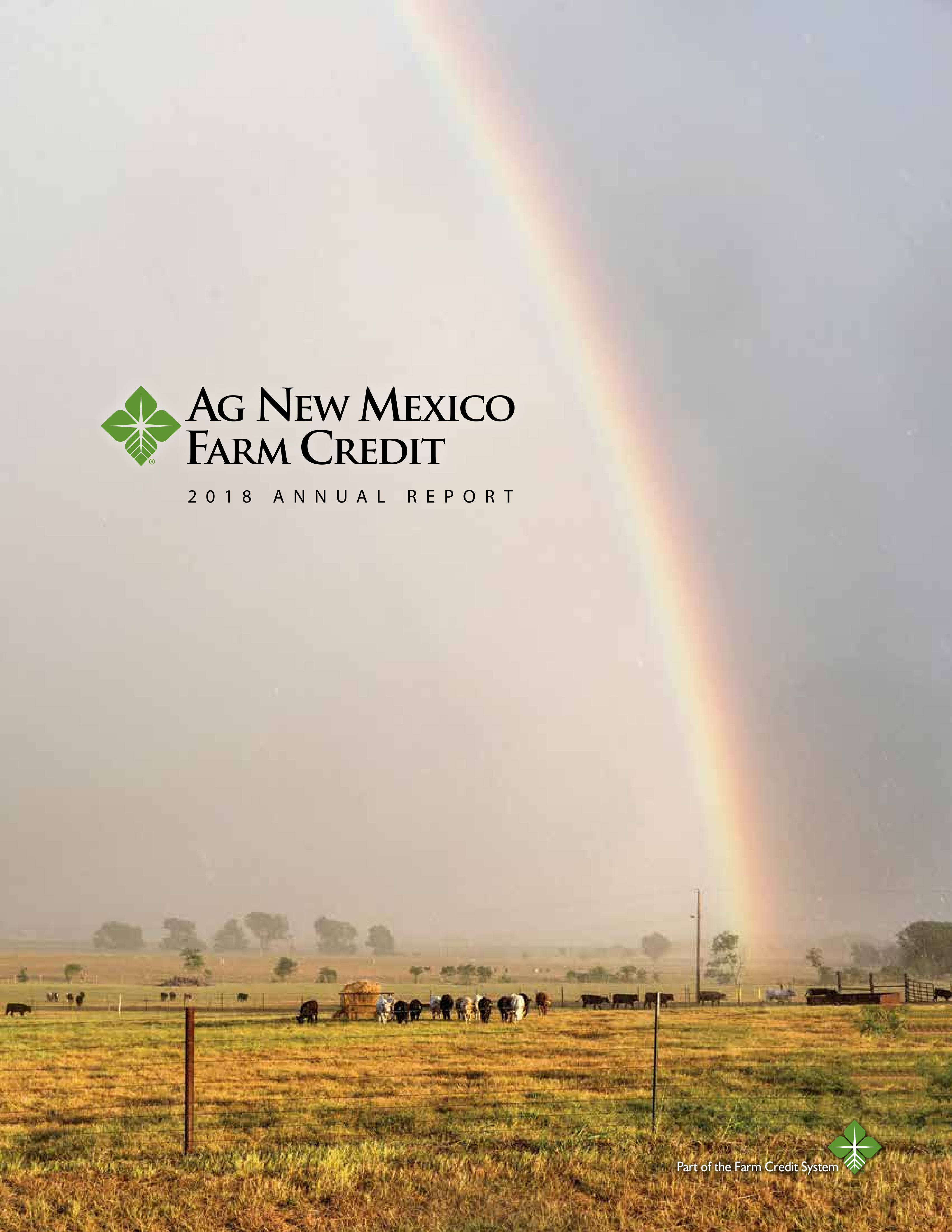

Ag New Mexico Farm Credit

2018 ANNUAL REPORT

Part of the Farm Credit System

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REPORT OF MANAGEMENT

The consolidated financial statements of Ag New Mexico, Farm Credit Services, ACA (Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers, LLC (PwC), independent accountants, who also conduct a review of internal controls to the extent necessary to comply with auditing standards solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The Board of Directors has overall responsibility for the Association's systems of internal control and financial reporting. The Board consults regularly with management and reviews the results of the audits and examinations referred to previously.

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

Brett Valentine, Chief Executive Officer & President

March 13, 2019

Dwayne "Butch" Vidlar, Chairman, Board of Directors

March 13, 2019

Will Fisher, Chief Financial Officer

March 13, 2019

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of the entire Board of Directors of Ag New Mexico, Farm Credit Services, ACA. In 2018, 12 committee meetings were held. The committee oversees the scope of Ag New Mexico, Farm Credit Services, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available upon request or on Ag New Mexico, Farm Credit Services, ACA's website. The committee approved the appointment of PricewaterhouseCoopers, LLP (PwC), for 2018.

Management is responsible for Ag New Mexico, Farm Credit Services, ACA's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the committee. PwC is responsible for performing an independent audit of Ag New Mexico, Farm Credit Services, ACA's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The committee's responsibilities include monitoring and overseeing these processes.

In this context, the committee reviewed and discussed Ag New Mexico, Farm Credit Services, ACA's audited consolidated financial statements for the year ended December 31, 2018 (audited consolidated financial statements) with management and PwC. The committee also reviews with PwC the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PwC's and Ag New Mexico, Farm Credit Services, ACA's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PwC its independence from Ag New Mexico, Farm Credit Services, ACA. The committee also reviewed the nonaudit services provided by PwC and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and PwC such other matters and received such assurances from them as the committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the committee recommended that the Board of Directors include the audited consolidated financial statements in Ag New Mexico, Farm Credit Services, ACA's Annual Report to Stockholders for the year ended December 31, 2018.

