# AG NEW MEXICO, FARM CREDIT SERVICES, ACA

## 2018
## Quarterly Report
## First Quarter

## For the Quarter Ended March 31, 2018

## 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.

Brett Valentine, Interim-Chief Executive Officer

*May 10, 2018*

Ronnie Harral, Chairman, Board of Directors

*May 10, 2018*

Will Fisher, Chief Financial Officer

*May 10, 2018*

The following commentary reviews the financial performance of Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended March 31, 2018. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2017 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:**

During the first three months of 2018 moisture and precipitation continued to be a concern as most of New Mexico is considered to be in a moderate to severe drought. Beef Cattle and Diary continue to be the two largest concentrations in the loan portfolio representing 23.4 percent and 9.8 percent, respectively.

Ag New Mexico, Farm Credit Services, ACA operates under a General Financing Agreement (GFA) with Farm Credit Bank of Texas, which stipulates a minimum Return on Average Assets be maintained to remain in compliance with the GFA covenants. As of December 31, 2016 Ag New Mexico, Farm Credit Services, ACA fell below the minimum Return on Average Assets covenant and was granted a limited waiver of the covenant through March 31, 2018.

**Loan Portfolio:**

Total loans outstanding at March 31, 2018, including nonaccrual loans and sales contracts, were $219,625,340 compared to $220,352,945 at December 31, 2017, reflecting a decrease of 0.3 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.3 percent at March 31, 2018, compared to 0.9 percent at December 31, 2017.

The Association recorded $0 in recoveries and $0 in charge-offs for the quarter ended March 31, 2018, and $64,460 in recoveries and $0 in charge-offs for the same period in 2017. The Association's allowance for loan losses was 0.2 percent and 0.2 percent of total loans outstanding as of March 31, 2018, and December 31, 2017, 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, 2018** | | December 31, 2017 | |
|---|---|---|---|---|
| | **Amount** | **%** | Amount | % |
| Nonaccrual | **$ 700,653** | **48.1%** | $ 1,968,203 | 83.3% |
| Other property owned, net | **756,086** | **51.9%** | 394,200 | 16.7% |
| Total | **$ 1,456,739** | **100.0%** | $ 2,362,403 | 100.0% |

**Results of Operations:**

The Association had net income of $1,119,520 for the three months ended March 31, 2018, as compared to net income of $317,798 for the same period in 2017, reflecting an increase of 252.3 percent. Net interest income was $1,497,768 for the three months ended March 31, 2018, compared to $1,296,470 for the same period in 2017.

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| | Three months ended | | | |
|---|---|---|---|---|
| | **March 31, 2018** | | March 31, 2017 | |
| | **Average Balance** | **Interest** | Average Balance | Interest |
| Loans | **$ 218,502,343** | **$ 2,599,818** | $ 204,086,842 | $ 2,094,128 |
| Total interest-earning assets | **218,502,343** | **2,599,818** | 204,086,842 | 2,094,128 |
| Interest-bearing liabilities | **188,642,962** | **1,102,050** | 176,910,279 | 797,658 |
| Impact of capital | **$ 29,859,381** | | $ 27,176,563 | |
| Net interest income | | **$ 1,497,768** | | $ 1,296,470 |

| | **2018 Average Yield** | 2017 Average Yield |
|---|---|---|
| Yield on loans | **4.83%** | 4.16% |
| Total yield on interest-earning assets | **4.83%** | 4.16% |
| Cost of interest-bearing liabilities | **2.37%** | 1.83% |
| Interest rate spread | **2.46%** | 2.33% |
| Net interest income as a percentage of average earning assets | **2.78%** | 2.58% |

| | **Three months ended: March 31, 2018 vs. March 31, 2017** | | |
|---|---|---|---|
| | **Increase (decrease) due to** | | |
| | **Volume** | **Rate** | **Total** |
| Interest income - loans | **$ 147,916** | **$ 357,774** | **$ 505,690** |
| Interest income - investments | **-** | **-** | **-** |
| Total interest income | **147,916** | **357,774** | **505,690** |
| Interest expense | **52,901** | **251,491** | **304,392** |
| Net interest income | **$ 95,015** | **$ 106,283** | **$ 201,298** |

Interest income for the three months ended March 31, 2018, increased by $505,690 or 24.2 percent, from the same period of 2017, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three months ended March 31, 2018, increased by $304,392 or 38.2 percent, from the same period of 2017 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the first quarter of 2018 was $218,502,343, compared to $204,086,842 in the first quarter of 2017. The average net interest rate spread on the loan portfolio for the first quarter of 2018 was 2.46 percent, compared to 2.33 percent in the first quarter of 2017.

