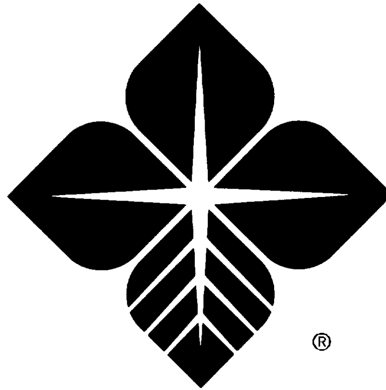
AG NEW MEXICO, FARM CREDIT SERVICES, ACA

2012
Quarterly Report
Third Quarter



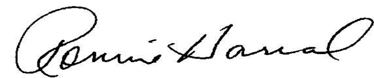
For the Quarter Ended September 30, 2012

REPORT OF MANAGEMENT

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

John Sloan, Interim Chief Executive Officer

November 9, 2012



Ronnie Harral, Chairman, Board of Directors

November 9, 2012

Lucille Conley, Accounting Manager Vice President

November 9, 2012

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

The following commentary reviews the financial performance of the Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the association, for the quarter and nine months ended September 30, 2012. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2011 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:

Farmers and ranchers in New Mexico, which is the primary area served by the association, are experiencing extreme drought conditions. Risk management techniques such as the purchase of crop insurance in conjunction with the higher price of commodities have helped to offset the impact of reduced yields. The higher price of corn and other grains have increased input cost of livestock producers. The association strives to timely identify risks in the loan portfolio and to take prompt action to address those risks. The association had two separate examinations conducted in the current year which concluded that the association is adequately assigning the correct risk rating to loans in the association's portfolio. Those reviews included an examination by the association's regulator and an internal credit review.

The association acquired property as a result of a loan settlement agreement. During the second quarter, a contracted appraisal of the property established an appraised value of $820,000. The net realizable value of the property was determined to be $675,600 after netting estimated selling expense against the appraised value. The carrying value of the property was $3,106,950 based upon previous appraisals. The appraisal resulted in setting up a provision for loss on other property owned and allowance for loss on other property owned of $2,431,350 in the second quarter of 2012. This single transaction resulted in a net loss for the nine months ended September 30, 2012.

The association's Chief Executive Officer (CEO) retired in the quarter ended September 30, 2012 and the bank's Vice President Regional Manager served as interim CEO. A new CEO joined the association in October 2012. Also, effective in October 2012 the association's Chief Financial Officer is no longer with the association.

Loan Portfolio:

Total loans outstanding at September 30, 2012, including nonaccrual loans and sales contracts, were $168,733,052 compared to $149,938,838 at December 31, 2011, reflecting an increase of 12.5 percent. Nonaccrual loans as a percentage of total loans outstanding were 4.8 percent at September 30, 2012, compared to 6.3 percent at December 31, 2011.

The association recorded no recoveries or charge-offs during the quarter ended September 30, 2012, and recorded $684 in recoveries and no charge-offs for the same period in 2011. The association recorded $1,109 in recoveries and $1,079,549 in charge-offs for the nine months ended September 30, 2012. The charge-offs were from loans to lessors of real property. The association's allowance for loan losses was 1.2 percent and 1.6 percent of total loans outstanding as of September 30, 2012, and December 31, 2011, respectively.

The increase in loan volume was due to participations purchased from Farm Credit Bank of Texas as well as loans originated by the association with a significant portion of those loans participated to other Farm Credit entities.

In 2011, the association participated $18.3 million of loans originated by the association to the Farm Credit Bank of Texas (the bank) Capitalized Participation Pool (CPP) and in 2012, the association participated $2.3 million under the same terms. The association maintains a minimum of 20 percent interest in the loans participated. The capitalization requirement stipulates that 8 percent of the loan's par value be invested in bank stock. This requirement actually results in a net investment of 6 percent since a 2 percent investment in bank stock based upon each association's average direct note balance is already required. The association received a patronage payment totaling $200,621 at December 31, 2011. The patronage received was equal to the interest rate for the loans less cost of funds, provision for loan loss and insurance premiums which approximates the net income earned on loans retained in the association's loan portfolio. Patronage income was $131,126 and $400,771 for the three and nine months ended September 30, 2012,

respectively. The intent of the program is to better utilize capital between the association and the bank thereby enhancing the bank's net collateral ratio and improving the association's regulatory capital ratios.

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. Other property owned is presented in the table net of the allowance for losses.