Audit Committee Members

Larry Hammit, Chairman, Audit Committee
Dwayne "Butch" Vidlar, Chairman, Board of Directors
Ted McCollum, III, Vice Chairman, Board of Directors
Linda Miller Brown
Marty Franzoy
TJ Runyan

March 13, 2019

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2018	2017	2016	2015	2014
Balance Sheet Data					
Assets					
Cash	**$ -**	$ -	$ 101	$ 103	$ 104
Loans	**241,118**	220,353	205,881	191,192	174,461
Less: allowance for loan losses	**521**	457	582	1,098	891
Net loans	**240,597**	219,896	205,299	190,094	173,570
Investment in and receivable from the Farm Credit Bank of Texas	**6,464**	5,665	5,621	4,314	4,450
Other property owned, net	**481**	394	711	717	646
Other assets	**6,999**	6,364	6,800	5,967	5,816
Total assets	**$ 254,541**	$ 232,319	$ 218,532	$ 201,195	$ 184,586
Liabilities					
Obligations with maturities of one year or less	**$ 3,164**	$ 2,820	$ 2,932	$ 2,386	$ 1,988
Obligations with maturities greater than one year	**210,446**	190,933	179,137	163,686	149,469
Total liabilities	**213,610**	193,753	182,069	166,072	151,457
Members' Equity					
Capital stock and participation certificates	**473**	436	396	355	328
Unallocated retained earnings	**40,650**	38,496	36,402	35,121	33,179
Accumulated other comprehensive loss	**(192)**	(366)	(335)	(353)	(378)
Total members' equity	**40,931**	38,566	36,463	35,123	33,129
Total	**$ 254,541**	$ 232,319	$ 218,532	$ 201,195	$ 184,586
Statement of Income Data					
Net interest income	**$ 5,950**	$ 5,436	$ 5,215	$ 4,731	$ 4,584
(Provision for loan losses) or loan loss reversal	**(71)**	207	(266)	(191)	(41)
Income from the Farm Credit Bank of Texas	**1,761**	1,607	1,330	1,339	1,294
Other noninterest income	**690**	1,420	360	298	139
Noninterest expense	**(5,558)**	(5,786)	(4,628)	(4,064)	(3,756)
Benefit from (provision for) income taxes	**(32)**	(213)	103	(172)	(239)
Net income	**$ 2,740**	$ 2,671	$ 2,114	$ 1,941	$ 1,981
Key Financial Ratios for the Year					
Return on average assets	**1.1%**	1.2%	0.98%	1.1%	1.1%
Return on average members' equity	**6.6%**	7.0%	5.8%	5.7%	6.1%
Net interest income as a percentage of average earning assets	**2.6%**	2.6%	2.5%	2.7%	2.7%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.0%	0.4%	0.0%	0.0%

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2018	2017	2016	2015	2014
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**16.1%**	16.6%	16.7%	17.5%	17.9%
Debt as a percentage of members' equity	**521.9%**	502.4%	499.3%	472.8%	457.2%
Allowance for loan losses as a percentage of loans	**0.2%**	0.2%	0.3%	0.6%	0.5%
Common equity tier 1 ratio	**14.5%**	15.4%	n/a	n/a	n/a
Tier 1 capital ratio	**14.5%**	15.4%	n/a	n/a	n/a
Total capital ratio	**14.7%**	15.7%	n/a	n/a	n/a
Permanent capital ratio	**14.3%**	15.5%	15.2%	15.7%	15.7%
Tier 1 leverage ratio	**14.3%**	15.0%	n/a	n/a	n/a
UREE leverage ratio	**15.2%**	16.0%	n/a	n/a	n/a
Core surplus ratio	**n/a**	n/a	15.0%	15.5%	15.5%
Total surplus ratio	**n/a**	n/a	15.0%	15.5%	15.5%
Net Income Distribution					
Patronage dividends:					
Cash	**$ 532**	$ 495	$ 383	$ 350	$ 360

* Effective January 1, 2017 the new regulatory capital ratios were implemented by the Association. Regulatory ratios remained well above regulatory minimums, including the conservation and leverage buffers at December 31, 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Unaudited)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Ag New Mexico, Farm Credit Services, ACA, including its wholly-owned subsidiaries, Ag New Mexico, Farm Credit Services, PCA and Ag New Mexico, Farm Credit Services, FLCA (Association) for the years ended December 31, 2018, 2017 and 2016, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's Audit Committee.

Forward-Looking Information:

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will" or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- technology and cyber security threats;
- weather-related, disease-related, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Significant Events:

In December 2018, the Association received a direct loan patronage of $910,403 from the Farm Credit Bank of Texas (FCBT or the Bank), representing 46 basis points on the average daily balance of the Association's direct loan with the Bank. During 2018, the Association received $125,955 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of $185,933 from the Bank, representing 75 basis points on the Association's average balance of participations in the Bank's participation pool program. Additionally, the Association received a capitalized participation pool patronage of $458,363 and $61,749 for loans and AMBS investments, respectively, for the year ended December 31, 2018.

The Association operates under a General Financing Agreement (GFA) with the Bank, which stipulates a minimum Return on Average Assets be maintained to remain in compliance with the GFA covenants. As of December 31, 2016, Ag New Mexico, Farm Credit Services, ACA fell below the minimum Return on Average Assets covenant and was granted a limited waiver of the covenant through March 31, 2018. As of December 31, 2018, the Association was no longer subject to the waiver of the covenant as the minimum Return on Average Assets covenant had been met.

Over a period of years in 2014 and prior, the Bank performed services for benefit of the Association, which constituted a transfer of capital under the Farm Credit Administration (FCA) regulation 615.5171 (a)(1).

Effective December 13, 2017, the Association received a Supervisory Letter from FCA related to recent changes within its management team. The FCA also established a number of supervisory requirements including: (1) the engagement of a qualified firm approved by the FCA for the identification, evaluation, and selection of a qualified chief executive officer (CEO), (2) FCA notification prior to any proposed employment for the CEO position, any material personnel actions and any changes in procedures, practices, and standards until a permanent CEO is in place, and (3) monthly updates to the FCA on the status of the search process for the hiring of a new CEO by the Board chair and Audit Committee chair.

In response to the supervisory requirements, the Board engaged FCC Services to assist in the search to fill the CEO position, and during the second quarter of 2018 Brett Valentine was selected as the Association's new CEO.

In January 2019, Mr. Randy Autrey, Chairman of the Board of Directors, resigned from the Board. The Board was restructured with Dwayne "Butch" Vidlar named as Chairman, and Ted McCollum, III named Vice-Chairman.

