AG NEW MEXICO, FARM CREDIT SERVICES, ACA

2015
Quarterly Report
Second Quarter

For the Quarter Ended June 30, 2015

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
August 7, 2015

Mark McCollum, Chairman, Board of Directors
August 7, 2015

Ginger Garrett, Chief Financial Officer
August 7, 2015

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 six months ended June 30, 2015. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2014, 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 six months ending June 30, 2015, the Association continues its efforts to strengthen the financial position of the Association as well as manage the credit risk within the loan portfolio. Net interest income increased from $2,253,088 to $2,379,166 for the six months ending June 30, 2014 and 2015, respectively. Net interest income after provision for loan losses increased from $2,234,031 to $2,273,282 during the same period. Total noninterest expenses increased from $1,829,412 to $2,057,126 during the same period. Net income decreased from $784,055 to $772,018 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. The Association acquired property in May 2015 as a result of a loan settlement agreement. An appraisal prepared on December 31, 2014 resulted in collateral value of $85,000 with Association book value of $71,250.

Farmers and ranchers continue to see some relief from the extended drought conditions of 2014. Substantial moisture has been received in most parts of the state which has aided in reservoir levels and recharging the ground water. Recent moisture received in the second quarter of 2015 continues to aid recovery from the drought. Beef cattle continue to be the largest portfolio concentration, with dairy being the Association's second largest exposure. Beef numbers nationwide are at the lowest levels since the 1950's and producers are looking for expansion opportunities. With cow herds at a reduced level many of the heifers that would normally go to beef are being retained for herd replacements which indicate prices are likely to remain strong for the foreseeable future. Milk prices have softened and 2015 prices are expected to be significantly lower than prices received in 2014. Fuel and feed prices are also lower which could offset some of the softening in milk prices.

The Association began a rural home loan program in 2013 which has been well received. Ag New Mexico continues to grow this program to serve the rural home financing needs of New Mexico.

The Association strives to timely identify trends in risk factors in the loan portfolio and to take prompt action to address those risks. The Association underwent two separate evaluations conducted in 2014 which concluded that the Association is adequately assigning correct risk ratings to loans in the Association's portfolio. Those evaluations included an examination by the Association's regulator and a review by an independent firm specializing in providing credit review services for associations and other financial institutions.

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 June 30, 2015, including nonaccrual loans and sales contracts, were $175,009,618 compared to $174,461,327 at December 31, 2014, reflecting an increase of 0.3 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.2 percent at June 30, 2015, compared to 0.7 percent at December 31, 2014.

The Association recorded no recoveries or charge-offs for the six months ended June 30, 2015, and 2014. The Association's allowance for loan losses was 0.6 percent and 0.5 percent of total loans outstanding as of June 30, 2015, and December 31, 2014, respectively.

Risk Exposure:

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

	June 30, 2015		December 31, 2014	
	Amount	**%**	Amount	%
Nonaccrual	**$ 2,186,942**	**55.0%**	$ 2,169,420	56.2%
90 days past due and still accruing interest	**-**	**0.0%**	-	0.0%
Formally restructured	**1,069,204**	**26.9%**	1,046,665	27.1%
Other property owned, net	**717,330**	**18.1%**	646,080	16.7%
Total	**$ 3,973,476**	**100.0%**	$ 3,862,165	100.0%

Results of Operations:

The Association had net income of $408,731 and $772,018 for the three and six months ended June 30, 2015, as compared to net income of $354,490 and $784,055 for the same period in 2014, reflecting an increase of 15.3 percent and a decrease of 1.5 percent respectively. Net interest income was $1,213,422 and $2,379,166 for the three and six months ended June 30, 2015, compared to $1,098,410 and $2,253,088 for the same period in 2014.