High-Risk Assets	September 30, 2012		December 31, 2011	
	Amount	**%**	Amount	%
Nonaccrual	**$ 8,065,892**	**85.7%**	$ 9,455,013	73.6%
90 days past due and still accruing interest	**591**	**0.0%**	-	0.0%
Other property owned, net	**1,348,611**	**14.3%**	3,393,950	26.4%
Total	**$ 9,415,094**	**100.0%**	$ 12,848,963	100.0%

The association did not have any loans that were formally restructured for the nine months ended September 30, 2012. The decline in high-risk assets is due to $2,431,350 in provision for losses on acquired property being recorded during the second quarter in addition to charge-offs of $1,079,549 for the nine months ended September 30, 2012.

Investments:

During the first quarter of 2010, the association exchanged $26.4 million of mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security. No gain or loss was recognized in the financial statements upon completion of the exchange transaction. The association continues to service the loans included in this transaction. These investments in guaranteed securities are categorized as held-to-maturity investments and are included in this report's Consolidated Balance Sheet as investments. The Farmer Mac guaranteed agricultural mortgage-backed securities were $14.5 million at September 30, 2012.

Results of Operations:

Net Income

The association had net income of $489,876 and a net loss of $1,022,596 for the three and nine months ended September 30, 2012, as compared to net income of $614,607 and $1,635,466 for the same period in 2011, reflecting decreases of 20.3 and 192.6 percent, respectively.

Net Interest Income

Net interest income was $1,252,353 and $3,631,689 for the three and nine months ended September 30, 2012, compared to $1,164,912 and $3,454,813 for the same period in 2011. Interest income for the three and nine months ended September 30, 2012, increased by $25,535 and decreased by $102,750, or 1.4 and 1.8 percent, respectively, from the same period of 2011, primarily due to increases in yields on earning assets. Interest expense for the three and nine months ended September 30, 2012, decreased by $61,906 and $279,626, or 8.9 and 13.1 percent, respectively, from the same period of 2011 due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the third quarter of 2012 was $170,848,212, compared to $152,634,544 in the third quarter of 2011. The average net interest rate spread on the loan portfolio for the third quarter of 2012 was 2.48 percent, compared to 2.47 percent in the third quarter of 2011. The average net interest rate spread on the loan portfolio for the nine months ended September 30, 2012 was 2.59 percent, compared to 2.49 percent over the same period of 2011.

Provision for Losses

The association's provision for loan losses for the nine months ended September 30, 2012, totaled $722,941, an increase of $894,872, or 5.2 percent, over the $171,931 negative provision for the first nine months of 2011. The association's provision for losses on acquired property for the nine months ended September 30, 2012, totaled $2,431,350, with no provision for the same period of 2011. The allowance was necessary due to revised appraisal values received by the association during the second quarter of 2012.

Noninterest Income

Noninterest income was $326,805 and $1,443,061 for the three and nine months ended September 30, 2012 as compared to noninterest income of $263,993 and $643,361 for the same period in 2011, reflecting increases of 23.8 and 124.3 percent, respectively. The increase included patronage income of $271,093 and $798,497 for the quarter and nine months ended September 30, 2012, respectively which is an increase of $67,591 and $325,598, or 33.2 and 79.1 percent, respectively, over the same period in 2011. The patronage income includes $400,771 in CPP patronage, $356,230 in bank investment patronage and $41,496 in direct note patronage for the nine months ended September 30, 2012. A refund was received by the association for $491,789 from the Farm Credit System Insurance Corporation (FCSIC) related to reserves in excess of their required base amount.

Noninterest Expense

Noninterest expense was $928,919 and $2,739,099 for the three and nine months ended September 30, 2012 as compared to noninterest expense of $805,537 and $2,640,474 for the same period of 2011, reflecting increases of 15.3 and 3.7 percent, respectively. The increase for the quarter ended September 30, 2012 was attributed to a $66,705 increase in salaries and employee benefits, a $40,109 increase in directors' expense, an increase of $15,961 in occupancy and equipment, an increase of $607 in all other noninterest expense. The increase for the nine months ended September 30, 2012 was attributed to a $96,764 increase in directors' expense, an $86,531 increase in salaries and employee benefits, offset by a decrease of $44,217 in occupancy and equipment, a decrease of $32,998 in supervisory and exam expenses and a decrease of $7,455 in all other noninterest expense.

The association's return on average assets for the nine months ended September 30, 2012, was (1.07) percent compared to 1.21 percent for the same period in 2011. The association's return on average equity for the nine months ended September 30, 2012, was (7.00) percent, compared to 7.96 percent for the same period in 2011.