For more than 80 years, the Association has continued to provide its members with quality financial services. The Board of Directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

In 2018, the New Mexico agriculture economy remained sound. Moisture and precipitation varied across the state from either near to above average with winter forage conditions considered good. Recently, drought conditions have begun to spread across the territory and most of New Mexico is considered to be in a moderate to severe drought.

Agricultural real estate values continued to trend positively, with strong demand for irrigated farm ground and water rights. Ranch land values in New Mexico continue to see upward pressure, with the remainder of dry crop land stable, to improving. New Mexico agriculture continues to remain diversified, resilient, and resourceful. This is evidenced in our customer base that appears to be financially sound and our credit risk at historically low levels.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners, and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, LIBOR-based, and prime-based interest rates. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and 20- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The composition of the Association's loan portfolio, including principal less funds held of $241,118,248, $220,352,945 and $205,880,761 as of December 31, 2018, 2017 and 2016, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses" included in this annual report.

Purchase and Sales of Loans:

During 2018, 2017 and 2016, the Association was participating in loans with other lenders. As of December 31, 2018, 2017 and 2016, purchases of these participations totaled $62,995,470, $59,332,007 and $61,484,638, or 26.1 percent, 26.9 percent and 29.8 percent of loans, respectively. The Association has also sold participations of $61,699,792, $55,768,482 and $56,335,560 as of December 31, 2018, 2017 and 2016, 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, net.

The following table illustrates the Association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2018		2017		2016	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 410,086**	**56.7%**	$ 1,968,203	83.3%	$ 2,881,447	62.9%
Formally restructured	**-**	**0.0%**	-	0.0%	988,579	21.6%
Other property owned, net	**481,184**	**43.3%**	394,200	16.7%	711,480	15.5%
Total	**$ 891,270**	**100.0%**	$ 2,362,403	100.0%	$ 4,581,506	100.0%

At December 31, 2018, 2017 and 2016, loans that were considered impaired were $410,086, $1,968,203, and $3,870,011, representing 0.2 percent, 0.9 percent and 1.9 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The Association is not affected to any material extent by any seasonal characteristics. This is due in part to the fact that true production loans comprise a small part of the Association's total loan portfolio and in part to the diversification in the portfolio, both in geographic distribution and in sources of repayment. In addition, the Association is not dependent upon any single customer, commodity, or industry because of loan size or commodity concentration, due to lack of very large loans in the portfolio and the diversity present in the loan portfolio. No loans in the portfolio have any inherent special features that would have a material impact on the expected collectability.

Allowance for Loan Losses:

The following table provides relevant information regarding the allowance for loan losses as of, or for the year ended, December 31:

	2018	2017	2016
Allowance for loan losses	**$ 521,118**	$ 456,645	$ 581,566
Allowance for loan losses to total loans	**0.2%**	0.2%	0.3%
Allowance for loan losses to nonaccrual loans	**127.1%**	23.2%	20.2%
Allowance for loan losses to impaired loans	**127.1%**	23.2%	15.0%
Net charge-offs to average loans	**0.0%**	0.0%	0.4%

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowance for loan losses including but not limited to: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, borrower repayment capacity, depth of lender staff, and/or past trends, and weather-related influences. The general allowance is derived from risk drivers applied to risk-rated loans with a supplemental allowance for loans based on stress testing.

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of $521,118, $456,645, and $581,566 at December 31, 2018, 2017, and 2016, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. The allowance report is prepared on a quarterly basis; however, individual adjustments are considered on an "as needed" basis if prior to quarter end. Each quarterly allowance report includes a detailed discussion of its adequacy and reasons thereof. Each report is prepared by management and final approval given by the Association's Audit Committee and Board. As detailed in the report, various factors are considered and management approval is documented that the allowance is believed to be materially adequate.

Results of Operations:

The Association's net income for the year ended December 31, 2018, was $2,739,826 as compared to $2,671,281 for the year ended December 31, 2017, reflecting an increase of $68,545 or 2.6 percent. The Association's net income for the year ended December 31, 2016 was $2,115,229. Net income increased $556,052, or 26.3 percent, in 2017 versus 2016.

Net interest income for 2018, 2017 and 2016 was $5,950,106, $5,435,812 and $5,215,290, respectively, reflecting increases of $514,294, or 9.5 percent, for 2018 versus 2017 and $220,522, or 4.2 percent, for 2017 versus 2016. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets, and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2018		2017		2016	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 229,956,991**	**$ 11,288,518**	$ 210,453,970	$ 9,167,827	$ 204,648,165	$ 8,267,016
Interest-bearing liabilities	**199,488,172**	**5,338,412**	182,121,880	3,732,015	177,458,230	3,051,726
Impact of capital	**$ 30,468,819**		$ 28,332,090		$ 27,189,935	
Net interest income		**$ 5,950,106**		$ 5,435,812		$ 5,215,290

	2018 Average Yield	2017 Average Yield	2016 Average Yield
Yield on loans	**4.91%**	4.36%	4.04%
Cost of interest-bearing liabilities	**2.68%**	2.05%	1.72%
Interest rate spread	**2.23%**	2.31%	2.32%

	2018 vs. 2017			2017 vs. 2016		
	Increase due to			Increase due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	$ 849,589	$ 1,271,102	$ 2,120,691	$ 234,533	$ 666,278	$ 900,811
Interest expense	355,870	1,250,527	1,606,397	80,201	600,088	680,289
Net interest income	$ 493,719	$ 20,575	$ 514,294	$ 154,332	$ 66,190	$ 220,522

Interest income for 2018 increased by $2,120,691, or 23.1 percent, compared to 2017, primarily due to an increase in loan volume and an increase in rate. Interest expense for 2018 increased by $1,606,397, or 43.0 percent, compared to 2017 due to an increase in volume and an increase in rate. The interest rate spread decreased by 8 basis points to 2.23 percent in 2018 from 2.31 percent in 2017, primarily because of an increase in the cost of funds. The interest rate spread decreased by 1 basis point to 2.31 percent in 2017 from 2.32 percent in 2016, primarily because of an increase in the cost of funds.

