AG NEW MEXICO, FARM CREDIT SERVICES, ACA

2014
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2014

REPORT OF MANAGEMENT

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

Frank Shelton, Chief Executive Officer

November 10, 2014

Mark McCollum, Chairman, Board of Directors

November 10, 2014

Ginger Garrett, Chief Financial Officer

November 10, 2014

The following commentary reviews the financial performance of the Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended September 30, 2014. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2013 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Significant Events:

For the nine months ending September 30, 2014, the Association continued efforts towards strengthening its financial position and managing the credit risk within the loan portfolio. In April 2014, the Association entered into a Capitalized Participation Pool agreement with the Bank whereas the Bank purchased a pool of Federal Agricultural Mortgage Corporation (Farmer Mac) mortgage-backed securities (AMBS) with a book value of $9.1 million from the Association in exchange for the Association agreeing to purchase Bank stock equivalent to 1.6 percentage of the pool's par value. The Association will continue to service the underlying loans in the AMBS. The goal of the program is to better utilize capital between the Association and Bank, while neutralizing the net earnings result at the Association level. At the discretion of the Bank, the Association expects to receive a patronage from the AMBS sold to the Bank equal to the amount it would have earned had it held the investment. The Association did not recognize any gain or loss on the AMBS sale to the Bank since the loans are at a market rate already guaranteed by Farmer Mac and the servicing fee adequately compensates us for the cost to service.

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

Patronage distributions of $360,000 were declared in December 2013 with payment made in July 2014.

Dividend and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained in unallocated retained earnings.

Interest income for the three and nine months ended September 30, 2014, decreased by $55,547 and $106,046, or 3.1 and 3.1 percent, respectively, from the same period of 2013, primarily due to a decline in interest earning assets due to sale of Federal Agricultural Mortgage Corporation (Farmer Mac) mortgaged-backed securities (AMBS) into a Capitalized Participation Pool agreement with the Bank. This transaction is expected to be income neutral with respect to net earnings as the Association expects to receive a patronage from the Bank, at the Bank's discretion, which would equal the amount the Association would have earned had it held the investment. Interest expense for the three and nine months ended September 30, 2014, decreased by $24,786 and $56,121, or 4.4 and 3.4 percent, respectively, from the same period of 2013 due to a decrease in average debt volume.

While 2013-2014 winter runoff was still below average and New Mexico continues to be classified as a drought impacted area, 2014 monsoon conditions are proving to be equally good or better than 2013. Due primarily to rainfall received since the first of July most of the state of New Mexico is now classified in a "moderate drought" to "abnormally dry". As per the National Drought Mitigation Center, approximately 75% of the state of New Mexico was in an "extreme" to "exceptional" drought for 2013. Overall, pasture conditions are generally good statewide. High feed costs have abated, especially corn, since 2013, and market conditions and margins for both calf producers and dairymen have materially strengthened in 2014. Beef cattle prices continue to show exceptional strength, which now may be inhibiting herd expansion and yearling purchases due to concern over the potential for a "bubble" market. While heifer retention is increasing, it seems unlikely that beef supplies will materially increase in the next two years. US corn supply is currently outpacing demand and 2014 production is expected to weigh down prices for the next few years.

The dairy industry has seen significant reversal in market conditions since late 2013 and producers are enjoying healthy profit margins. Ag New Mexico Farm Credit strives to timely identify trends in risk factors in the loan portfolio and to take prompt action to address those risks. The Association underwent two separate evaluations conducted in 2013, which concluded that the Association is adequately assigning correct risk ratings to loans in the Association's portfolio. Those evaluations included an examination by the Association's regulator and a review by an independent firm specializing in providing Credit Review Services for associations and other financial institutions.

The Association also underwent an interim examination by the Association's regulator during the month of September 2014 related to asset quality and financial condition as of June 2014. (See discussion under Regulatory Matters.)