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.

	September 30, 2012	December 31, 2011
Note payable to the bank	**$ 166,337,477**	$ 152,404,587
Accrued interest on note payable	**204,453**	219,395
Total	**$ 166,541,930**	$ 152,623,982

The association has a contractual relationship with the bank from which the association borrows to fund its loan portfolio. The indebtedness is governed by a general financing agreement (GFA) which contains certain covenants. As of September 30, 2012, the association was in violation of an earnings covenant and a credit quality covenant included in the GFA. The bank has issued a limited waiver of the covenant defaults through January 31, 2013, subject to the association taking certain actions to correct the deficiencies. Remedies/corrective actions by the association to these defaults include meeting certain profitability and credit quality metrics as defined by the bank in the wavier. The association anticipates regaining full compliance during 2013.

The association's liquidity margin as of September 30, 2012 was 8.61 percent which is in compliance with the minimum requirement of 5 percent as specified by the GFA with the funding bank.

Capital Resources:

The association's capital position decreased by $1,043,869 at September 30, 2012, compared to December 31, 2011. The decline is primarily due to net loss of $1,022,596 for the nine months ended September 30, 2012. The association's debt as a percentage of members' equity was 6.05:1 as of September 30, 2012, compared to 5.35:1 as of December 31, 2011.

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 September 30, 2012, was 12.1 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at September 30, 2012, were both 11.9 percent, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of offset associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact financial condition or results of operations, but will result in additional disclosures.

In September 2011, the FASB issued guidance entitled "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012, for nonpublic entities and were adopted by the association in 2011. The amendments were applied retrospectively for all prior periods presented. The adoption did not impact the association's financial condition or results of operation.

In June and December 2011, the FASB issued guidance entitled "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The main provisions of the guidance provide that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements. This guidance did not change the items that must be reported in other comprehensive income. With either approach, an entity is required to disclose reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). The December 2011 guidance deferred the effective date for the presentation of reclassification adjustments.

This guidance is applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact financial condition or results of operations, but resulted in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments clarify certain aspects of the fair value measurement and disclosure requirements. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 31, 2011. The adoption of this guidance did not impact the financial condition or results of operations but resulted in additional disclosures.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring is a troubled debt restructuring, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance was not material to the financial condition or results of operations.

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 December 31, 2011 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 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 district makes its annual and quarterly stockholder reports 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 within 40 calendar days after the end of the quarter 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. Copies of the association's quarterly stockholder reports can also be requested by e-mailing *lucille.conley@farmcreditbank.com.* The association makes its annual and quarterly stockholder reports available on its website at *www.agnewmexico.com*.

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash	**$ 103,099**	$ 108,611
Investments	**14,513,260**	19,820,568
Loans	**168,733,052**	149,938,838
Less: allowance for loan losses	**2,010,963**	2,366,461
Net loans	**166,722,089**	147,572,377
Accrued interest receivable	**2,074,901**	1,855,469
Investment in and receivable from the bank:		
Capital stock	**4,570,131**	4,390,455
Other	**1,409,089**	651,600
Deferred taxes, net	**1,950,186**	2,077,135
Other property owned, net	**1,348,611**	3,393,950
Premises and equipment	**3,201,334**	3,310,052
Other assets	**94,156**	135,089
Total assets	**$ 195,986,856**	$ 183,315,306
LIABILITIES		
Note payable to the bank	**$ 166,337,477**	$ 152,404,587
Advance conditional payments	**244,398**	318,689
Accrued interest payable	**204,453**	219,395
Drafts outstanding	**100,748**	14,343
Patronage distributions payable	**283**	300,191
Other liabilities	**1,291,995**	1,206,730
Total liabilities	**168,179,354**	154,463,935
MEMBERS' EQUITY		
Capital stock and participation certificates	**317,510**	327,750
Unallocated retained earnings	**27,720,772**	28,743,367
Accumulated other comprehensive income (loss)	**(230,780)**	(219,746)
Total members' equity	**27,807,502**	28,851,371
Total liabilities and members' equity	**$ 195,986,856**	$ 183,315,306