Noninterest income for 2018 decreased by $577,018, or 19.1 percent, compared to 2017, due primarily to a decrease in other non-interest income offset by an increase in patronage income. Noninterest income for 2017 increased by $1,337,897, or 79.2 percent, compared to 2016, due primarily to an increase in other noninterest income and patronage income.

Provisions for loan losses increased by $278,195, or 134.3 percent, compared to 2017, due primarily to an increase in general reserves.

Operating expenses consist primarily of salaries, employee benefits, and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting, and loan processing, among others. Salaries and employee benefits for 2018 increased by $199,288, or 6.1 percent, compared to 2017. Salaries and employee benefits increased by $415,268, or 14.6 percent, compared to 2016. These increases were related to an increase in loan volume at all locations resulting in staffing needs. Purchased services decreased by $196,466, or 28.4 percent, compared to 2017. Purchased services increased by $359,064, or 107.8 percent in 2017, compared to 2016. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of $189,391, $171,609, and $288,124 for 2018, 2017, and 2016, respectively, in origination costs, which will be amortized over the life of the loans as an adjustment to yield net interest income. The capitalized costs consisted of salaries and benefits totaling $197,892, $172,904, and $300,659 for 2018, 2017, and 2016 related to the origination of loans. The $228,520 decrease in operating expenses included a decrease of $77,580 in premiums to the Insurance Fund.

For the year ended December 31, 2018, the Association's return on average assets was 1.1 percent, as compared to 1.2 percent and .98 percent for the years ended December 31, 2017, and 2016, respectively. For the year ended December 31, 2018, the Association's return on average members' equity was 6.6 percent, as compared to 7.0 percent and 5.8 percent for the years ended December 31, 2017, and 2016, respectively.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank may have an effect on the operations of the Association.

Liquidity and Funding Sources:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $209,918,775, $190,581,755 and $179,137,450 as of December 31, 2018, 2017, and 2016, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.9 percent, 2.1 percent, and 1.7 percent at December 31, 2018, 2017, and 2016, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2017, is due to continued growth in the loan portfolio. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $31,357,199, $29,992,633, and $26,962,157 at December 31, 2018, 2017 and 2016, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2018, was $243,944,118 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, 2019 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.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2019. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years, and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year.

Capital Resources:

The Association's capital position remains strong, with total members' equity of $40,930,125, $38,565,340 and $36,462,522 at December 31, 2018, 2017, and 2016, respectively.

New regulations became effective January 1, 2017, which replaced the previously required core surplus ratios with common equity tier 1, tier 1, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. 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 permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2018, 2017, and 2016 was 14.3 percent, 15.5 percent and 15.2 percent, respectively. The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio was not calculated at December 31, 2018 and 2017 but was 15.5 percent at December 31, 2016, which was in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's total surplus ratio was not calculated at December 31, 2018 and 2017 but was 15.5 percent at December 31, 2016, which was in compliance with the FCA's minimum ratio requirement of 7.0 percent.

In 2018, 2017, and 2016, the Association declared patronage of $586,000, $577,115, and $834,256, respectively. See Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Significant Recent Accounting Pronouncements:

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying, or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association's financial condition or its result of operations, but will impact the fair value measurements disclosures.

In February 2018, the FASB issued guidance entitled "Income Statement – Reporting Comprehensive Income – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA) that lowered the federal corporate tax rate from 35% to 21%. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Association did not adopt the guidance during 2018, and additionally determined the effect was not material to its financial condition or results of operations.

In August 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing, and components that can be excluded from effectiveness testing. This guidance becomes effective for interim and annual periods beginning after December 15, 2018. The Association determined the effect was not material to its financial condition or results of operations.

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

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

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

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association determined the effect was not material to its financial condition or results of operations.

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which resulted in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association determined the effect was not material to its financial condition or results of operations and will not change its current recognition practices.

Regulatory Matters:

Effective December 13, 2017, the Association received a Supervisory Letter from FCA related to recent changes within its management team. The FCA also established a number of supervisory requirements including: (1) the engagement of a qualified firm approved by the FCA for the identification, evaluation, and selection of a qualified chief executive officer (CEO), (2) FCA notification prior to any proposed employment offers for the CEO position, any material personnel actions, and any changes in procedures, practices, and standards until a permanent CEO is in place, and (3) monthly updates to the FCA on the status of the search process for the hiring of a new CEO by the Board chair and Audit Committee chair.

In response to the supervisory requirements, the Board engaged FCC Services to assist in the search to replace the CEO position, and during the second quarter of 2018, Brett Valentine was selected as the Association's new CEO. The Association was returned to normal supervision in June 2018.

On July 28, 2016, the Farm Credit Administration published a final regulation to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule were as follows:

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

The final rule replaces existing core surplus and total surplus requirements with common equity tier 1, tier 1 and total capital risk-based capital ratio requirements. The final rule also replaces the existing net collateral ratio with a tier 1 leverage ratio and is applicable to all banks and associations. The permanent capital ratio will continue to remain in effect with the final rule.

The new capital requirements became effective January 1, 2017, with a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. The Association is in compliance with the required minimum capital standards and met the conservation buffers as of December 31, 2017.

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.

FCA released the final ruling in the first quarter of 2019. The ruling has no impact on the Association.

Relationship with the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank."

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 12 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information Systems and accounting services. Additionally, the Bank bills District expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Over the past 85 years, regardless of the state of the agricultural economy, your Association's Board of Directors and management, as well as the Board of Directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

Other:

New U.S. tax laws resulting from legislation commonly known as the Tax Cuts and Jobs Act of 2017 (TCJA) were enacted in late 2017. Among other things, the TCJA changed the federal corporate tax rate from 35 percent to 21 percent. The Bank is exempt from federal and certain other income taxes as provided by the Farm Credit Act; however, the change in the federal corporate tax rate did have a financial statement impact for year-end 2017 for District associations that required the revaluation of any deferred tax (assets or liabilities), which resulted in either a tax expense or tax benefit to the income statement. While the full impact of the TCJA is difficult to predict and may not be fully known for several years, changes that could affect the Association's business and customers include, but are not limited to, modifications to deductions surrounding interest expense and equipment purchases, tax incentives related to renewable energy initiatives, deductions impacting agricultural producers who sell their products to cooperatives, and the overall changes in the competitive environment impacting financial institutions.