Provisions for loan losses increased $220,224 or 17.7 percent, compared to the same period of 2017, due primarily to an increased in general reserves related to an increase in total loans.

Noninterest income for the three months ended March 31, 2018, increased by $429,637 or 95.8 percent, from the same period of 2017, primarily due to a rebate on excess insurance funds from Farm Credit System Insurance Corporation (FCSIC).

Total noninterest expense for the three months ended March 31, 2018 decreased by $151,841 or 11.1 percent, when compared to the same period of 2017, primarily driven by a decrease in purchased services. Additional decreases were noted in salaries and employee benefits, and FCSIC expense.

The Association's return on average assets for the three months ended March 31, 2018, was 1.97 percent compared to 0.60 percent for the same period in 2017. The Association's return on average equity for the three months ended March 31, 2018, was 11.63 percent, compared to 3.53 percent for the same period in 2017.

**Liquidity and Funding Sources:**

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

| | | **March 31, 2018** | | December 31, 2017 |
|---|---|---|---|---|
| Note payable to the bank | **$** | **188,067,741** | $ | 190,581,755 |
| Accrued interest on note payable | | **391,459** | | 352,731 |
| Total | **$** | **188,459,200** | $ | 190,934,486 |

The Association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2018. The primary source of liquidity and funding for the Association is a direct loan from the bank. The outstanding balance of $188,067,741 as of March 31, 2018, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.45 percent at March 31, 2018. 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 Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $30,437,013 at March 31, 2018. The maximum amount the Association may borrow from the bank as of March 31, 2018, was $220,057,276 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, 2018, 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 $1,144,016 at March 31, 2018, compared to December 31, 2017. The Association's debt as a percentage of members' equity was 4.84:1 as of March 31, 2018, compared to 5.02:1 as of December 31, 2017.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2018, the Association exceeded all regulatory capital requirements.

**Significant Recent Accounting Pronouncements:**

In February 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Income Statement — Reporting Comprehensive Income — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA) that lowered the federal corporate tax rate from 35% to 21%. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In August 2017, the FASB issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance becomes effective for interim and annual periods beginning after December 15, 2018. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In March 2017, the FASB issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition but did change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the 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 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." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did impact the Association's fair value disclosures.

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 has determined that the effect of the adoption is not material to its financial condition or results of operations and will not change its current recognition practices.

**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 2017 Annual Report of Association New Model 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 AG NEW MEXICO, FARM CREDIT SERVICES, ACA, 4501 N. Prince, Clovis, New Mexico or 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 *will.fisher@farmcreditbank.com*.

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA**

**BALANCE SHEET**

| | | March 31, 2018 (unaudited) | | December 31, 2017 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Loans | | **219,625,340** | | 220,352,945 |
| Less: allowance for loan losses | | **496,111** | | 456,645 |
| Net loans | | **219,129,229** | | 219,896,300 |
| Accrued interest receivable | | **2,288,709** | | 2,605,952 |
| Investment in and receivable from the Farm Credit Bank of Texas: | | | | |
| Capital stock | | **5,139,035** | | 5,139,035 |
| Other | | **783,121** | | 526,369 |
| Deferred taxes, net | | **355,449** | | 355,449 |
| Other property owned, net | | **756,086** | | 394,200 |
| Premises and equipment, net | | **3,032,289** | | 3,043,915 |
| Other assets | | **502,163** | | 358,164 |
| Total assets | **$** | **231,986,081** | $ | 232,319,384 |
| **LIABILITIES** | | | | |
| Note payable to the Farm Credit Bank of Texas | **$** | **188,067,741** | $ | 190,581,755 |
| Advance conditional payments | | **1,400,709** | | 19,470 |
| Accrued interest payable | | **391,459** | | 352,731 |
| Drafts outstanding | | **55,865** | | 3,659 |
| Patronage distributions payable | | **532,004** | | 532,004 |
| Other liabilities | | **1,828,947** | | 2,264,425 |
| Total liabilities | | **192,276,725** | | 193,754,044 |
| **MEMBERS' EQUITY** | | | | |
| Capital stock and participation certificates | | **452,460** | | 435,635 |
| Unallocated retained earnings | | **39,615,184** | | 38,495,664 |
| Accumulated other comprehensive income (loss) | | **(358,288)** | | (365,959) |
| Total members' equity | | **39,709,356** | | 38,565,340 |
| Total liabilities and members' equity | **$** | **231,986,081** | $ | 232,319,384 |