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2012	2011	**2012**	2011
INTEREST INCOME				
Loans	**$ 1,704,382**	$ 1,633,747	**$ 4,880,959**	$ 4,868,547
Investments	**178,661**	223,761	**601,212**	716,374
Total interest income	**1,883,043**	1,857,508	**5,482,171**	5,584,921
INTEREST EXPENSE				
Note payable to the bank	**630,690**	692,596	**1,850,482**	2,130,108
Total interest expense	**630,690**	692,596	**1,850,482**	2,130,108
Net interest income	**1,252,353**	1,164,912	**3,631,689**	3,454,813
PROVISION FOR LOSSES				
Provision for loan losses	**106,487**	(36,051)	**722,941**	(171,931)
Provision for losses on acquired property	**-**	-	**2,431,350**	-
Net interest income after provision for losses	**1,145,866**	1,200,963	**477,398**	3,626,744
NONINTEREST INCOME				
Income from the bank:				
Patronage income	**271,093**	203,502	**798,497**	445,899
Loan fees	**20,164**	29,700	**58,623**	72,609
Refunds from Farm Credit System Insurance Corporation	**-**	-	**491,789**	-
Financially related services income	**16,561**	24,775	**41,927**	92,389
(Loss) gain on other property owned, net	**(3,432)**	-	**(8,383)**	876
Gain on sale of premises and equipment, net	**10,875**	-	**21,275**	2,000
Other noninterest income	**11,544**	6,016	**39,333**	29,588
Total noninterest income	**326,805**	263,993	**1,443,061**	643,361
NONINTEREST EXPENSES				
Salaries and employee benefits	**543,518**	476,813	**1,609,769**	1,523,238
Directors' expense	**71,091**	30,982	**224,386**	127,622
Purchased services	**21,646**	22,589	**66,678**	71,853
Travel	**54,078**	63,672	**144,822**	169,684
Occupancy and equipment	**78,904**	62,943	**187,684**	231,901
Communications	**4,572**	5,617	**16,979**	17,400
Advertising	**12,555**	7,865	**28,952**	23,643
Public and member relations	**30,172**	36,033	**57,542**	53,434
Supervisory and exam expense	**26,273**	14,135	**87,321**	120,319
Insurance Fund premiums	**20,874**	23,570	**59,893**	71,642
Other noninterest expense	**65,236**	61,318	**255,073**	229,738
Total noninterest expenses	**928,919**	805,537	**2,739,099**	2,640,474
Income (loss) before income taxes	**543,752**	659,419	**(818,640)**	1,629,631
Provision for (benefit from) income taxes	**53,876**	44,812	**203,956**	(5,835)
NET (LOSS) INCOME	**489,876**	614,607	**(1,022,596)**	1,635,466
Other comprehensive loss:				
Change in postretirement benefit plans	**(3,678)**	(5,884)	**(11,034)**	(18,686)
Other comprehensive loss, net of tax	**(3,678)**	(5,884)	**(11,034)**	(18,686)
COMPREHENSIVE INCOME (LOSS) INCOME	**$ 486,198**	$ 608,723	**$ (1,033,630)**	$ 1,616,780

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		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2010	$ 334,785	$ -	$ 26,700,182	$ (142,086)	$ 26,892,881
Net income	-	-	1,635,467	-	1,635,467
Other comprehensive loss	-	-	-	(18,686)	(18,686)
Capital stock/participation certificates and allocated retained earnings issued	29,420	-	-	-	29,420
Capital stock/participation certificates and allocated retained earnings retired	(30,060)	-	-	-	(30,060)
Balance at September 30, 2011	$ 334,145	$ -	$ 28,335,649	$ (160,772)	$ 28,509,022
Balance at December 31, 2011	$ 327,750	$ -	$ 28,743,367	$ (219,746)	$ 28,851,371
Net loss	-	-	(1,022,595)	-	(1,022,595)
Other comprehensive loss	-	-	-	(11,034)	(11,034)
Capital stock/participation certificates and allocated retained earnings issued	23,445	-	-	-	23,445
Capital stock/participation certificates and allocated retained earnings retired	(33,685)	-	-	-	(33,685)
Balance at September 30, 2012	**$ 317,510**	**$ -**	**$ 27,720,772**	**$ (230,780)**	**$ 27,807,502**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The association serves all counties of New Mexico, with the exception of San Juan County and that portion of Rio Arriba County lying west of the Continental Divide. The FLCA and PCA subsidiaries are authorized to operate in Cochran County, Texas. 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 significant accounting policies followed and the financial condition and results of operations of the association as of and for the year ended December 31, 2011, are contained in the 2011 Annual Report to Stockholders. These unaudited third quarter 2012 financial statements should be read in conjunction with the 2011 Annual Report to Stockholders.

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of offset associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact financial condition or results of operations, but will result in additional disclosures.