Loan Portfolio:

Total loans outstanding at September 30, 2014, including nonaccrual loans and sales contracts, were $168,682,578 compared to $165,033,188 at December 31, 2013, reflecting an increase of 2.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.9 percent at September 30, 2014, compared to 2.6 percent at December 31, 2013.

The Association recorded $0 in recoveries and $0 in charge-offs for the quarter ended September 30, 2014, and $0 in recoveries and $0 in charge-offs for the same period in 2013. The Association's allowance for loan losses was 0.6 percent and 0.6 percent of total loans outstanding as of September 30, 2014, and December 31, 2013, respectively.

Risk Exposure:

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

	September 30, 2014		December 31, 2013	
	Amount	**%**	Amount	%
Nonaccrual	**$ 3,199,313**	**83.2%**	$ 4,230,564	85.9%
90 days past due and still accruing interest	**-**	**0.0%**	-	0.0%
Formally restructured	**-**	**0.0%**	-	0.0%
Other property owned, net	**646,080**	**16.8%**	695,671	14.1%
Total	**$ 3,845,393**	**100.0%**	$ 4,926,235	100.0%

Investments:

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 $9.1 million 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, there should be no effect to Ag New Mexico's income based on this transaction as it is expected that the Bank will be able to pay the Association a patronage equivalent to the net interest that would have been earned on the AMBS investment. However, the Bank's payment of patronage is at the discretion of the Bank's board of directors.

Results of Operations:

The Association had net income of $521,455 and $1,305,508 for the three and nine months ended September 30, 2014, as compared to net income of $591,816 and $1,996,865 for the same period in 2013, reflecting a decrease of 11.9 and 34.6 percent, respectively. Net interest income was $1,179,001 and $3,432,088 for the three and nine months ended September 30, 2014, compared to $1,209,762 and $3,537,013 for the same period in 2013.

	Nine months ended:			
	September 30, 2014		September 30, 2013	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 166,279,210**	**$ 4,947,377**	$ 164,468,556	$ 4,858,081
Investments	**3,022,548**	**104,286**	10,677,342	354,628
Total interest-earning assets	**169,301,758**	**5,051,663**	175,145,898	5,212,709
Interest-bearing liabilities	**145,615,595**	**1,619,575**	154,953,733	1,675,696
Impact of capital	**$ 23,686,163**		$ 20,192,165	
Net interest income		**$ 3,432,088**		$ 3,537,013

	2014 Average Yield	2013 Average Yield
Yield on loans	**3.98%**	3.95%
Yield on investments	**4.61%**	4.44%
Total yield on interest-earning assets	**3.99%**	3.98%
Cost of interest-bearing liabilities	**1.49%**	1.45%
Interest rate spread	**2.50%**	2.53%
Net interest income as a percentage of average earning assets	**2.71%**	2.70%

	Nine months ended: September 30, 2014 vs. September 30, 2013		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 53,483**	**$ 35,813**	**$ 89,296**
Interest income - investments	**(254,241)**	**3,899**	**(250,342)**
Total interest income	**(200,758)**	**39,712**	**(161,046)**
Interest expense	**(100,988)**	**44,867**	**(56,121)**
Net interest income	**$ (99,770)**	**$ (5,155)**	**$ (104,925)**

Interest income for the three and nine months ended September 30, 2014, decreased by $55,547 and $161,046, or 3.1 and 3.1 percent, respectively, from the same period of 2013, primarily due to a decline in interest earning assets due to sale of Federal Agricultural Mortgage Corporation (Farmer Mac) mortgaged-backed securities (AMBS) into a Capitalized Participation Pool agreement with the Bank. This transaction is expected to be income neutral with respect to net earnings as the Association expects to receive a patronage from the Bank at the Bank's discretion. Interest expense for the three and nine months ended September 30, 2014, decreased by $24,786 and $56,121, or 4.4 and 3.4 percent, respectively, from the same period of 2013 due to a decrease in average debt volume. Average loan volume for the third quarter of 2014 was $168,599,833, compared to $166,976,613 in the third quarter of 2013. The average net interest rate spread on the loan portfolio for the third quarter of 2014 was 2.56 percent, compared to 2.53 percent in the third quarter of 2013.