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Report of Independent Auditors

To the Board of Directors of Ag New Mexico, Farm Credit Services, ACA

We have audited the accompanying consolidated financial statements of Ag New Mexico, Farm Credit Services, ACA and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018, December 31, 2017 and December 31, 2016, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ag New Mexico, Farm Credit Services, ACA and its subsidiaries as of December 31, 2018, December 31, 2017 and December 31, 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 13, 2019

PricewaterhouseCoopers LLP, 835 West 6th Street, Suite 1600 Austin, TX 787013
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AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2018	2017	2016
Assets			
Cash	**$ -**	$ -	$ 100,880
Loans	**241,118,248**	220,352,945	205,880,761
Less: allowance for loan losses	**521,118**	456,645	581,566
Net loans	**240,597,130**	219,896,300	205,299,195
Accrued interest receivable	**3,115,660**	2,605,952	2,274,130
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**5,344,040**	5,139,035	4,940,470
Other	**1,119,540**	526,369	680,045
Deferred taxes, net	**297,532**	355,449	559,153
Other property owned, net	**481,184**	394,200	711,480
Premises and equipment	**3,158,314**	3,043,915	3,184,450
Other assets	**427,639**	358,164	782,217
Total assets	**$ 254,541,039**	$ 232,319,384	$ 218,532,020
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 209,918,775**	$ 190,581,755	$ 179,137,450
Advance conditional payments	**168,696**	19,470	56,832
Accrued interest payable	**526,696**	352,731	259,252
Drafts outstanding	**62,762**	3,659	-
Patronage distributions payable	**586,000**	532,004	450,000
Other liabilities	**2,347,985**	2,264,425	2,165,964
Total liabilities	**213,610,914**	193,754,044	182,069,498
Members' Equity			
Capital stock and participation certificates	**472,355**	435,635	396,005
Unallocated retained earnings	**40,649,490**	38,495,664	36,401,498
Accumulated other comprehensive income (loss)	**(191,720)**	(365,959)	(334,981)
Total members' equity	**40,930,125**	38,565,340	36,462,522
Total liabilities and members' equity	**$ 254,541,039**	**$ 232,319,384**	**$ 218,532,020**

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2018	2017	2016
Interest Income			
Loans	**$ 11,288,518**	$ 9,167,827	$ 8,267,016
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**5,338,412**	3,732,015	3,051,726
Net interest income	**5,950,106**	5,435,812	5,215,290
Provision for Loan Losses	**70,990**	(207,205)	265,759
Net interest income after provision for losses	**5,879,116**	5,643,017	4,949,531
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	**1,761,493**	1,607,396	1,329,677
Loan fees	**244,116**	299,630	279,055
Financially related services income	**1,274**	1,680	1,745
Gain on other property owned, net	**-**	10,271	-
Gain (loss) on sale of premises and equipment, net	**101**	(1,633)	21,737
Other noninterest income	**443,792**	1,110,450	92,544
Total noninterest income	**2,450,776**	3,027,794	1,724,758
Noninterest Expenses			
Salaries and employee benefits	**3,462,021**	3,262,733	2,847,465
Directors' expense	**184,349**	178,101	173,257
Purchased services	**495,703**	692,169	333,105
Travel	**306,349**	302,359	234,015
Occupancy and equipment	**339,889**	290,436	234,917
Communications	**41,388**	36,289	23,619
Advertising	**33,290**	35,100	36,761
Public and member relations	**94,333**	92,706	86,019
Supervisory and exam expense	**110,550**	166,981	166,960
Insurance Fund premiums	**208,622**	286,202	308,183
Provision for losses on other property owned	**-**	193,200	5,850
Loss on sale of other property owned, net	**32,971**	-	34,861
Other noninterest expense	**248,185**	249,894	177,534
Total noninterest expenses	**5,557,650**	5,786,170	4,662,546
Income before income taxes	**2,772,242**	2,884,641	2,011,743
Provision for (benefit from) income taxes	**32,416**	213,360	(103,486)
NET INCOME	**2,739,826**	2,671,281	2,115,229
Other comprehensive income:			
Change in postretirement benefit plans	**174,239**	(30,978)	18,145
COMPREHENSIVE INCOME	**$ 2,914,065**	$ 2,640,303	$ 2,133,374

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2015	$ 354,975	$ 35,120,525	$ (353,126)	$ 35,122,374
Comprehensive income	-	2,115,229	18,145	2,133,374
Capital stock/participation certificates issued	85,280	-	-	85,280
Capital stock/participation certificates and allocated retained earnings retired	(44,250)	-	-	(44,250)
Patronage Declared	-	(834,256)	-	(834,256)
Balance at December 31, 2016	396,005	36,401,498	(334,981)	36,462,522
Comprehensive income	-	2,671,281	(30,978)	2,640,303
Capital stock/participation certificates issued	85,840	-	-	85,840
Capital stock/participation certificates and allocated retained earnings retired	(46,210)	-	-	(46,210)
Patronage Declared	-	(577,115)	-	(577,115)
Balance at December 31, 2017	435,635	38,495,664	(365,959)	38,565,340
Comprehensive income	-	2,739,826	174,239	2,914,065
Capital stock/participation certificates issued	89,290	-	-	89,290
Capital stock/participation certificates and allocated retained earnings retired	(52,570)	-	-	(52,570)
Patronage Declared	-	(586,000)	-	(586,000)
Balance at December 31, 2018	**$ 472,355**	**$ 40,649,490**	**$ (191,720)**	**$ 40,930,125**