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In May 2011, the FASB issued guidance entitled "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments clarify certain aspects of the fair value measurement and disclosure requirements. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 31, 2011. The adoption of this guidance did not impact the financial condition or results of operations but resulted in additional disclosures.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring is a troubled debt restructuring, a creditor must separately conclude that both of the following exists: (1) the

restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance was not material to the financial condition or results of operations.

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, except for the inclusion of a statement of cash flows. Generally accepted accounting principles 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.

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 September 30, 2012, are not necessarily indicative of the results to be expected for the year ended December 31, 2012. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

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

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

	September 30, 2012				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Agricultural mortgage-backed securities	**$ 14,513,260**	**$ 7,688**	**$ -**	**$ 14,520,948**	**4.74 %**

	December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 19,820,568	$ -	$(382,327)	$ 19,438,241	4.40 %

The following table is a summary of the contractual maturity, fair value, amortized cost and weighted average yield of Farmer Mac investments held-to-maturity at September 30, 2012:

	Due in 1 Year or Less Amount	Due After 1 Year Through 5 Years Amount	Due After 5 Years Through 10 Years Amount	Due After 10 Years Amount	Total Amount
Agricultural mortgage-backed securities	$ -	$ 14,520,948	$ -	$ -	$ 14,520,948
Total fair value	-	14,520,948	-	-	14,520,948
Total amortized cost	$ -	$ 14,513,260	$ -	$ -	$ 14,513,260
Weighted Average Yield	- %	4.74 %	- %	- %	-

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	September 30, 2012 Amount	December 31, 2011 Amount
Production agriculture:		
Real estate mortgage	**$ 64,895,699**	$ 65,102,493
Production and intermediate term	**57,349,342**	54,488,261
Agribusiness:		
Loans to cooperatives	**1,275,790**	-
Processing and marketing	**24,457,188**	13,896,599
Farm-related business	**4,836,662**	5,893,800
Communication	**3,706,430**	1,738,990
Energy	**9,085,499**	5,608,864
Water and waste water	**1,873,418**	1,848,101
Rural residential real estate	**1,253,024**	1,361,730
Total	**$ 168,733,052**	$ 149,938,838

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 September 30, 2012:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 6,673,954	$ 34,430,942	$ -	$ -	$ 6,673,954	$ 34,430,942
Production and intermediate term	5,331,193	25,212,799	-	-	5,331,193	25,212,799
Agribusiness	24,268,623	3,685,057	-	-	24,268,623	3,685,057
Communication	3,706,430	-	-	-	3,706,430	-
Energy	9,085,499	-	-	-	9,085,499	-
Water and waste water	1,873,418	-	-	-	1,873,418	-
Total	$ 50,939,117	$ 63,328,798	$ -	$ -	$ 50,939,117	$ 63,328,798

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

	September 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	**$ 3,156,617**	$ 3,362,779
Production and intermediate term	**4,909,274**	6,092,233
Agribusiness	**1**	1
Total nonaccrual loans	**8,065,892**	9,455,013
Accruing loans 90 days or more past due:		
Production and intermediate term	**591**	-
Total accruing loans 90 days or more	**591**	-
Total nonperforming loans	**8,066,483**	9,455,013
Other property owned	**1,348,611**	3,393,950
Total nonperforming assets	**$ 9,415,094**	$12,848,963

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:

	September 30, 2012	December 31, 2011
Real estate mortgage		
Acceptable	**77.3** %	87.6 %
OAEM	**5.0**	2.4
Substandard/doubtful	**17.7**	10.0
	100.0	100.0
Production and intermediate term		
Acceptable	**79.5**	80.2
OAEM	**10.7**	8.0
Substandard/doubtful	**9.8**	11.8
	100.0	100.0
Agribusiness		
Acceptable	**97.9**	94.5
OAEM	**2.1**	5.5
Substandard/doubtful	**-**	-
	100.0	100.0
Energy and water/waste water		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**83.9**	86.7
OAEM	**5.9**	4.7
Substandard/doubtful	**10.2**	8.6
	100.0 %	100.0 %