The Association's return on average assets for the nine months ended September 30, 2014, was 0.97 percent compared to 1.43 percent for the same period in 2013. The Association's return on average equity for the nine months ended September 30, 2014, was 5.36 percent, compared to 8.86 percent for the same period in 2013.

Liquidity and Funding Sources:

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

		September 30, 2014		December 31, 2013
Note payable to the bank	**$**	**144,354,400**	$	150,409,512
Accrued interest on note payable		**183,973**		193,219
Total	**$**	**144,538,373**	$	150,602,731

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 $144,354,400 as of September 30, 2014, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.51 percent at September 30, 2014. 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, 2013, is due to the Association's decrease in assets which included the sale in April 2014 of Federal Agricultural Mortgage Corporation (Farmer Mac) mortgage-backed securities (AMBS) into the a Capitalized Participation Pool agreement with the Bank resulting in a decrease to the note payable to the Bank. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $24,104,538 at September 30, 2014. The maximum amount the Association may borrow from the Bank as of September 30, 2014, was $168,245,952 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.

Capital Resources:

The Association's capital position increased by $907,581 at September 30, 2014, compared to December 31, 2013. The Association's debt as a percentage of members' equity was 4.44:1 as of September 30, 2014, compared to 4.75:1 as of December 31, 2013.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at September 30, 2014, was 15.7 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, 2014, were 15.5 and 15.5 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for nonpublic entities for annual periods beginning after December 15, 2013. The Association has adopted this guidance, which did not impact the financial condition or results of operations, but resulted in additional disclosures which are included in Note 4 – Capital.

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. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. 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:

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

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

- Engaged an outside consultant to advise the board in regards to fulfilling its fiduciary duties and improving board operations and governance;
- Revised its committee structure by adding governance and risk management committees;
- Revised its nominating committee by adding a third meeting at least 180 days prior to the election;
- Prepared a board and an individual board member training plan designed to strengthen the board's expertise and improve the governance of the Association;
- Hired a new CEO beginning on October 22, 2012, to replace the previous CEO who retired;
- Hired a new Chief Credit Officer on June 1, 2013;
- Progressed further with implementing the Association's staffing plan for filling senior management and other key positions, including the commencement of recruiting activities in search of a qualified CFO candidate;
- Established a Compliance Committee to monitor management's progress in implementing the corrective actions of items identified in the Supervisory Agreement;
- Engaged an outside consultant to assist in developing and implementing an overall comprehensive audit plan and internal operational audits;
- Engaged an outside consultant to review and assist with review of the Association's existing policies and procedures and updates thereto.
- Hired a CFO in March 2014.

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

- Continuing to ensure adherence to the board member training plan designed to strengthen the board's expertise and improve the governance of the Association and compliance with the FCA's regulations;
- Continuing to review and evaluate the business plan of the Association, including providing oversight to ensure that continued action is taken to identify and address weaknesses or variances with the business plan
- Continuing to review senior management staffing to ensure satisfactory staffing with skilled and qualified candidates at all positions;
- Continued review by the board of participations purchased, and the incorporation into the Association's audit plan of an annual independent review of participations purchased; and
- Continuing to review the FCA's regulations with respect to disclosure obligations to ensure compliance therewith.

In September 2014, the Association received a letter from the FCA related to the FCA's ongoing oversight of the Association and the evaluation of the Association's asset quality and financial condition as of June 30, 2014. The letter reported that the board and management have made progress to improve operations and to address weaknesses in human capital. Continued efforts and diligence are needed to address remaining issues. Asset quality and financial condition improved as management successfully

resolved some adverse accounts. Although the Association has made significant progress, the letter noted some areas (as discussed below) still requiring actions.
The items listed below are in addition to items already generally noted above.