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	**$ 2,739,826**	$ 2,671,281	$ 2,115,229
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	**70,990**	(207,205)	265,759
Loss on sale of other property owned, net	**5,441**	168,979	5,887
Depreciation	**161,541**	157,739	99,003
Gain on sale of premises and equipment, net	**(18,253)**	(12,867)	(104,717)
Increase in accrued interest receivable	**(509,708)**	(331,822)	(362,046)
(Increase) decrease in other receivables from the Farm Credit Bank of Texas	**(593,171)**	153,676	(275,470)
(Increase) decrease in deferred tax assets	**57,917**	203,704	(98,439)
(Increase) decrease in other assets	**(69,475)**	424,054	(257,705)
Increase in accrued interest payable	**173,965**	93,479	39,862
Increase in other liabilities	**257,799**	67,484	351,608
Net cash provided by operating activities	**2,276,872**	3,388,502	1,778,971
Cash flows from investing activities:			
Increase in loans, net	**(20,840,297)**	(14,426,755)	(15,396,121)
Cash recoveries of loans previously charged off	**798**	75,829	-
Proceeds from purchase of investment in the Farm Credit Bank of Texas	**(205,005)**	(198,565)	(1,031,380)
Purchases of premises and equipment	**(348,300)**	(71,594)	(290,646)
Proceeds from sales of premises and equipment	**18,253**	19,500	114,972
Proceeds from sales of other property owned	**47,614**	148,300	-
Net cash used in investing activities	**(21,326,937)**	(14,453,285)	(16,603,175)

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2018	2017	2016
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	**19,337,020**	11,444,305	15,670,715
Increase (decrease) in drafts outstanding	**59,103**	12,441	(174,907)
Increase (decrease) in advance conditional payments	**149,226**	(37,362)	(331,190)
Issuance of capital stock and participation certificates	**89,290**	85,840	85,280
Retirement of capital stock and participation certificates	**(52,570)**	(46,210)	(44,250)
Patronage distributions paid	**(532,004)**	(495,111)	(383,850)
Net cash provided by financing activities	**19,050,065**	10,963,903	14,821,798
Net decrease in cash	**-**	(100,880)	(2,406)
Cash at the beginning of the year	**-**	100,880	103,286
Cash at the end of the year	**$ -**	$ -	$ 100,880
Supplemental schedule of noncash investing and financing activities:			
Financed sales of other property owned	**$ 316,845**	$ 148,300	$ -
Loans transferred to other property owned	**456,884**	-	-
Loans charged off	**-**	-	785,119
Patronage distributions declared	**586,000**	577,115	834,256
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 5,164,447**	$ 3,638,536	$ 3,011,846
Taxes	**2,532**	2,532	2,200

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Ag New Mexico, Farm Credit Services, including its wholly-owned subsidiaries, Ag New Mexico, Farm Credit Services, PCA and Ag New Mexico, Farm Credit Services, FLCA, (collectively called "the Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in all counties in the state of New Mexico with the exception of San Juan County and that portion of Rio Arriba County lying west of the Continental Divide. The PCA and FLCA subsidiaries are also 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 (System), a nationwide System of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2018, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2018, the District consisted of the Bank, one FLCA and 13 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System associations to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2 percent level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers, and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services that can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses. The Association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank.

The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance, and providing additional services to borrowers, such as financial management services and an investment bond program.

The Association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investments in the Association. Upon request, stockholders of the Association will be provided with the Farm Credit Bank of Texas Annual Report to Stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. The consolidated financial statements include the accounts of Ag New Mexico, Farm Credit Services, PCA and Ag New Mexico, Farm Credit Services, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted Accounting Pronouncements:

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying, or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the fair value measurements disclosures. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018.

In February 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Income Statement — Reporting Comprehensive Income — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA) that lowered the federal corporate tax rate from 35% to 21%. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance became effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Association did not adopt the guidance during 2018, and additionally determined the effect was not material to its financial condition or results of operations.

In August 2017, the FASB issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance becomes effective for interim and annual periods beginning after December 15, 2018. The Association determined the effect was not material to its financial condition or results of operations.

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

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

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

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. In July 2018, the FASB issued an update entitled "Leases – Targeted Improvements," which provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. An entity that elects this additional transition method must provide the required disclosures of the now current standard for all prior periods presented. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance did not materially impact the Association's financial condition or results of operations.

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. The guidance sets forth the requirement for new and enhanced disclosures. The Association adopted the new standard effective January 1, 2018, using the modified retrospective approach. As the majority of the Association's revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial position, results of operations, equity or cash flows.

B. Cash: Cash, as included in the statement of cash flows, represents cash on hand and on deposit at local banks.

C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and net deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the Association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs, and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower. The Bank and related associations use a two-dimensional loan rating model based on an internally generated combined System risk-rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan, assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) rating indicates that the probability of default is almost certain.

The credit risk-rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowance for loan losses including but not limited to: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, borrower repayment capacity, depth of lender staff, and/or past trends, and weather-related influences. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations, and appraisals to change over time.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

D. Capital Stock Investment in the Farm Credit Bank of Texas: The Association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the Association's proportional utilization of the Bank compared to other District associations. The Bank requires a minimum stock investment of 2 percent of the Association's average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

   If needed to meet regulatory capital adequacy requirements, the Board of Directors of the Bank may increase the percentage of stock held by an association from 2 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5 percent of the average outstanding balance of borrowings from the Bank.

E. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, and is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the consolidated balance sheet. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the statements of comprehensive income.

F. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.

G. Advance Conditional Payments: The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the Board of Directors.

H. Employee Benefit Plans: Employees of the Association participate in either the District defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

   Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2018, made on their behalf into various investment alternatives.

   The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC plan of $130,285, $116,839, and $85,194 for the years ended December 31, 2018, 2017 and 2016 respectively. For the DB plan, the Association recognized pension costs of $127,235, $107,939, and $133,711 for the years ended December 31, 2018, 2017 and 2016, respectively.

   The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were $97,108, $93,589 and $83,838 for the years ended December 31, 2018, 2017 and 2016, respectively.

   In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities on the consolidated balance sheet. Medical and dental benefits are available to employees with a percentage of premium paid by the Association based on continuous service for employees hired prior to

January 1, 2006. Employees hired on or after January 1, 2006 are eligible for medical and dental benefits, but are responsible for paying 100 percent of their associated medical and dental premiums at retirement.

I. Income Taxes: The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Deferred taxes are provided on the Association's taxable income on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

   New U.S. tax laws resulting from legislation commonly known as the Tax Cuts and Jobs Act of 2017 (TCJA) were enacted in late 2017. Among other things, the TCJA changed the federal corporate tax rate from 35 percent to 21 percent. FLCA subsidiaries are exempt from federal and state income tax; however, the change in the federal corporate tax rate did have a financial statement impact for year-end 2017 on ACAs and PCA subsidiaries that required the revaluation of any deferred taxes (assets and liabilities) in the year of enactment (2017). This resulted in tax expense to the income statement.