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	Six months ended:			
	June 30, 2015		June 30, 2014	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 169,193,821**	**$ 3,491,664**	$ 165,099,667	$ 3,224,124
Investments	**-**	**-**	4,558,886	104,286
Total interest-earning assets	**169,193,821**	**3,491,664**	169,658,553	3,328,410
Interest-bearing liabilities	**143,883,881**	**1,112,498**	146,009,640	1,075,322
Impact of capital	**$ 25,309,940**		$ 23,648,913	
Net interest income		**$ 2,379,166**		$ 2,253,088

	2015 Average Yield	2014 Average Yield
Yield on loans	**4.16%**	3.94%
Yield on investments	**0.00%**	4.61%
Total yield on interest-earning assets	**4.16%**	3.96%
Cost of interest-bearing liabilities	**1.56%**	1.49%
Interest rate spread	**2.60%**	2.47%
Net interest income as a percentage of average earning assets	**2.84%**	2.68%

	Six months ended: June 30, 2015 vs. June 30, 2014		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 79,952**	**$ 187,588**	**$ 267,540**
Interest income - investments	**(104,286)**	**0**	**(104,286)**
Total interest income	**(24,334)**	**187,588**	**163,254**
Interest expense	**(15,656)**	**52,832**	**37,176**
Net interest income	**$ (8,679)**	**$ 134,757**	**$ 126,078**

Interest income for the three and six months ended June 30, 2015, increased by $158,971 and $163,254, or 9.8 and 4.9 percent, respectively, from the same period of 2014, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and six months ended June 30, 2015, increased by $43,959 and $37,176, or 8.4 and 3.5 percent, respectively, from the same period of 2014 due to an increase in average debt volume. Average loan volume for the six months ended June 30, 2015 was $169,193,821, compared to $165,099,667 for the six months ended June 30, 2014. The average net interest rate spread on the loan portfolio for the six months ended June 30, 2015 was 2.60 percent, compared to 2.47 for the six months ended June 30, 2014.

The Association's return on average assets for the six months ended June 30, 2015, was 0.87 percent compared to 0.88 percent for the same period in 2014. The Association's return on average equity for the six months ended June 30, 2015, was 4.64 percent, compared to 4.87 percent for the same period in 2014.

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.

	June 30, 2015	December 31, 2014
Note payable to the bank	**$ 148,119,203**	$ 149,130,598
Accrued interest on note payable	**185,349**	193,891
Total	**$ 148,304,552**	$ 149,324,489

The Association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2015. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $148,119,203 as of June 30, 2015, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.52 percent at June 30, 2015. 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 decrease in note payable to the bank and related accrued interest payable since December 31, 2014, is due to the Association's increase in profitability. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $25,556,266 at June 30, 2015. The maximum amount the Association may borrow from the bank as of June 30, 2015, was $173,338,889 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, 2015, 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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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.

Capital Resources:

The Association's capital position increased by $802,606 at June 30, 2015, compared to December 31, 2014. The Association's debt as a percentage of members' equity was 4.47:1 as of June 30, 2015, compared to 4.57:1 as of December 31, 2014.

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 June 30, 2015, was 16.4 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at June 30, 2015, were 16.2 and 16.2 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In August 2014, the Financial Accounting Standards Board (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. The association is currently evaluating a potential disclosure for this recent accounting pronouncement.

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 April 2015, this guidance was deferred by one year and results in the new revenue standard becoming effective for interim and annual reporting periods ending after December 15, 2017. The association is in the process of reviewing contracts to determine the effect, if any, on the association's financial condition or its results of operations.

Regulatory Matters:

Supervisory Agreement

The Association and its regulator, Farm Credit Administration (FCA), entered into a Supervisory Agreement effective March 20, 2012, that placed additional reporting requirements on the Association and required the board to take certain other actions. The Supervisory Agreement supersedes the Supervisory Agreement with the FCA dated January 20, 2010, and the FCA Supervisory Letters dated June 25, 2009, November 13, 2009, and December 13, 2011. The Supervisory Agreement requires the board take certain corrective and precautionary measures with respect to some of the Association's practices. These practices include 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 prohibits the Association from distributing patronage or dividends from past, present or future earnings without prior FCA consent. The conditions and events that led to the Supervisory Agreement include portfolio credit quality deterioration, weaknesses in board governance, loan portfolio management, participations purchased and weakness with respect to certain internal controls. In response to the Supervisory Agreement, the board adopted a multistep detailed plan of corrective actions designed to address the requirements mandated in the Supervisory Agreement. In addition to taking actions to address the additional reporting requirements, the board has:

- Engaged an outside consultant to advise the board in regards to fulfilling its fiduciary duties and improving board operations and governance;
- Revised its committee structure by adding governance and risk management committees;
- Revised its nominating committee by adding a third meeting at least 180 days prior to the election;

- Prepared a board and individual board member training plan designed to strengthen the board's expertise and improve the governance of the Association; training is ongoing.
- Hired a new Chief Executive Officer in October 2012 to replace the previous CEO, who retired;
- Hired a new Chief Credit Officer in June 2013;
- Hired a Chief Financial Officer in March 2014;
- Established a Compliance Committee to monitor management's progress in implementing the corrective actions of items identified in the Supervisory Agreement as well as any corrective action plans arising from other audits performed for the Association;
- Continued review by the board of participations purchased, and incorporation into the Association's audit plan of an annual independent review of participations purchased.
- Continue to review FCA regulations with respect to shareholder disclosure obligations to ensure compliance.

Ag New Mexico Farm Credit Service, ACA has substantially complied with the Supervisory Agreement dated March 20, 2012. FCA communications noted weaknesses that still require additional actions which are being addressed by the board and senior management.

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

Other Regulatory Matters

On September 4, 2014, the Farm Credit Administration published a proposed 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 the institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To ensure that 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 initial public comment period ended on February 16, 2015. However, the FCA agreed to reopen the comment period from June 26 to July 10, 2015.

Relationship With 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 2014 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, P.O. Box 1328, 233 Fairway Terrace North, Clovis, New Mexico 88102-1328 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 *ginger.garrett@farmcreditbank.com*.

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEET

	June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Cash	**$ 102,544**	$ 104,320
Loans	**175,009,618**	174,461,327
Less: allowance for loan losses	**1,009,591**	891,318
Net loans	**174,000,027**	173,570,009
Accrued interest receivable	**1,736,665**	1,739,390
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**4,084,740**	4,084,740
Other	**997,208**	365,210
Deferred taxes, net	**506,340**	637,113
Other property owned, net	**717,330**	646,080
Premises and equipment, net	**3,129,302**	3,095,151
Other assets	**274,990**	343,876
Total assets	**$ 185,549,146**	$ 184,585,889
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 148,119,203**	$ 149,130,598
Advance conditional payments	**1,598,403**	-
Accrued interest payable	**185,349**	193,891
Drafts outstanding	**18,955**	57,782
Dividends payable	**-**	350,049
Other liabilities	**1,695,561**	1,724,500
Total liabilities	**151,617,471**	151,456,820
MEMBERS' EQUITY		
Capital stock and participation certificates	**341,640**	328,290
Unallocated retained earnings	**33,951,181**	33,179,163
Accumulated other comprehensive loss	**(361,146)**	(378,384)
Total members' equity	**33,931,675**	33,129,069
Total liabilities and members' equity	**$ 185,549,146**	$ 184,585,889