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

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA**
**STATEMENTS OF COMPREHENSIVE INCOME**
(unaudited)

| | Quarter Ended March 31, | |
|---|---|---|
| | **2018** | 2017 |
| **INTEREST INCOME** | | |
| Loans | **$ 2,599,818** | $ 2,094,128 |
| Total interest income | **2,599,818** | 2,094,128 |
| **INTEREST EXPENSE** | | |
| Note payable to the Farm Credit Bank of Texas | **1,102,050** | 797,658 |
| Total interest expense | **1,102,050** | 797,658 |
| Net interest income | **1,497,768** | 1,296,470 |
| **PROVISION FOR LOAN LOSSES** | **35,150** | 54,096 |
| Net interest income after provision for loan losses | **1,462,618** | 1,242,374 |
| **NONINTEREST INCOME** | | |
| Income from the Farm Credit Bank of Texas: | | |
| Patronage income | **486,885** | 341,022 |
| Loan fees | **79,022** | 67,369 |
| Refunds from Farm Credit System Insurance Corporation | **319,682** | - |
| Financially related services income | **610** | 638 |
| (Loss) gain on other property owned, net | **(8,595)** | 20,901 |
| (Loss) gain on sale of premises and equipment, net | **(25,992)** | (2,650) |
| Other noninterest income | **26,665** | 21,360 |
| Total noninterest income | **878,277** | 448,640 |
| **NONINTEREST EXPENSES** | | |
| Salaries and employee benefits | **770,758** | 786,723 |
| Directors' expense | **38,192** | 43,075 |
| Purchased services | **117,300** | 197,659 |
| Travel | **65,240** | 54,807 |
| Occupancy and equipment | **65,150** | 83,164 |
| Communications | **10,978** | 9,053 |
| Advertising | **5,446** | 6,754 |
| Public and member relations | **7,400** | 3,917 |
| Supervisory and exam expense | **28,713** | 45,766 |
| Insurance Fund premiums | **36,990** | 57,619 |
| Other noninterest expense | **75,208** | 84,680 |
| Total noninterest expenses | **1,221,375** | 1,373,217 |
| Income before income taxes | **1,119,520** | 317,797 |
| **NET INCOME** | **1,119,520** | 317,797 |
| Other comprehensive income: | | |
| Change in postretirement benefit plans | **7,671** | 12,480 |
| **COMPREHENSIVE INCOME** | **$ 1,127,191** | $ 330,277 |

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

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA**

**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, 2016 | $ 396,005 | $ 36,401,498 | $ (334,981) | $ 36,462,522 |
| Comprehensive income | - | 317,797 | 16,583 | 334,380 |
| Capital stock/participation certificates and allocated retained earnings issued | 25,625 | - | - | 25,625 |
| Capital stock/participation certificates and allocated retained earnings retired | (15,420) | - | - | (15,420) |
| Dividends declared | - | - | - | - |
| Balance at March 31, 2017 | $ 406,210 | $ 36,719,295 | $ (318,398) | $ 36,807,107 |
| | | | | |
| Balance at December 31, 2017 | $ 435,635 | $ 38,495,664 | $ (365,959) | $ 38,565,340 |
| Comprehensive income | - | 1,119,520 | 7,671 | 1,127,191 |
| Capital stock/participation certificates and allocated retained earnings issued | 50,425 | - | - | 50,425 |
| Capital stock/participation certificates and allocated retained earnings retired | (33,600) | - | - | (33,600) |
| **Balance at March 31, 2018** | **$ 452,460** | **$ 39,615,184** | **$ (358,288)** | **$ 39,709,356** |

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

## NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

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, 2017, as contained in the 2017 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, 2017, as contained in the 2017 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, 2017. Descriptions of the significant accounting policies are included in the 2017 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 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Income Statement — Reporting Comprehensive Income — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA) that lowered the federal corporate tax rate from 35% to 21%. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In August 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance becomes effective for interim and annual periods beginning after December 15, 2018. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In March 2017, the FASB issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition but did change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did change the classification of certain items in the statement of cash flows.