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

September 30, 2012	**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	**$ 303,508**	**$ 2,302,822**	**$ 2,606,330**	**$ 63,078,888**	**$ 65,685,218**	**$ -**
Production and intermediate term	**-**	**4,048,520**	**4,048,520**	**53,994,265**	**58,042,785**	**591**
Loans to cooperatives	**-**	**-**	**-**	**1,277,312**	**1,277,312**	**-**
Processing and marketing	**-**	**5**	**5**	**24,550,854**	**24,550,859**	**-**
Farm-related business	**-**	**1**	**1**	**4,885,412**	**4,885,413**	**-**
Communication	**-**	**-**	**-**	**3,709,667**	**3,709,667**	**-**
Energy	**-**	**-**	**-**	**9,119,615**	**9,119,615**	**-**
Water and waste water	**-**	**-**	**-**	**1,874,035**	**1,874,035**	**-**
Rural residential real estate	**-**	**-**	**-**	**1,257,598**	**1,257,598**	**-**
Total	**$ 303,508**	**$ 6,351,348**	**$ 6,654,856**	**$ 163,747,646**	**$ 170,402,502**	**$ 591**

December 31, 2011	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	$ 832,092	$ 2,488,607	$ 3,320,699	$ 62,554,346	$ 65,875,045	$ -
Production and intermediate term	819	5,104,553	5,105,372	49,908,325	55,013,697	-
Processing and marketing	-	-	-	13,961,967	13,961,967	-
Farm-related business	-	1	1	5,986,717	5,986,718	-
Communication	-	-	-	1,739,431	1,739,431	-
Energy	-	-	-	5,667,447	5,667,447	-
Water and waste water	-	-	-	1,853,544	1,853,544	-
Rural residential real estate	-	-	-	1,367,329	1,367,329	-
Total	$ 832,911	$ 7,593,161	$ 8,426,072	$ 143,039,106	$ 151,465,178	$ -

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs and may also reflect a previous direct write-down of the investment.

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

The association did not have any troubled debt restructured loans for the third quarter of 2012 or for fiscal year 2011 through September 30, 2012.

Additional impaired loan information is as follows:

	September 30, 2012			At December 31, 2011		
	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	**$ 2,302,822**	**$ 2,563,958**	**$ 105,725**	$ -	$ -	$ -
Production and intermediate term	**4,002,130**	**5,168,228**	**1,308,941**	5,058,838	7,403,360	1,904,989
Total	**$ 6,304,952**	**$ 7,732,186**	**$ 1,414,666**	$ 5,058,838	$ 7,403,360	$ 1,904,989
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 853,795**	**$ 1,857,056**	**$ -**	$ 3,362,779	$ 4,430,500	$ -
Production and intermediate term	**907,735**	**1,041,951**	**-**	1,033,394	1,169,258	-
Farm-related business	**1**	**2,097**	**-**	1	2,097	-
Total	**$ 1,761,531**	**$ 2,901,104**	**$ -**	$ 4,396,174	$ 5,601,855	$ -
Total impaired loans:						
Real estate mortgage	**$ 3,156,617**	**$ 4,421,014**	**$ 105,725**	$ 3,362,779	$ 4,430,500	$ -
Production and intermediate term	**4,909,865**	**6,210,179**	**1,308,941**	6,092,232	8,572,618	1,904,989
Farm-related business	**1**	**2,097**	**-**	1	2,097	-
Total	**$ 8,066,483**	**$ 10,633,290**	**$ 1,414,666**	$ 9,455,012	$ 13,005,215	$ 1,904,989

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

	For the Three Months Ended			
	September 30, 2012		September 30, 2011	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 2,302,382**	**$ -**	$ -	$ -
Production and intermediate term	**3,995,094**	**-**	5,000,444	-
Total	**$ 6,297,476**	**$ -**	$ 5,000,444	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 861,792**	**$ -**	$ 5,480,245	$ -
Production and intermediate term	**909,886**	**685**	2,010,058	-
Farm-related business	**1**	**-**	1	-
Total	**$ 1,771,679**	**$ 685**	$ 7,490,304	$ -
Total impaired loans:				
Real estate mortgage	**$ 3,164,174**	**$ -**	$ 5,480,245	$ -
Production and intermediate term	**4,904,980**	**685**	7,010,502	-
Farm-related business	**1**	**-**	1	-
Total	**$ 8,069,155**	**$ 685**	$12,490,748	$ -

	For the Nine Months Ended			
	September 30, 2012		September 30, 2011	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 2,345,062**	**$ -**	$ -	$ -
Production and intermediate term	**4,231,525**	**-**	5,167,109	-
Total	**$ 6,576,587**	**$ -**	$ 5,167,109	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 870,020**	**$ -**	$ 5,870,946	$ 91,220
Production and intermediate term	**980,762**	**949**	2,033,195	27,038
Farm-related business	**1**	**-**	1	-
Total	**$ 1,850,783**	**$ 949**	$ 7,904,142	$ 118,258
Total impaired loans:				
Real estate mortgage	**$ 3,215,082**	**$ -**	$ 5,870,946	$ 91,220
Production and intermediate term	**5,212,287**	**949**	7,200,304	27,038
Farm-related business	**1**	**-**	1	-
Total	**$ 8,427,370**	**$ 949**	$13,071,251	$ 118,258