J. Patronage Refunds from the Farm Credit Bank of Texas: The Association records patronage refunds from the Bank on an accrual basis.

K. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

   Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and the supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also included in Level 1.

   Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current, or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2.

   Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, certain loans, and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

   The fair value disclosures are presented in Note 13, "Fair Value Measurements."

L. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

	2018		2017		2016	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 93,498,586**	**38.8%**	$ 84,314,263	38.3%	$ 74,626,339	36.2%
Production and intermediate term	**74,958,714**	**31.1%**	57,164,758	26.0%	54,453,882	26.4%
Agribusiness:						
Processing and marketing	**42,048,352**	**17.4%**	45,896,052	20.8%	41,294,032	20.1%
Farm-related business	**5,284,755**	**2.2%**	6,187,405	2.8%	9,687,703	4.7%
Loans to cooperatives	**3,036,606**	**1.3%**	4,686,861	2.1%	4,160,927	2.0%
Rural residential real estate	**9,241,754**	**3.8%**	7,933,931	3.6%	6,103,001	3.0%
Energy	**6,146,189**	**2.5%**	7,531,374	3.4%	10,155,695	4.9%
Communication	**2,536,651**	**1.1%**	2,652,129	1.2%	3,405,630	1.7%
Lease receivables	**2,371,397**	**1.0%**	1,991,774	0.9%	-	0.0%
Water and waste water	**1,995,244**	**0.8%**	1,994,398	0.9%	1,993,552	1.0%
Total	**$ 241,118,248**	**100.0%**	$ 220,352,945	100.0%	$ 205,880,761	100.0%

The Association may purchase or sell 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 participations purchased and sold as of December 31, 2018:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 29,870,203	$ 10,608,844	$ -	$ -	$ 29,870,203	$ 10,608,844
Real estate mortgage	11,281,309	21,279,371	-	-	11,281,309	21,279,371
Production and intermediate term	9,293,633	27,363,520	-	2,448,057	9,293,633	29,811,577
Energy	6,146,189	-	-	-	6,146,189	-
Communication	2,536,651	-	-	-	2,536,651	-
Water and waste water	1,995,244	-	-	-	1,995,244	-
Lease receivables	1,872,241	-	-	-	1,872,241	-
Total	$ 62,995,470	$ 59,251,735	$ -	$ 2,448,057	$ 62,995,470	$ 61,699,792

Geographic Distribution:

County	**2018**	2017	2016
Dona Ana	**14.9%**	15.5%	14.8%
Torrance	**8.2%**	7.3%	6.9%
Roosevelt	**7.5%**	7.6%	10.2%
Socorro	**5.0%**	5.4%	5.2%
Chaves	**4.8%**	1.9%	1.8%
Luna	**4.6%**	5.7%	5.1%
Curry	**4.3%**	4.1%	3.3%
Valencia	**3.9%**	4.0%	4.1%
De Baca	**3.4%**	3.1%	3.7%
Sierra	**3.3%**	3.9%	4.3%
Colfax	**3.3%**	4.9%	3.3%
Quay	**2.4%**	2.4%	2.3%
Lincoln	**1.7%**	2.0%	1.8%
Other Counties	**13.8%**	14.6%	13.2%
Other States	**18.9%**	17.6%	20.0%
Totals	**100.0%**	**100.0%**	**100.0%**

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized, and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

	2018		2017		2016	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock except dairy and poulty	**$ 63,576,711**	**26.3%**	$ 57,015,396	25.9%	$ 48,017,272	23.3%
Dairy farms	**34,452,811**	**14.3%**	21,747,361	9.9%	21,682,782	10.5%
Rural home loans	**21,940,126**	**9.1%**	17,399,003	7.9%	13,226,948	6.4%
Food and kindred products	**20,884,714**	**8.7%**	21,818,365	9.9%	18,920,314	9.2%
Field crops except cash grains	**15,603,161**	**6.5%**	15,655,736	7.1%	12,886,410	6.3%
Agriculture services	**14,464,936**	**6.0%**	17,390,183	7.9%	13,283,898	6.5%
Vegetable and melons	**11,292,394**	**4.7%**	10,062,042	4.6%	10,777,024	5.2%
Cash grains	**9,953,525**	**4.1%**	7,255,237	3.3%	9,150,178	4.4%
Electric services	**9,796,128**	**4.1%**	11,062,141	5.0%	11,335,480	5.5%
General farms, primarily crops	**9,020,750**	**3.7%**	10,054,523	4.6%	9,912,225	4.8%
Fruit and tree nuts	**5,290,680**	**2.2%**	3,640,184	1.6%	3,235,272	1.6%
Timber	**4,947,255**	**2.1%**	2,210,034	1.0%	2,824,693	1.4%
Wholesale trade - nondurable goods	**4,603,820**	**1.9%**	6,826,491	3.1%	6,209,899	3.0%
Chemical and allied products	**2,710,129**	**1.1%**	2,781,123	1.3%	1,496,233	0.7%
Communications	**2,536,651**	**1.1%**	2,652,129	1.2%	3,405,630	1.7%
Other	**10,044,457**	**4.1%**	12,782,997	5.8%	19,516,503	9.5%
Total	**$ 241,118,248**	**100.0%**	$ 220,352,945	100.0%	$ 205,880,761	100.0%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (or 97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan-to-value ratios in excess of the regulatory maximum.

To mitigate the risk of loan losses, the Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the Bank. The agreements, which will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2018, 2017 and 2016, loans totaling $22,042,146, $23,953,191 and $23,232,632, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $111,320, $116,655 and $82,981 in 2018, 2017 and 2016, respectively, and are included in "other noninterest expense."