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
INTEREST INCOME				
Loans	**$ 1,778,151**	$ 1,619,180	**$ 3,491,664**	$ 3,224,124
Investments	**-**	-	**-**	104,286
Total interest income	**1,778,151**	1,619,180	**3,491,664**	3,328,410
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**564,729**	520,770	**1,112,498**	1,075,322
Total interest expense	**564,729**	520,770	**1,112,498**	1,075,322
Net interest income	**1,213,422**	1,098,410	**2,379,166**	2,253,088
PROVISION FOR LOAN LOSSES	**50,640**	843	**105,884**	19,057
Net interest income after provision for loan losses	**1,162,782**	1,097,567	**2,273,282**	2,234,031
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**289,284**	277,142	**587,372**	470,129
Loan fees	**8,156**	555	**36,195**	(2,248)
Financially related services income	**-**	8,662	**444**	9,569
Gain (loss) on other property owned, net	**(5,233)**	(946)	**(4,749)**	(2,572)
Gain (loss) on sale of premises and equipment, net	**9,850**	-	**9,850**	-
Other noninterest income	**44,610**	8,792	**57,510**	46,888
Total noninterest income	**346,667**	294,205	**686,622**	521,766
NONINTEREST EXPENSES				
Salaries and employee benefits	**595,946**	513,880	**1,241,802**	1,016,973
Directors' expense	**51,468**	59,240	**91,623**	105,614
Purchased services	**98,139**	28,265	**141,491**	61,275
Travel	**46,233**	59,697	**90,417**	92,473
Occupancy and equipment	**79,236**	70,359	**151,587**	133,200
Communications	**6,703**	7,522	**13,496**	14,957
Advertising	**6,530**	6,477	**13,907**	12,261
Public and member relations	**9,786**	9,934	**26,744**	29,364
Supervisory and exam expense	**44,132**	39,368	**82,410**	79,154
Insurance Fund premiums	**39,244**	38,261	**80,299**	79,135
Other noninterest expense	**58,365**	121,658	**123,350**	205,006
Total noninterest expenses	**1,035,782**	954,661	**2,057,126**	1,829,412
Income before income taxes	**473,667**	437,111	**902,778**	926,385
Provision for income taxes	**64,936**	82,621	**130,760**	142,330
NET INCOME	**408,731**	354,490	**772,018**	784,055
Other comprehensive income:				
Change in postretirement benefit plans	**8,619**	(754)	**17,238**	(54,306)
Other comprehensive income, net of tax	**8,619**	(754)	**17,238**	(54,306)
COMPREHENSIVE INCOME	**$ 417,350**	$ 353,736	**$ 789,256**	$ 729,749

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 Loss	Total Members' Equity
Balance at December 31, 2013	$ 301,170	$ 31,906,873	$ (140,688)	$ 32,067,355
Comprehensive income	-	784,054	(54,306)	729,748
Capital stock/participation certificates and allocated retained earnings issued	30,455	-	-	30,455
Capital stock/participation certificates and allocated retained earnings retired	(19,770)	-	-	(19,770)
Patronage refunds:				
Cash	-	(360,000)	-	(360,000)
Capital stock/participation certificates				
Balance at June 30, 2014	$ 311,855	$ 32,330,927	$ (194,994)	$ 32,447,788
Balance at December 31, 2014	$ 328,290	$ 33,179,163	$ (378,384)	$ 33,129,069
Comprehensive income	-	772,018	17,238	789,256
Capital stock/participation certificates and allocated retained earnings issued	32,435	-	-	32,435
Capital stock/participation certificates and allocated retained earnings retired	(19,085)	-	-	(19,085)
Balance at June 30, 2015	**$ 341,640**	**$ 33,951,181**	**$ (361,146)**	**$ 33,931,675**

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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:

Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves all counties of New Mexico, with the exception of San Juan County and that portion of Rio Arriba County lying west of the Continental Divide; and in the state of Texas, Cochran County. In addition the Association and Farm Credit Services of New Mexico, ACA have entered into an agreement that allows the Association to make mortgage loans in New Mexico, on a statewide basis, without obtaining territorial approval. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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, 2014, as contained in the 2014 Annual Report to Stockholders. Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

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, 2014, as contained in the 2014 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, 2015. Descriptions of the significant accounting policies are included in the 2014 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 August 2014, the Financial Accounting Standards Board (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. The Association is currently evaluating a potential disclosure for this recent accounting pronouncement.

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 April 2015, this guidance was deferred by one year and results in the new revenue standard becoming effective for interim and annual reporting periods ending after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on the Association's financial condition or its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended June 30, 2015, are not necessarily indicative of the results to be expected for the year ended December 31, 2015. 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 2014 related to the AMBS transaction was $133,703. 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	**June 30, 2015 Amount**	December 31, 2014 Amount
Production agriculture:		
Real estate mortgage	**$ 65,515,425**	$ 69,658,785
Production and intermediate term	**54,352,842**	50,050,975
Agribusiness:		
Loans to cooperatives	**1,218,523**	1,288,764
Processing and marketing	**26,745,768**	25,350,014
Farm-related business	**8,056,005**	7,373,164
Communication	**2,800,771**	3,014,297
Energy	**10,530,795**	12,828,919
Water and waste water	**2,270,232**	2,321,528
Rural residential real estate	**3,519,257**	2,574,881
Total	**$ 175,009,618**	$ 174,461,327