In June 2016, FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the 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 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 affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did impact the Association's fair value disclosures.

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. The guidance sets forth the requirement for new and enhanced disclosures. The Association has determined that the effect of the adoption is not material to its financial condition or results of operations and will not change its current recognition practices.

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, 2018, are not necessarily indicative of the results to be expected for the year ended December 31, 2017. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

## NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

| Loan Type | **March 31, 2018 Amount** | December 31, 2017 Amount |
|---|---|---|
| Production agriculture: | | |
| Real estate mortgage | **$ 86,031,147** | $ 84,314,263 |
| Production and intermediate term | **50,324,063** | 57,164,758 |
| Agribusiness: | | |
| Loans to cooperatives | **7,031,762** | 4,686,861 |
| Processing and marketing | **46,527,982** | 45,896,052 |
| Farm-related business | **6,299,773** | 6,187,405 |
| Communication | **2,630,702** | 2,652,129 |
| Energy | **7,397,185** | 7,531,374 |
| Water and waste water | **1,994,607** | 1,994,398 |
| Rural residential real estate | **9,425,662** | 7,933,931 |
| Lease receivables | **1,962,457** | 1,991,774 |
| Total | **$ 219,625,340** | $ 220,352,945 |

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, 2018:

| | **In District** | |
|---|---|---|
| | **Participations Purchased** | **Participations Sold** |
| Real Estate Mortgage | $ 6,478,726 | $ 22,483,084 |
| Production & Intermediate Term | 6,148,187 | 11,617,141 |
| Agribusiness | 37,481,480 | 14,782,380 |
| Communication | 2,630,702 | - |
| Energy | 7,397,185 | - |
| Water & Waste Disposal | 1,994,607 | - |
| Lease Receivables | 1,962,457 | - |
| **Total** | **$ 64,093,344** | **$ 48,882,604** |

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 $1,922,892 and $385,324 at March 31, 2018, and December 31, 2017, respectively.

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

| | **March 31, 2018** | December 31, 2017 |
|---|---|---|
| **Nonaccrual loans:** | | |
| Real estate mortgage | **$ 604,619** | $ 1,524,216 |
| Production and intermediate term | **96,034** | 443,987 |
| Total nonperforming loans | **700,653** | 1,968,203 |
| Other property owned | **756,086** | 394,200 |
| Total nonperforming assets | **$ 1,456,739** | $ 2,362,403 |

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, 2018 | December 31, 2017 |
|---|---|---|
| Real estate mortgage | | |
| Acceptable | **90.2** % | 92.6 % |
| OAEM | **7.3** | 4.0 |
| Substandard/doubtful | **2.5** | 3.4 |
| | **100.0** | 100.0 |
| Production and intermediate term | | |
| Acceptable | **92.2** | 92.5 |
| OAEM | **5.5** | 5.3 |
| Substandard/doubtful | **2.3** | 2.2 |
| | **100.0** | 100.0 |
| Agribusiness | | |
| Acceptable | **93.1** | 99.5 |
| OAEM | **6.9** | 0.5 |
| | **100.0** | 100.0 |
| Energy and water/waste water | | |
| Acceptable | **100.0** | 100.0 |
| | **100.0** | 100.0 |
| Communication | | |
| Acceptable | **100.0** | 100.0 |
| | **100.0** | 100.0 |
| Rural residential real estate | | |
| Acceptable | **100.0** | 100.0 |
| | **100.0** | 100.0 |
| Lease receivables | | |
| Acceptable | **100.0** | 100.0 |
| | **100.0** | 100.0 |
| Total loans | | |
| Acceptable | **92.5** | 95.1 |
| OAEM | **6.0** | 3.0 |
| Substandard/doubtful | **1.5** | 1.9 |
| | **100.0** % | 100.0 % |

