Total	$ 369,765	$ -	$ 369,765

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

	2016	2015
Accumulated other comprehensive income (loss) at January 1	**$(353,126)**	$(378,384)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(3,709)**	(3,889)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**9,271**	12,508
Income tax expense related to items of other comprehensive income	**-**	-
Other comprehensive income (loss), net of tax	**5,562**	8,619
Accumulated other comprehensive income at March 31	**$ (347,564)**	$ (369,765)

NOTE 5 — INCOME TAXES:

Ag New Mexico, Farm Credit Services, 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. Ag New Mexico, Farm Credit Services, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Ag New Mexico, Farm Credit Services, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2015 Annual Report to Stockholders for a more complete description.

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

March 31, 2016	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 862,787**	**$ 862,787**
Other property owned	**-**	**-**	**797,033**	**797,033**

December 31, 2015	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$1,020,820	$ 1,020,820
Other property owned	-	-	797,033	797,033

*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.

Valuation Techniques

As more fully discussed in Note 2 to the 2015 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 Notes to the 2015 Annual Report to Stockholders.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities are classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services, pricing models that utilize observable inputs or discounted cash flows. Generally, these securities are classified as Level 2. This would include U.S. Treasury and certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-backed securities and certain mortgage-backed securities, including private label-FHA/VA securities and those issued by Farmer Mac.

Assets Held in Nonqualified Benefits Trusts

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

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying 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.

Loans

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

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

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

Commitments to Extend Credit

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

NOTE 7 — EMPLOYEE BENEFIT PLANS:

Nonpension Other Postretirement Employee Benefits

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	
	2016	2015
Service cost	**$ 4,978**	$ 5,014
Interest cost	**14,896**	14,046
Amortization of prior service (credits) costs	**(3,710)**	(3,889)
Amortization of net actuarial (gain) loss	**9,271**	12,508
Net periodic benefit cost	**$ 25,434**	$ 27,679

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2016, was $1,300,788 and is included in "Other Liabilities" in the balance sheet.

Contributions to District Defined Benefit Pension 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 Association previously disclosed in its financial statements for the year ended December 31, 2015, that it expected to contribute $47,867 to the district's defined benefit pension plan in 2016. As of March 31, 2016, the full annual contribution has been made. The Association presently does not anticipate additional contributions to fund the defined benefit pension plan in 2016.

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:

The Association has evaluated subsequent events through May 5, 2016 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 5, 2016.