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2015:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 10,103,926	$ 17,912,168	$ -	$ -	$ 10,103,926	$ 17,912,168
Production and intermediate term	6,116,842	14,552,604	-	-	6,116,842	14,552,604
Agribusiness	24,131,063	9,153,666	-	-	24,131,063	9,153,666
Communication	2,800,771	-	-	-	2,800,771	-
Energy	10,530,795	-	-	-	10,530,795	-
Water and waste water	2,270,232	-	-	-	2,270,232	-
Total	$ 55,953,629	$ 41,618,439	$ -	$ -	$ 55,953,629	$ 41,618,439

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 not paid by the Association on such balances. Balances of ACPs were $1,962,944 and $584,593 at June 30, 2015, and December 31, 2014, respectively.

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

	June 30, 2015	December 31, 2014
Nonaccrual loans:		
Real estate mortgage	**$ 2,186,942**	$ 2,083,600
Rural residential real estate	**-**	85,820
Total nonaccrual loans	**2,186,942**	2,169,420
Accruing restructured loans:		
Real estate mortgage	**601,433**	603,071
Production and intermediate term	**467,771**	443,594
Total accruing restructured loans	**1,069,204**	1,046,665
Total nonperforming loans	**3,256,146**	3,216,085
Other property owned	**717,330**	646,080
Total nonperforming assets	**$ 3,973,476**	$ 3,862,165

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 classified under the Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2015	December 31, 2014
Real estate mortgage		
Acceptable	**94.0** %	94.6 %
OAEM	**0.9**	1.1
Substandard/doubtful	**5.1**	4.3
	100.0	100.0
Production and intermediate term		
Acceptable	**92.3**	92.8
OAEM	**3.3**	1.7
Substandard/doubtful	**4.4**	5.5
	100.0	100.0
Agribusiness		
Acceptable	**99.2**	-
OAEM	**0.8**	-
Substandard/doubtful	-	-
	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**	96.7
OAEM	-	-
Substandard/doubtful	-	3.3
	100.0	100.0
Total loans		
Acceptable	**95.2**	94.6
OAEM	**1.5**	1.2
Substandard/doubtful	**3.3**	4.2
	100.0 %	100.0 %

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

June 30, 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	**$ 362,061**	**$ 1,183,140**	**$ 1,545,201**	**$ 64,744,768**	**$ 66,289,969**	**$ -**
Production and intermediate term	**137,798**	**-**	**137,798**	**54,841,202**	**54,979,000**	**-**
Loans to cooperatives	**-**	**-**	**-**	**1,223,378**	**1,223,378**	**-**
Processing and marketing	**-**	**-**	**-**	**26,863,701**	**26,863,701**	**-**
Farm-related business	**-**	**-**	**-**	**8,137,495**	**8,137,495**	**-**
Communication	**-**	**-**	**-**	**2,801,005**	**2,801,005**	**-**
Energy	**-**	**-**	**-**	**10,623,083**	**10,623,083**	**-**
Water and waste water	**-**	**-**	**-**	**2,300,491**	**2,300,491**	**-**
Rural residential real estate	**-**	**-**	**-**	**3,528,161**	**3,528,161**	**-**
Total	**$ 499,859**	**$ 1,183,140**	**$ 1,682,999**	**$ 175,063,284**	**$ 176,746,283**	**$ -**

December 31, 2014	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 34,568	$ 924,685	$ 959,253	$ 69,512,588	$ 70,471,841	$ -
Production and intermediate term	-	-	-	50,650,933	50,650,933	-
Loans to cooperatives	-	-	-	1,294,067	1,294,067	-
Processing and marketing	-	-	-	25,446,383	25,446,383	-
Farm-related business	-	-	-	7,469,687	7,469,687	-
Communication	-	-	-	3,014,549	3,014,549	-
Energy	-	-	-	12,924,336	12,924,336	-
Water and waste water	-	-	-	2,349,340	2,349,340	-
Rural residential real estate	-	85,820	85,820	2,493,761	2,579,581	-
Total	$ 34,568	$ 1,010,505	$ 1,045,073	$ 175,155,644	$ 176,200,717	$ -