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 June 30, 2012	$ 251,059	$ 1,552,796	$ 68,349	$ 6,904	$ 24,697	$ 671	$ 1,904,476
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	49,985	34,824	16,936	113	4,617	12	106,487
Adjustment due to merger	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Balance at September 30, 2012	$ 301,044	$ 1,587,620	$ 85,285	$ 7,017	$ 29,314	$ 683	$ 2,010,963
Balance at December 31, 2011	$ 165,335	$ 2,106,362	$ 60,386	$ 2,504	$ 31,262	$ 612	$ 2,366,461
Charge-offs	(196,676)	(882,873)	-	-	-	-	(1,079,549)
Recoveries	-	1,109	-	-	-	-	1,109
Provision for loan losses	332,385	363,022	24,899	4,513	(1,948)	71	722,942
Adjustment due to merger	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Balance at September 30, 2012	$ 301,044	$ 1,587,620	$ 85,285	$ 7,017	$ 29,314	$ 683	$ 2,010,963
Ending Balance:							
Individually evaluated for impairment	$ 105,725	$ 1,308,941	$ -	$ -	$ -	$ -	$ 1,414,666
Collectively evaluated for impairment	195,319	278,679	85,285	7,017	29,314	683	596,297
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Balance at September 30, 2012	$ 301,044	$ 1,587,620	$ 85,285	$ 7,017	$ 29,314	$ 683	$ 2,010,963
Balance at June 30, 2011	$ 79,387	$ 2,094,976	$ 202,079	$ 2,695	$ 19,680	$ 435	$ 2,399,252
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	684	-	-	-	-	684
Provision for loan losses	139,518	19,374	(184,508)	(2,695)	(8,013)	272	(36,052)
Adjustment due to merger	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
September 30, 2011	$ 218,905	$ 2,115,034	$ 17,571	$ -	$ 11,667	$ 707	$ 2,363,884
	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Balance at December 31, 2010	$ 313,427	$ 2,190,392	$ 17,571	$ -	$ -	$ 707	$ 2,522,097
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	2,051	-	-	11,667	-	13,718
Provision for loan losses	(94,522)	(77,409)	-	-	-	-	(171,931)
Adjustment due to merger	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
September 30, 2011	$ 218,905	$ 2,115,034	$ 17,571	$ -	$ 11,667	$ 707	$ 2,363,884
Ending Balance:							
Individually evaluated for impairment	$ -	$ 1,844,989	$ -	$ -	$ -	$ -	$ 1,844,989
Collectively evaluated for impairment	218,905	270,045	17,571	-	11,667	707	518,895
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
September 30, 2011	$ 218,905	$ 2,115,034	$ 17,571	$ -	$ 11,667	$ 707	$ 2,363,884

	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 September 30, 2012	$ 65,796,888	$ 58,042,784	$30,713,584	$ 3,709,667	$ 10,993,650	$ 1,257,598	$170,514,171
Individually evaluated for impairment	$ 3,156,619	$ 4,909,863	$ 1	$ -	$ -	$ -	$ 8,066,483
Collectively evaluated for impairment	$ 62,640,273	$ 53,132,921	$30,713,583	$ 3,709,667	$ 10,993,650	$ 1,257,598	$162,447,692
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance at December 31, 2011	$ 65,875,046	$ 55,013,696	$19,948,685	$ 1,739,431	$ 7,520,991	$ 1,367,329	$151,465,178
Individually evaluated for impairment	$ 3,362,779	$ 6,092,234	$ -	$ -	$ -	$ -	$ 9,455,013
Collectively evaluated for impairment	$ 62,512,267	$ 48,921,462	$19,948,685	$ 1,739,431	$ 7,520,991	$ 1,367,329	$142,010,165
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -

NOTE 4 — CAPITAL:

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

NOTE 5 — INCOME TAXES:

Ag New Mexico, Farm Credit Services, ACA and its subsidiary are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During the nine months ended September 30, 2012, the association did participate in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the nine months ended September 30, 2012, and 2011, taxable income for the taxable subsidiary amounted to $518,861 and $12,041 respectively. The deferred tax asset was reduced $200,436 for the current year since that amount in income tax provision was generated due to the amount of taxable income.