- Policies and Procedures-Continue policy and procedure reviews to ensure compliance with regulatory requirements.
- Borrower Concentrations-Develop a formalized plan to address loan exposures exceeding internal lending limits
- Collateral Risk-Review guidance and controls governing chattel evaluations as related to FCA Regulation 614.4266(b).
- Borrower Right and Consumer Compliance-Review FCA regulations and develop internal controls to ensure compliance.
- Allowance for Loan Losses-Develop written guidance to ensure compliance with FCA Regulation 621.5(b).
- ALCO-Document analysis related to spreads and business plan goals.

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

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

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

The public comment period ended on October 23, 2014.

On May 8, 2014, the Farm Credit Administration approved 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 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 Wall Street Reform and Consumer Protection Act.

The public comment period ends on January 2, 2015.

Relationship With the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2013 Annual Report of Ag New Mexico, Farm Credit Services, ACA more fully describe the Association's relationship with the Bank.

The Texas Farm Credit District's (district) annual and quarterly stockholder reports, as well as those of the Bank, are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports also can be requested by e-mail at *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports for the Bank and the district are also available on its website at *www.farmcreditbank.com.*

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Ag New Mexico, Farm Credit Services, ACA, 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 *wwwagnewmexico.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

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash	$ 104,022	$ 156,191
Investments	-	9,333,112
Loans	168,682,578	165,033,188
Less: allowance for loan losses	937,530	915,778
Net loans	167,745,048	164,117,410
Accrued interest receivable	1,940,711	1,706,349
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	4,212,865	3,995,410
Other	716,557	278,486
Deferred taxes, net	618,517	878,369
Other property owned, net	646,080	695,671
Premises and equipment, net	3,096,705	3,127,472
Other assets	224,030	189,950
Total assets	$ 179,304,535	$ 184,478,420
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ 144,354,400	$ 150,409,512
Advance conditional payments	426,771	269,678
Accrued interest payable	183,951	193,219
Drafts outstanding	10,890	132,610
Dividends payable	1,118	-
Patronage distributions payable	-	-
Deferred taxes, net	-	-
Other liabilities	1,352,469	1,406,046
Total liabilities	146,329,599	152,411,065
MEMBERS' EQUITY		
Capital stock and participation certificates	318,890	301,170
Additional paid-in capital	-	-
Allocated retained earnings	-	-
Unallocated retained earnings	32,852,381	31,906,873
Accumulated other comprehensive income (loss)	(196,335)	(140,688)
Total members' equity	32,974,936	32,067,355
Total liabilities and members' equity	$ 179,304,535	$ 184,478,420