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 June 30, 2015, the total recorded investment of troubled debt restructured loans was $1,069,204, classified as accrual, with no specific allowance for loan losses. As of June 30, 2015, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Real estate mortgage	$ 601,433	$ 603,071	$ -	$ -
Production and intermediate term	467,771	443,594	-	-
Total	$ 1,069,204	$ 1,046,665	$ -	$ -

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

Additional impaired loan information is as follows:

	June 30, 2015			December 31, 2014		
	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	**$1,183,140**	**$ 1,459,736**	**$575,692**	$ 924,685	$ 1,201,281	$ 376,990
Rural residential real estate	**-**	**-**	**-**	85,820	94,502	13,500
Total	**$1,183,140**	**$ 1,459,736**	**$575,692**	$ 1,010,505	$ 1,295,783	$ 390,490
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$1,605,156**	**$ 1,672,191**	**$ -**	$ 1,761,986	$ 1,829,878	$ -
Production and intermediate term	**467,772**	**1,288,890**	**-**	443,594	1,297,680	-
Total	**$2,072,928**	**$ 2,961,081**	**$ -**	$ 2,205,580	$ 3,127,558	$ -
Total impaired loans:						
Real estate mortgage	**$2,788,296**	**$ 3,131,926**	**$575,692**	$ 2,686,671	$ 3,031,159	$ 376,990
Production and intermediate term	**467,772**	**1,288,890**	**-**	443,594	1,297,680	-
Rural residential real estate	**-**	**-**	**-**	85,820	94,502	13,500
Total	**$3,256,067**	**$ 4,420,816**	**$575,692**	$ 3,216,085	$ 4,423,341	$ 390,490

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

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2015		June 30, 2014		June 30, 2015		June 30, 2014	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$1,092,665**	**$ -**	$ 832,725	$ -	**$1,030,481**	**-**	$ 832,725	$ -
Rural residential real estate	**-**	**-**	-	-	**43,038**	**-**	-	-
Total	**$1,092,665**	**$ -**	$ 832,725	$ -	**$1,073,519**	**$ -**	$ 832,725	$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$1,605,132**	**$ 17,199**	$ 2,703,725	$ -	**$1,632,948**	**$ 38,808**	$ 2,703,725	$ -
Production and intermediate term	**442,946**	**14,142**	596,728	-	**442,682**	**38,174**	596,728	-
Total	**$2,048,077**	**$ 31,341**	$ 3,300,453	$ -	**$2,075,630**	**$ 76,982**	$ 3,300,453	$ -
Total impaired loans:								
Real estate mortgage	**$2,697,797**	**$ 17,199**	$ 3,536,450	$ -	**$2,663,429**	**$ 38,808**	$ 3,536,450	$ -
Production and intermediate term	**442,946**	**14,142**	596,728	-	**442,682**	**38,174**	596,728	-
Rural residential real estate	**-**	**-**	-	-	**43,038**	**-**	-	-
Total	**$3,140,743**	**$ 31,341**	$ 4,133,178	$ -	**$3,149,149**	**$ 76,982**	$ 4,133,178	$ -