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

| March 31, 2018 | 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 | $ 2,148,913 | $ 604,619 | $ 2,753,532 | $ 84,512,163 | $ 87,265,695 | $ - |
| Production and intermediate term | 251,281 | 96,034 | 347,315 | 50,648,232 | 50,995,547 | - |
| Loans to cooperatives | - | - | - | 7,044,728 | 7,044,728 | - |
| Processing and marketing | - | - | - | 46,753,816 | 46,753,816 | - |
| Farm-related business | - | - | - | 6,365,131 | 6,365,131 | - |
| Communication | - | - | - | 2,631,652 | 2,631,652 | - |
| Energy | - | - | - | 7,428,332 | 7,428,332 | - |
| Water and waste water | - | - | - | 2,004,829 | 2,004,829 | - |
| Rural residential real estate | 72,450 | - | 72,450 | 9,380,823 | 9,453,273 | - |
| Lease receivables | - | - | - | 1,971,046 | 1,971,046 | - |
| Total | $ 2,472,644 | $ 700,653 | $ 3,173,297 | $ 218,740,752 | $ 221,914,049 | $ - |

| December 31, 2017 | 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 | $ 353,291 | $ 1,524,216 | $ 1,877,507 | $ 83,718,031 | $ 85,595,538 | $ - |
| Production and intermediate term | 489,345 | 443,987 | 933,332 | 57,030,572 | 57,963,904 | - |
| Loans to cooperatives | - | - | - | 4,692,654 | 4,692,654 | - |
| Processing and marketing | - | - | - | 46,263,365 | 46,263,365 | - |
| Farm-related business | - | - | - | 6,243,489 | 6,243,489 | - |
| Communication | - | - | - | 2,653,126 | 2,653,126 | - |
| Energy | - | - | - | 7,563,688 | 7,563,688 | - |
| Water and waste water | - | - | - | 2,024,620 | 2,024,620 | - |
| Rural residential real estate | 108,656 | - | 108,656 | 7,849,370 | 7,958,026 | - |
| Lease receivables | - | - | - | 2,000,487 | 2,000,487 | - |
| Total | $ 951,292 | $ 1,968,203 | $ 2,919,495 | $ 220,039,402 | $ 222,958,897 | $ - |

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, 2018, the total recorded investment of troubled debt restructured loans was $514,911, classified as nonaccrual, with no specific allowance for loan losses. As of March 31, 2018, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $192,168 at period end and $93,333 at December 31, 2017.

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, 2018** | December 31, 2017 | **March 31, 2018** | December 31, 2017 |
| Real estate mortgage | **$ 514,875** | $ 514,875 | **$ 514,875** | $ 514,875 |
| Production and intermediate term | **36** | 347,989 | **36** | 347,989 |
| Total | **$ 514,911** | $ 862,864 | **$ 514,911** | $ 862,864 |

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

Additional impaired loan information is as follows:

| | **Recorded Investment** | **Principal Balance[a]** | **Related Allowance** | Recorded Investment | Principal Balance[a] | Related Allowance |
|---|---|---|---|---|---|---|
| Impaired loans with a related allowance for credit losses: | | | | | | |
| Production and intermediate term | **$ -** | **$ -** | **$ -** | $ 94,998 | $ 137,395 | $ 9,400 |
| Total | **-** | **-** | **-** | 94,998 | 137,395 | 9,400 |
| Impaired loans with no related allowance for credit losses: | | | | | | |
| Real estate mortgage | **604,619** | **604,815** | **-** | 1,524,216 | 1,524,412 | - |
| Production and intermediate term | **96,034** | **436,816** | **-** | 347,989 | 398,255 | - |
| Total | **700,653** | **1,041,631** | **-** | 1,872,205 | 1,922,667 | - |
| Total impaired loans: | | | | | | |
| Real estate mortgage | **604,619** | **604,815** | **-** | 1,524,216 | 1,524,412 | - |
| Production and intermediate term | **96,034** | **436,816** | **-** | 442,987 | 535,650 | 9,400 |
| Total | **$ 700,653** | **$1,041,631** | **$ -** | $1,967,203 | $2,060,062 | $ 9,400 |

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

| | **For the Quarter & Year Ended March 31, 2018** | | For the Quarter & Year Ended March 31, 2017 | |
|---|---|---|---|---|
| | **Average Impaired Loans** | **Interest Income Recognized** | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for credit losses: | | | | |
| Production and intermediate term | **$ -** | **$ -** | $ 934,080 | $ - |
| Total | **-** | **-** | 934,080 | - |
| Impaired loans with no related allowance for credit losses: | | | | |
| Real estate mortgage | **600,288** | **51** | 1,468,376 | 6,123 |
| Production and intermediate term | **397,658** | **-** | 437,401 | 4,697 |
| Total | **997,946** | **51** | 1,905,777 | 10,820 |
| Total impaired loans: | | | | |
| Real estate mortgage | **600,288** | **51** | 1,468,376 | 6,123 |
| Production and intermediate term | **397,658** | **-** | 1,371,481 | 4,697 |
| Total | **$ 997,946** | **$ 51** | $ 2,839,857 | $ 10,820 |