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	**2014**	2013
INTEREST INCOME				
Loans	**$ 1,723,254**	$ 1,659,482	**$ 4,947,377**	$ 4,858,081
Investments	**-**	119,319	**104,286**	354,628
Other	**-**	-	**-**	-
Total interest income	**1,723,254**	1,778,801	**5,051,663**	5,212,709
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**544,253**	569,039	**1,619,575**	1,675,696
Advance conditional payments	**-**	-	**-**	-
Total interest expense	**544,253**	569,039	**1,619,575**	1,675,696
Net interest income	**1,179,001**	1,209,762	**3,432,088**	3,537,013
PROVISION FOR LOAN LOSSES	**2,695**	21,731	21,752	(417,818)
Net interest income after provision for loan losses	**1,176,306**	1,188,031	**3,410,336**	3,954,831
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**277,160**	205,303	**747,288**	631,777
Loan fees	**22,372**	5,871	**20,124**	21,889
Refunds from Farm Credit System Insurance Corporation	**-**	-	**-**	-
Financially related services income	**1,306**	14,019	**10,875**	24,030
Gain (loss) on other property owned, net	**(4,278)**	205,285	**(6,850)**	284,442
Gain (loss) on sale of premises and equipment, net	**32,004**	300	**32,004**	50,800
Other noninterest income	**7,542**	136,759	**54,430**	170,053
Total noninterest income	**336,106**	567,537	**857,871**	1,182,991
NONINTEREST EXPENSES				
Salaries and employee benefits	**534,533**	497,209	**1,551,506**	1,491,017
Directors' expense	**41,078**	42,076	**146,692**	155,212
Purchased services	**34,356**	36,790	**95,631**	108,339
Travel	**46,101**	54,109	**138,574**	126,378
Occupancy and equipment	**75,917**	72,751	**209,117**	202,819
Communications	**6,720**	7,159	**21,677**	18,938
Advertising	**13,732**	9,401	**25,993**	32,603
Public and member relations	**37,015**	20,404	**66,378**	53,905
Supervisory and exam expense	**38,067**	31,057	**117,222**	95,024
Insurance Fund premiums	**37,853**	34,946	**116,988**	111,731
Merger-implementation and restructuring costs	**-**	-	**-**	-
Other noninterest expense	**62,702**	244,845	**267,708**	407,012
Total noninterest expenses	**928,074**	1,050,747	**2,757,486**	2,802,978
Income before income taxes	**584,338**	704,821	**1,510,721**	2,334,844
Provision for (benefit from) income taxes	**62,883**	113,005	**205,213**	337,979
NET INCOME	**521,455**	591,816	**1,305,508**	1,996,865
Other comprehensive income:				
Change in postretirement benefit plans	**(1,341)**	9,198	**(55,647)**	(52,349)
Income tax expense related to items of other comprehensive income	**-**	-	**-**	-
Other comprehensive income, net of tax	**(1,341)**	9,198	**(55,647)**	(52,349)
COMPREHENSIVE INCOME	**$ 520,114**	$ 601,014	**$ 1,249,861**	$ 1,944,516

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2012	$ 311,950	$ -	$ -	$ 28,590,048	$ (289,243)	$ 28,612,755
Comprehensive income	-	-	-	1,996,863	(52,349)	1,944,514
Capital stock/participation certificates and allocated retained earnings issued	142,870	-	-	-	-	142,870
Capital stock/participation certificates and allocated retained earnings retired	(155,110)	-	-	-	-	(155,110)
Cash	-	-	-	423,688	-	423,688
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-	-
Balance at September 30, 2013	$ 299,710	$ -	$ -	$ 31,010,599	$ (341,592)	$ 30,968,717
Balance at December 31, 2013	$ 301,170	$ -	$ -	$ 31,906,873	$ (140,688)	$ 32,067,355
Comprehensive income	-	-	-	1,305,509	(55,647)	1,249,862
Capital stock/participation certificates and allocated retained earnings issued	52,740	-	-	-	-	52,740
Capital stock/participation certificates and allocated retained earnings retired	(35,020)	-	-	-	-	(35,020)
Cash	-	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	-	-	(360,000)	-	(360,000)
Balance at September 30, 2014	**$ 318,890**	**$ -**	**$ -**	**$ 32,852,382**	**$ (196,335)**	**$ 32,974,937**

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

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

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

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, 2013, as contained in the 2013 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2013, as contained in the 2013 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2014. Descriptions of the significant accounting policies are included in the 2013 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In February 2013, the Financial Accounting Standards Board (FASB) issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012, and for nonpublic entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures (see Note 4 – Capital).

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. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. 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 September 30, 2014, are not necessarily indicative of the results to be expected for the year ended December 31, 2014. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

Effective 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 $9.1 million 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, there should be no effect to Ag New Mexico's income based on this transaction as it is expected that the bank will be able to pay the Association a patronage equivalent to the net interest that would have been earned on the AMBS investment. However, the Bank's payment of patronage is at the discretion of the Bank's board of directors.