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 March 31, 2015	$ 568,917	$ 242,173	$ 97,659	$ 4,390	$ 31,297	$ 2,125	$ 946,561
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	72,408	(28,726)	17,864	2,212	(3,526)	2,798	63,030
Balance at June 30, 2015	$ 641,325	$ 213,447	$ 115,523	$ 6,602	$ 27,771	$ 4,923	$ 1,009,591
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	127,651	(41,115)	17,864	2,212	(3,526)	2,798	105,884
Other	-	12,389	-	-	-	-	12,389
Balance at June 30, 2015	$ 641,325	$ 213,447	$ 115,523	$ 6,602	$ 27,771	$ 4,923	$ 1,009,591
Ending Balance:							
Individually evaluated for impairment	$ 575,692	$ -	$ -	$ -	$ -	$ -	$ 575,692
Collectively evaluated for impairment	65,633	213,447	115,523	6,602	27,771	4,923	433,899
Balance at June 30, 2015	$ 641,325	$ 213,447	$ 115,523	$ 6,602	$ 27,771	$ 4,923	$ 1,009,591
Balance at March 31, 2014	$ 549,396	$ 273,138	$ 69,343	$ 5,884	$ 35,725	$ 506	$ 933,992
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(20,561)	9,329	10,608	193	1,249	25	843
Balance at June 30, 2014	$ 528,835	$ 282,467	$ 79,951	$ 6,077	$ 36,974	$ 531	$ 934,835
Balance at December 31, 2013	$ 554,834	$ 254,449	$ 67,375	$ 5,652	$ 32,956	$ 512	$ 915,778
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(25,999)	28,018	12,576	425	4,018	19	19,057
Balance at June 30, 2014	$ 528,835	$ 282,467	$ 79,951	$ 6,077	$ 36,974	$ 531	$ 934,835
Ending Balance:							
Individually evaluated for impairment	$ 376,990	$ -	$ -	$ -	$ -	$ -	$ 376,990
Collectively evaluated for impairment	151,845	282,467	79,951	6,077	36,974	531	557,845
Balance at June 30, 2014	$ 528,835	$ 282,467	$ 79,951	$ 6,077	$ 36,974	$ 531	$ 934,835

	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 June 30, 2015	$ 66,289,969	$ 54,979,000	$ 36,224,574	$ 2,801,005	$ 12,923,574	$ 3,528,161	$ 176,746,283
Individually evaluated for impairment	$ 2,788,296	$ 467,772	$ -	$ -	$ -	$ -	$ 3,256,068
Collectively evaluated for impairment	$ 63,501,673	$ 54,511,228	$ 36,224,574	$ 2,801,005	$ 12,923,574	$ 3,528,161	$ 173,490,215
Ending Balance at June 30, 2014	$ 65,953,806	$ 47,046,252	$ 34,489,790	$ 3,175,286	$ 15,631,005	$ 931,268	$ 167,227,407
Individually evaluated for impairment	$ 3,487,885	$ 589,752	$ -	$ -	$ -	$ -	$ 4,077,637
Collectively evaluated for impairment	$ 62,465,921	$ 46,456,500	$ 34,489,790	$ 3,175,286	$ 15,631,005	$ 931,268	$ 163,149,770

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:

June 30, 2015	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ 361,146**	**$ -**	**$ 361,146**
Total	**$ 361,146**	**$ -**	**$ 361,146**

June 30, 2014	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ 246,618	$ 51,624	$ 194,994
Total	$ 246,618	$ 51,624	$ 194,994

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 six months ended June 30:

	2015	2014
Accumulated other comprehensive income (loss) at January 1	**$ (378,384)**	$ (140,686)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(7,778)**	(12,625)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**25,016**	9,941
Income tax expense related to items of other comprehensive income	**-**	(51,624)
Other comprehensive income (loss), net of tax	**17,238**	(54,308)
Accumulated other comprehensive income at June 30	**$ (361,146)**	$ (194,994)

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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 14 to the 2014 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:

June 30, 2015	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$2,680,376**	**$2,680,376**
Other property owned	**-**	**-**	**797,000**	**797,000**

December 31, 2014	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 2,838,775	$ 2,838,775
Other property owned	-	-	717,867	717,867

*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 14 to the 2014 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 2014 Annual Report to Stockholders.

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.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the six months ended June 30:

	Other Benefits	
	2015	2014
Service cost	**$ 10,029**	$ 10,295
Interest cost	**28,091**	25,339
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(7,778)**	(12,626)
Amortization of net actuarial (gain) loss	**25,016**	9,941
Net periodic benefit cost	**$ 55,358**	$ 32,949

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2015, was $1,264,606 and is included in "Other Liabilities" in the balance sheet.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2014, that it expected to contribute $47,895 to the district's defined benefit pension plan in 2015. As of March 31, 2015, the full contribution has been made. The Association presently does not anticipate any further contributions to fund the defined benefit pension plan in 2015.

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 August 7, 2015, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 7, 2015