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 | Lease Receivables | Total |
|---|---|---|---|---|---|---|---|---|
| **Allowance for Credit Losses:** | | | | | | | | |
| Balance at December 31, 2017 | $ 114,695 | $ 228,073 | $ 76,118 | $ 5,632 | $ 24,452 | $ 7,675 | $ - | $ 456,645 |
| Charge-offs | - | - | - | - | - | - | - | - |
| Recoveries | - | - | - | - | - | - | - | - |
| Provision for loan losses | 8,829 | 17,556 | 5,859 | 434 | 1,881 | 591 | - | 35,150 |
| Other | - | 4,316 | - | - | - | - | - | 4,316 |
| Balance at March 31, 2018 | $ 123,524 | $ 249,945 | $ 81,977 | $ 6,066 | $ 26,333 | $ 8,266 | $ - | $ 496,111 |
| Ending Balance: | | | | | | | | |
| Individually evaluated for impairment | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Collectively evaluated for impairment | 123,524 | 249,945 | 81,977 | 6,066 | 26,333 | 8,266 | - | 496,111 |
| Balance at March 31, 2018 | $ 123,524 | $ 249,945 | $ 81,977 | $ 6,066 | $ 26,333 | $ 8,266 | $ - | $ 496,111 |
| Balance at December 31, 2016 | $ 107,983 | $ 228,799 | $ 163,621 | $ 12,106 | $ 52,559 | $ 16,498 | $ - | $ 581,566 |
| Charge-offs | - | - | - | - | - | - | - | - |
| Recoveries | 64,460 | - | - | - | - | - | - | 64,460 |
| Provision for loan losses | 4,329 | 39,952 | 6,560 | 485 | 2,107 | 663 | - | 54,096 |
| Other | - | 4,800 | - | - | - | - | - | 4,800 |
| Balance at March 31, 2017 | $ 176,772 | $ 273,551 | $ 170,181 | $ 12,591 | $ 54,666 | $ 17,161 | $ - | $ 704,922 |
| Ending Balance: | | | | | | | | |
| Individually evaluated for impairment | $ - | $ 272,551 | $ - | $ - | $ - | $ - | $ - | $ 272,551 |
| Collectively evaluated for impairment | 176,772 | 1,000 | 170,181 | 12,591 | 54,666 | 17,161 | - | 432,371 |
| Balance at March 31, 2017 | $ 176,772 | $ 273,551 | $ 170,181 | $ 12,591 | $ 54,666 | $ 17,161 | $ - | $ 704,922 |

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Communications | Energy and Water/Waste Water | Rural Residential Real Estate | Lease Receivables | Total |
|---|---|---|---|---|---|---|---|---|
| **Recorded Investments in Loans Outstanding:** | | | | | | | | |
| Ending Balance at March 31, 2018 | $87,265,696 | $ 50,995,546 | $60,163,675 | $ 2,631,652 | $ 9,433,161 | $9,453,273 | $1,971,046 | $221,914,049 |
| Individually evaluated for impairment | $ 604,619 | $ 96,034 | $ - | $ - | $ - | $ - | $ - | $ 700,653 |
| Collectively evaluated for impairment | $86,661,077 | $ 50,899,512 | $60,163,675 | $ 2,631,652 | $ 9,433,161 | $9,453,273 | $1,971,046 | $221,213,396 |
| Ending Balance at March 31, 2017 | $81,113,662 | $ 48,959,571 | $58,172,911 | $ 2,705,634 | $10,080,865 | $6,219,629 | $ - | $207,252,272 |
| Individually evaluated for impairment | $ 1,461,380 | $ 1,221,418 | $ - | $ - | $ - | $ - | $ - | $ 2,682,798 |
| Collectively evaluated for impairment | $79,652,282 | $ 47,738,153 | $58,172,911 | $ 2,705,634 | $10,080,865 | $6,219,629 | $ - | $204,569,474 |