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

	September 30, 2014				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Agricultural mortgage-backed securities	**$ -**	**$ -**	**$ -**	**-**	**- %**

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

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

Loan Type	**September 30, 2014 Amount**	December 31, 2013 Amount
Production agriculture:		
Real estate mortgage	**$ 67,090,221**	$ 67,008,306
Production and intermediate term	**46,975,279**	48,644,117
Agribusiness:		
Loans to cooperatives	**2,268,433**	1,393,238
Processing and marketing	**25,439,316**	23,342,002
Farm-related business	**7,002,336**	3,459,331
Communication	**3,110,046**	3,305,012
Energy	**13,160,568**	14,576,781
Water and waste water	**2,388,907**	2,319,128
Rural residential real estate	**1,252,704**	995,595
Agricultural export finance	**-**	-
Lease receivables	**-**	-
Mission-related investments	**-**	-
Total	**$ 168,687,810**	$ 165,043,510

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, 2014:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,342,815	$ 21,851,770	$ -	$ -	$ 9,342,815	$ 21,851,770
Production and intermediate term	8,446,680	17,376,438	-	-	8,446,680	17,376,438
Agribusiness	24,919,318	3,561,788	-	-	24,919,318	3,561,788
Communication	3,110,046	-	-	-	3,110,046	-
Energy	13,160,568	-	-	-	13,160,568	-
Water and waste water	2,388,907	-	-	-	2,388,907	-
Rural residential real estate	-	-	-	-	-	-
Agricultural export finance	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-
Total	$ 61,368,334	$ 42,789,996	$ -	$ -	$ 61,368,334	$ 42,789,996

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $1,338,998 and $707,516 at September 30, 2014, and December 31, 2013, respectively.

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

	September 30, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	**$ 2,627,608**	$ 3,665,521
Production and intermediate term	**571,705**	565,043
Total nonaccrual loans	**3,199,313**	4,230,564
Total nonperforming loans	**3,199,313**	4,230,564
Other property owned	**646,080**	695,671
Total nonperforming assets	**$ 3,845,393**	$ 4,926,235

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2014	December 31, 2013
Real estate mortgage		
Acceptable	**94.4** %	92.2 %
OAEM	**0.3**	0.3
Substandard/doubtful	**5.3**	7.5
	100.0	100.0
Production and intermediate term		
Acceptable	**91.2**	89.7
OAEM	**1.7**	4.6
Substandard/doubtful	**7.1**	5.7
	100.0	100.0
Agribusiness		
Acceptable	**99.0**	100.0
OAEM	**1.0**	-
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	**95.1**	93.8
OAEM	**0.8**	1.5
Substandard/doubtful	**4.1**	4.7
	100.0 %	100.0 %

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

September 30, 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	**$ -**	**$ 847,884**	**$ 847,884**	**$ 67,210,929**	**$ 68,058,813**	**$ -**
Production and intermediate term	**34,195**	**571,802**	**605,997**	**47,041,217**	**47,647,214**	**-**
Loans to cooperatives	**-**	**-**	**-**	**2,274,365**	**2,274,365**	**-**
Processing and marketing	**-**	**-**	**-**	**25,566,394**	**25,566,394**	**-**
Farm-related business	**-**	**-**	**-**	**7,087,924**	**7,087,924**	**-**
Communication	**-**	**-**	**-**	**3,110,289**	**3,110,289**	**-**
Energy	**-**	**-**	**-**	**13,230,528**	**13,230,528**	**-**
Water and waste water	**-**	**-**	**-**	**2,396,723**	**2,396,723**	**-**
Rural residential real estate	**93,606**	**-**	**93,606**	**1,162,739**	**1,256,345**	**-**
Total	**$ 127,801**	**$ 1,419,686**	**$ 1,547,487**	**$ 169,081,108**	**$ 170,628,595**	**$ -**