The subsidiary, Ag New Mexico FCS, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2011 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:

September 30, 2012	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	**$ -**	**$ -**	**$ 6,651,817**	**$ 6,651,817**	**$ (1,079,549)**
Other property owned	**-**	**-**	**1,498,457**	**1,498,457**	**(2,439,733)**

December 31, 2011	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans*	$ -	$ -	$ 3,846,872	$ 3,846,872	$ (1,904,989)
Other property owned	-	-	3,393,950	3,393,950	-

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Valuation Techniques

As more fully discussed in Note 2 to the 2011 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 2011 Annual Report to Stockholders.

Loans

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value, which is generally determined using appraisals or other indications based on comparable sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	2012	2011
Service cost	**$ 5,705**	$ 7,332
Interest cost	**12,230**	12,225
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(15,178)**	(16,492)
Amortizations of net actuarial (gain) loss	**10,360**	7,827
Net periodic benefit cost	**$ 13,117**	$ 10,892

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

	Other Benefits	
	2012	2011
Service cost	**$ 17,114**	$ 21,996
Interest cost	**36,691**	36,674
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(45,533)**	(49,475)
Amortizations of net actuarial (gain) loss	**31,079**	23,483
Net periodic benefit cost	**$ 39,351**	$ 32,678

The association's liability for the plan's unfunded accumulated obligation at September 30, 2012, was $1,024,209 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, 2011, that it expected to contribute $361,231 to the district's defined benefit pension plan in 2012. As of September 30, 2012, $361,231 of contributions has been made.

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2012	2011
Accumulated other comprehensive income (loss) at January 1	**$ 219,746**	$ 142,086
Amortization of prior service credit (costs) included in net periodic postretirement benefit cost	**45,533**	49,475
Amortization of actuarial gain (loss) included in net periodic postretirement benefit cost	**(31,079)**	(23,483)
Income tax expense related to items of other comprehensive income	**(3,420)**	(7,306)
Other comprehensive income (loss), net of tax	**11,034**	18,686
Accumulated other comprehensive income at September 30	**$ 230,780**	$ 160,772

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The association is involved in various legal proceedings in the normal course of business. There were two pending cases of litigation involving the association as of the end of the third quarter of 2012. During the third quarter of 2012, the association, the bank and officers of the association and the bank were named as counter-defendants in a lawsuit involving loans between the association and a borrower which were subsequently sold to the bank. The association and the bank believe the borrower's position is without merit and intends to vigorously defend the parties named in the litigation. The other lawsuit filed against the association involves a counterclaim in response to collection proceedings initiated by the association. The association's legal counsel estimates the damages would amount to less than $250,000 should the parties filing the lawsuit against the association prevail. Attorneys for the association and the association's management estimate the probability of the lawsuit being resolved against the association range from remote to less than likely. In the opinion of legal counsel, any award made to the plaintiff would be more than offset by a deficiency amount held by the association which results in little or no exposure to the association. Accordingly, no liabilities relating to the pending litigation have been accrued by the association. Management and legal counsel are not aware of any other pending lawsuits or actions.

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. At September 30, 2012, $53,639,710 of unfunded

commitments for loans with the association's borrowers and $1,235,325 of stand-by letters of credit for participations purchased were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because these amounts are not reflected in the balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 9 — REGULATORY ENFORCEMENT MATTERS:

The Association and its regulator (Farm Credit Administration) entered into a Supervisory Agreement effective March 20, 2012 that placed additional reporting requirements on the association along with certain other board actions. The Board, in response to the Agreement, adopted a multi-step detailed Plan of Action designed to address the requirements mandated in the Plan. In addition to additional reporting requirements, the Board has:

- Revised its committee structure by adding Governance, and Risk Management Committees, and
- Revised its Nominating Committee by adding a third meeting at least 180 days prior to the election, and
- Engaged an outside Consultant to advise the Board, and
- Prepared a board and individual board member training plan designed to strengthen the board's expertise, and
- Replaced the retired CEO.

It is the intention of the Board to keep stockholders fully informed as the association progresses toward full compliance with the Supervisory Agreement. At quarter-end the Board has met all requirements of the Agreement. Progress toward achieving full compliance will be communicated in subsequent quarterly reports.

NOTE 10 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through November 9, 2012, which is the date the financial statements were issued. There are no significant subsequent events requiring disclosure as of November 9, 2012.