## NOTE 3 — CAPITAL:

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

**Regulatory Capitalization Requirements**

| Risk-adjusted: | **Regulatory Minimums** | **Conservation Buffer** | **Total** | **As of March 31, 2018** |
|---|---|---|---|---|
| Common equity tier 1 ratio | 4.50% | 2.50% | 7.00% | 15.63% |
| Tier 1 capital ratio | 6.00% | 2.50% | 8.50% | 15.63% |
| Total capital ratio | 8.00% | 2.50% | 10.50% | 15.85% |
| Permanent capital ratio | 7.00% | 0.00% | 7.00% | 15.66% |
| Non-risk-adjusted: | | | | |
| Tier 1 leverage ratio | 4.00% | 1.00% | 5.00% | 15.14% |
| UREE leverage ratio | 1.50% | 0.00% | 1.50% | 16.17% |

| (dollars in thousands) | Common equity tier 1 ratio | Tier 1 capital ratio | Total capital ratio | Permanent capital ratio |
|---|---|---|---|---|
| Numerator: | | | | |
| Unallocated retained earnings | $ 38,787,406 | $ 38,787,406 | $ 38,787,406 | $ 38,787,406 |
| Common Cooperative Equities: | | | | |
| Statutory minimum purchased borrower stock | 440,948 | 440,948 | 440,948 | 440,948 |
| Allowance for loan losses and reserve for credit losses subject to certain limitations | | | 492,326 | |
| Regulatory Adjustments and Deductions: | | | | |
| Amount of allocated investments in other System institutions | (5,138,914) | (5,138,914) | (5,138,914) | (5,138,914) |
| | $ 34,089,440 | $ 34,089,440 | $ 34,581,766 | $ 34,089,440 |
| Denominator: | | | | |
| Risk-adjusted assets excluding allowance | $ 223,305,576 | $ 223,305,576 | $ 223,305,576 | $ 223,305,576 |
| Regulatory Adjustments and Deductions: | | | | |
| Regulatory deductions included in total capital | (5,138,914) | (5,138,914) | (5,138,914) | (5,138,914) |
| Allowance for loan losses | | | | (461,469) |
| | $ 218,166,662 | $ 218,166,662 | $ 218,166,662 | $ 217,705,193 |

| (dollars in thousands) | Tier 1 leverage ratio | UREE leverage ratio |
|---|---|---|
| Numerator: | | |
| Unallocated retained earnings | $ 38,787,406 | $ 38,787,406 |
| Common Cooperative Equities: | | |
| Statutory minimum purchased borrower stock | 440,948 | - |
| Regulatory Adjustments and Deductions: | | |
| Amount of allocated investments in other System institutions | (5,138,914) | (2,379,200) |
| | $ 34,089,440 | $ 36,408,206 |
| Denominator: | | |
| Total Assets | $ 230,475,747 | $ 230,475,747 |
| Regulatory Adjustments and Deductions: | | |
| Regulatory deductions included in tier 1 capital | (5,314,767) | (5,314,767) |
| | $ 225,160,980 | $ 225,160,980 |

| Risk-adjusted: | Regulatory Minimums | Conservation Buffer | Total | As of December 31, 2017 |
|---|---|---|---|---|
| Common equity tier 1 ratio | 4.50% | 2.50% | 7.00% | 15.40% |
| Tier 1 capital ratio | 6.00% | 2.50% | 8.50% | 15.40% |
| Total capital ratio | 8.00% | 2.50% | 10.50% | 15.71% |
| Permanent capital ratio | 7.00% | 0.00% | 7.00% | 15.45% |
| **Non-risk-adjusted:** | | | | |
| Tier 1 leverage ratio | 4.00% | 1.00% | 5.00% | 14.96% |
| UREE leverage ratio | 1.50% | 0.00% | 1.50% | 16.00% |