December 31, 2013	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 1,630,698	$ 1,683,282	$ 3,313,980	$ 64,454,413	$ 67,768,393	$ -
Production and intermediate term	-	352	352	49,255,609	49,255,961	-
Loans to cooperatives	-	-	-	1,398,972	1,398,972	-
Processing and marketing	-	9	9	23,375,892	23,375,901	-
Farm-related business	-	-	-	3,491,732	3,491,732	-
Communication	-	-	-	3,305,324	3,305,324	-
Energy	-	-	-	14,626,417	14,626,417	-
Water and waste water	-	-	-	2,320,165	2,320,165	-
Rural residential real estate	-	-	-	999,537	999,537	-
Total	$ 1,630,698	$ 1,683,643	$ 3,314,341	$ 163,228,061	$ 166,542,402	$ -

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

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

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

Additional impaired loan information is as follows:

	September 30, 2014			December 31, 2013		
	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	$ 864,864	$ 1,141,460	$ 376,990	$ 830,866	$ 1,107,462	$ 376,990
Production and intermediate term	-	-	-	565,043	565,043	-
Total	$ 864,864	$ 1,141,460	$ 376,990	$ 1,395,909	$ 1,672,505	$ 376,990
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	$ 1,860,847	$ 1,927,881	$ -	$ 2,834,655	$ 2,903,344	$ -
Production and intermediate term	448,724	1,303,988	-	-	855,264	-
Total	$ 2,309,571	$ 3,231,869	$ -	$ 2,834,655	$ 3,758,608	$ -
Total impaired loans:						
Real estate mortgage	$ 2,725,710	$ 3,069,341	$ -	$ 3,665,521	$ 4,010,806	$ 376,990
Production and intermediate term	448,724	1,303,988	-	565,043	1,420,307	-
Total	$ 3,174,434	$ 4,373,329	$ -	$ 4,230,564	$ 5,431,113	$ 376,990

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

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2014		September 30, 2013		September 30, 2014		September 30, 2013	
	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	$ 838,457	$ -	$ -	$ -	$ 838,457	$ -	$ -	$ -
Production and intermediate term	-	-	-	-	-	-	-	-
Total	$ 838,457	$ -	$ -	$ -	$ 838,457	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	$ 1,916,272	$ 382	$ -	$ -	$ 1,916,272	$ 3,869	$ -	$ -
Production and intermediate term	576,722	-	-	-	576,722	-	-	-
Total	$ 2,492,994	$ 382	$ -	$ -	$ 2,492,994	$ 3,869	$ -	$ -
Total impaired loans:								
Real estate mortgage	$ 2,725,710	$ -	$ -	$ -	$ 2,754,729	$ -	$ -	$ -
Production and intermediate term	576,722	-	-	-	576,722	-	-	-
Total	$ 3,302,432	$ -	$ -	$ -	$ 3,331,451	$ -	$ -	$ -

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, 2014	$ 528,835	$ 282,466	$ 79,951	$ 6,077	$ 36,974	$ 531	$ 934,834
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(2,892)	10,963	(2,338)	(139)	(2,894)	(4)	2,696
Balance at September 30, 2014	$ 525,943	$ 293,429	$ 77,613	$ 5,938	$ 34,080	$ 527	$ 937,530
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	(28,891)	38,980	10,238	286	1,124	15	21,752
Balance at September 30, 2014	$ 525,943	$ 293,429	$ 77,613	$ 5,938	$ 34,080	$ 527	$ 937,530
Individually evaluated for impairment	$ 376,990	$ -	$ -	$ -	$ -	$ -	$ 376,990
Collectively evaluated for impairment	148,953	293,429	77,613	5,938	34,080	527	560,540
Balance at September 30, 2014	$ 525,943	$ 293,429	$ 77,613	$ 5,938	$ 34,080	$ 527	$ 937,530
Balance at June 30, 2013	$ 575,797	$ 226,842	$ 66,141	$ 5,714	$ 33,301	$ 598	$ 908,393
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(6,204)	26,059	(4,415)	(168)	6,484	(25)	21,731
Balance at September 30, 2013	$ 569,593	$ 252,901	$ 61,726	$ 5,546	$ 39,785	$ 573	$ 930,124
Balance at December 31, 2012	$ 535,831	$ 216,997	$ 76,781	$ 8,168	$ 31,947	$ 651	$ 870,375
Charge-offs	-	-	-	-	-	-	-
Recoveries	477,567	-	-	-	-	-	477,567
Provision for loan losses	(443,805)	35,904	(15,055)	(2,622)	7,838	(78)	(417,818)
Balance at September 30, 2013	$ 569,593	$ 252,901	$ 61,726	$ 5,546	$ 39,785	$ 573	$ 930,124
Individually evaluated for impairment	$ 399,655	$ 4,903	$ -	$ -	$ -	$ -	$ 404,558
Collectively evaluated for impairment	169,938	247,998	61,726	5,546	39,785	573	525,566
Balance at September 30, 2013	$ 569,593	$ 252,901	$ 61,726	$ 5,546	$ 39,785	$ 573	$ 930,124

	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, 2014	$ 68,224,208	$ 47,647,214	$34,928,681	$ 3,110,289	$ 15,627,251	$ 1,256,346	$ 170,793,989
Individually evaluated for impairment	$ 2,627,608	$ 571,705	$ -	$ -	$ -	$ -	$ 3,199,313
Collectively evaluated for impairment	$ 65,596,600	$ 47,075,509	$34,928,681	$ 3,110,289	$ 15,627,251	$ 1,256,346	$ 167,594,676
Ending Balance at September 30, 2013	$ 62,580,194	$ 53,638,909	$29,580,643	$ 3,354,016	$ 16,786,718	$ 1,014,929	$ 166,955,409
Individually evaluated for impairment	$ 3,675,003	$ 690,752	$ -	$ -	$ -	$ -	$ 4,365,755
Collectively evaluated for impairment	$ 58,905,191	$ 52,948,157	$29,580,643	$ 3,354,016	$ 16,786,718	$ 1,014,929	$ 162,589,654

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, is as follows:

September 30, 2014	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**247,960**	**51,624**	**196,336**
Total	**247,960**	**51,624**	**196,336**

September 30, 2013	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	(341,592)	$ -	(341,592)
Total	(341,592)	$ -	(341,592)

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 nine months ended September 30:

	2014	2013
Accumulated other comprehensive income (loss) at January 1	**$ (140,686)**	$ (369,186)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(18,937)**	(18,939)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**14,911**	46,533
Income tax expense related to items of other comprehensive income	**(51,624)**	-
Other comprehensive income (loss), net of tax	**(55,650)**	27,594
Accumulated other comprehensive income at September 30	**$ (196,336)**	$ (341,592)

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;

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

September 30, 2014	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	**$ -**	**$ -**	**$ 2,704,990**	**$ 2,704,990**	**$ -**
Other property owned	**-**	**-**	**646,080**	**646,080**	**(56,441)**

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

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

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans were collateral-dependent. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

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

NOTE 7 — EMPLOYEE BENEFIT PLANS:

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	
	2014	2013
Service cost	**$ 15,441**	$ 17,114
Interest cost	**38,010**	36,691
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(18,939)**	(45,533)
Amortization of net actuarial (gain) loss	**14,913**	31,079
Net periodic benefit cost	**$ 49,425**	$ 39,351

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2014, was $1,018,337 and is included in "Other Liabilities" in the balance sheet.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2013, that it expected to contribute $108,664 to the district's defined benefit pension plan in 2014. As of September 30, 2014, $81,508 of contributions have been made. The Association presently anticipates contributing an additional $27,156 to fund the defined benefit pension plan in 2014 for a total of $108,664.

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 November 10, 2014, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 10, 2014.