| (dollars in thousands) | Common equity tier 1 ratio | Tier 1 capital ratio | Total capital ratio | Permanent capital ratio |
|---|---|---|---|---|
| Numerator: | | | | |
| Unallocated retained earnings | $ 37,871,408 | $ 37,871,408 | $ 37,871,408 | $ 37,871,408 |
| Common Cooperative Equities: | | | | |
| Statutory minimum purchased borrower stock | 431,680 | 431,680 | 431,680 | 431,680 |
| Allowance for loan losses and reserve for credit losses subject to certain limitations | | | 667,427 | |
| Regulatory Adjustments and Deductions: | | | | |
| Amount of allocated investments in other System institutions | (5,135,435) | (5,135,435) | (5,135,435) | (5,135,435) |
| | $ 33,167,653 | $ 33,167,653 | $ 33,835,080 | $ 33,167,653 |
| Denominator: | | | | |
| Risk-adjusted assets excluding allowance | $ 220,454,176 | $ 220,454,176 | $ 220,454,176 | $ 220,454,176 |
| Regulatory Adjustments and Deductions: | | | | |
| Regulatory deductions included in total capital | (5,135,435) | (5,135,435) | (5,135,435) | (5,135,435) |
| Allowance for loan losses | | | | (637,591) |
| | $ 215,318,741 | $ 215,318,741 | $ 215,318,741 | $ 214,681,150 |

| (dollars in thousands) | Tier 1 leverage ratio | UREE leverage ratio |
|---|---|---|
| Numerator: | | |
| Unallocated retained earnings | $ 37,871,408 | $ 373,871,408 |
| Common Cooperative Equities: | | |
| Statutory minimum purchased borrower stock | 431,680 | - |
| Regulatory Adjustments and Deductions: | | |
| Amount of allocated investments in other System institutions | (5,135,435) | (2,379,200) |
| | $ 33,167,653 | $ 371,492,208 |
| Denominator: | | |
| Total Assets | $ 227,934,484 | $ 227,934,484 |
| Regulatory Adjustments and Deductions: | | |
| Regulatory deductions included in tier 1 capital | (6,163,806) | (6,163,806) |
| | $ 221,770,678 | $ 221,770,678 |

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

| **March 31, 2018** | **Before Tax** | **Deferred Tax** | **Net of Tax** |
|---|---|---|---|
| **Nonpension postretirement benefits** | **$ 358,288** | **$ -** | **$ 358,288** |
| **Total** | **$ 358,288** | **$ -** | **$ 358,288** |

| March 31, 2017 | Before Tax | Deferred Tax | Net of Tax |
|---|---|---|---|
| Nonpension postretirement benefits | $ 322,501 | $ (4,103) | $ 318,398 |
| Total | $ 322,501 | $ (4,103) | $ 318,398 |

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:

| | **2018** | 2017 |
|---|---|---|
| Accumulated other comprehensive income (loss) at January 1 | **$(365,959)** | $(334,981) |
| Amortization of prior service (credit) costs included in salaries and employee benefits | **(2,783)** | (3,710) |
| Amortization of actuarial (gain) loss included in salaries and employee benefits | **10,454** | 16,190 |
| Income tax expense related to items of other comprehensive income | **-** | 4,103 |
| Other comprehensive income (loss), net of tax | **7,671** | 16,583 |
| Accumulated other comprehensive income at March 31 | **$(358,288)** | $(318,398) |

## NOTE 4 — 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 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 to the 2017 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, 2018** | **Fair Value Measurement Using** | | | **Total Fair** | **Total Gains** |
|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Value** | **(Losses)** |
| Assets: | | | | | |
| Loans* | **$ -** | **$ -** | **$ 700,653** | **$ 700,653** | **$ -** |
| Other property owned | **-** | **-** | **840,096** | **840,096** | **-** |

| December 31, 2017 | Fair Value Measurement Using | | | Total Fair | Total Gains |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Value | (Losses) |
| Assets: | | | | | |
| Loans* | $ - | $ - | $ 86,598 | $ 86,598 | $ - |
| Other property owned | - | - | 438,000 | 438,000 | - |

*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 13 to the 2017 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 2017 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, U.S. agency 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 6 — 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 | |
|---|---|---|
| | **2018** | 2017 |
| Service cost | **$ 3,586** | $ 4,024 |
| Interest cost | **14,052** | 14,957 |
| Amortization of prior service (credits) costs | **(2,783)** | (3,710) |
| Amortization of net actuarial (gain) loss | **10,454** | 7,496 |
| Net periodic benefit cost | **$ 25,309** | $ 22,767 |

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2018, was $1,430,703 and is included in "Other Liabilities" in the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

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, 2017, that it expected to contribute $54,932 to the district's defined benefit pension plan in 2017. As of March 31, 2018, the full annual contribution has been made. The Association presently does not anticipates additional contributions to fund the defined benefit pension plan in 2018.

## NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

## NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 10, 2018, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 10, 2018.