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

	December 31, 2018	December 31, 2017	December 31, 2016
Nonaccrual loans:			
Real estate mortgage	**$ 398,523**	$ 1,524,216	$ 1,770,787
Production and intermediate term	**11,563**	443,987	1,110,660
Total nonaccrual loans	**410,086**	1,968,203	2,881,447
Accruing restructured loans:			
Real estate mortgage	**-**	-	548,470
Production and intermediate term	**-**	-	440,110
Total accruing restructured loans	**-**	-	988,580
Total nonperforming loans	**410,086**	1,968,203	3,870,027
Other property owned	**481,184**	394,200	711,480
Total nonperforming assets	**$ 891,270**	$ 2,362,403	$ 4,581,507

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

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

The following table shows loans and related accrued interest classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2018	2017	2016
Real estate mortgage			
Acceptable	**96** %	93 %	93 %
OAEM	**3**	4	3
Substandard/doubtful	**1**	3	4
	100	100	100
Production and intermediate term			
Acceptable	**95**	93	94
OAEM	**4**	5	3
Substandard/doubtful	**1**	2	3
	100	100	100
Processing and marketing			
Acceptable	**100**	100	100
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100	100	100
Farm-related business			
Acceptable	**95**	95	96
OAEM	**5**	5	4
Substandard/doubtful	**0**	0	0
	100	100	100
Loans to cooperatives			
Acceptable	**100**	100	100
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100	100	100
Rural residential real estate			
Acceptable	**100**	100	100
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100	100	100
Energy			
Acceptable	**100**	100	100
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100	100	100
Communication			
Acceptable	**100**	100	100
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100	100	100
Lease receivables			
Acceptable	**100**	100	-
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100	100	-
Water and waste water			
Acceptable	**100**	100	100
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100	100	100
Total Loans			
Acceptable	**97**	95	95
OAEM	**2**	3	2
Substandard/doubtful	**1**	2	3
	100 %	100 %	100 %

The following tables provide an age analysis of past due loans (including accrued interest) as of December 31, 2018, 2017 and 2016:

December 31, 2018:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or less than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 125,268**	**$ 398,523**	**$ 523,791**	**$ 94,621,991**	**$ 95,145,782**	**$ -**
Production and intermediate term	**243,011**	**11,563**	**254,574**	**75,632,908**	**75,887,482**	**-**
Processing and marketing	**-**	**-**	**-**	**42,408,974**	**42,408,974**	**-**
Rural residential real estate	**317,085**	**-**	**317,085**	**8,955,190**	**9,272,275**	**-**
Energy	**56,913**	**-**	**56,913**	**6,100,927**	**6,157,840**	**-**
Farm-related business	**-**	**-**	**-**	**5,354,797**	**5,354,797**	**-**
Loans to cooperatives	**-**	**-**	**-**	**3,050,111**	**3,050,111**	**-**
Communication	**-**	**-**	**-**	**2,536,652**	**2,536,652**	**-**
Lease receivables	**-**	**-**	**-**	**2,394,529**	**2,394,529**	**-**
Water and waste water	**-**	**-**	**-**	**2,025,466**	**2,025,466**	**-**
Total	**$ 742,277**	**$ 410,086**	**$ 1,152,363**	**$ 243,081,545**	**$ 244,233,908**	**$ -**

December 31, 2017:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 353,291	$ 1,524,216	1,877,507	$ 83,718,031	$ 85,595,538	$ -
Production and intermediate term	489,345	443,987	933,332	57,030,572	57,963,904	-
Processing and marketing	-	-	-	46,263,365	46,263,365	-
Rural residential real estate	108,656	-	108,656	7,849,370	7,958,026	-
Energy	-	-	-	7,563,688	7,563,688	-
Farm-related business	-	-	-	6,243,489	6,243,489	-
Loans to cooperatives	-	-	-	4,692,654	4,692,654	-
Communication	-	-	-	2,653,126	2,653,126	-
Lease receivables	-	-	-	2,000,487	2,000,487	-
Water and waste water	-	-	-	2,024,620	2,024,620	-
Total	$ 951,292	$ 1,968,203	$ 2,919,495	$ 220,039,402	$ 222,958,897	$ -

December 31, 2016:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 17,449	$ -	$ 17,449	$ 75,763,916	$ 75,781,365	$ -
Production and intermediate term	-	-	-	55,121,048	55,121,048	-
Processing and marketing	-	-	-	41,466,286	41,466,286	-
Rural residential real estate	-	-	-	6,118,857	6,118,857	-
Energy	-	-	-	10,247,954	10,247,954	-
Farm-related business	-	-	-	9,823,377	9,823,377	-
Loans to cooperatives	-	-	-	4,165,919	4,165,919	-
Communication	-	-	-	3,406,311	3,406,311	-
Lease receivables	-	-	-	-	-	-
Water and waste water	-	-	-	2,023,774	2,023,774	-
Total	$ 17,449	$ -	$ 17,449	$ 208,137,442	$ 208,154,891	$ -

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

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

As of December 31, 2018, the Association had no troubled debt restructured loans classified as nonaccrual with no specific allowance for loan losses.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). As of December 31, 2018, 2017 and 2016, the Association's troubled debt restructuring totaled $324,874, $862,864, and $988,579, respectively.

The predominant form of concession granted for troubled debt restructuring includes extension of the term on several related dairy loans. At times, these terms might be offset with incremental payments, collateral, or new borrower guarantees, in which case the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The following table presents information regarding loans that met the accounting criteria as a troubled debt restructuring at period end. These loans are included as impaired loans in the impaired loan table:

	Loans Modified as TDRs		
	December 31, 2018	December 31, 2017	December 31, 2016
Troubled debt restructurings:			
Real estate mortgage	**$ 313,311**	$ 514,875	$ 548,469
Production and intermediate term	**11,563**	347,989	440,110
Total	**$ 324,874**	$ 862,864	$ 988,579

	TDRs on Nonaccrual Status		
	December 31, 2018	December 31, 2017	December 31, 2016
Troubled debt restructurings:			
Real estate mortgage	**$ 313,311**	$ 514,875	$ -
Production and intermediate term	**11,563**	347,989	-
Total	**$ 324,874**	$ 862,864	$ -

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2018	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate term	$ -	$ -	$ -	$ -	$ -
Total	$ -	$ -	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 398,523	$ 398,719	$ -	$ 469,175	$ -
Production and intermediate term	11,563	93,619	-	94,224	-
Total	$ 410,086	$ 492,338	$ -	$ 563,399	$ -
Total impaired loans:					
Real estate mortgage	$ 398,523	$ 398,719	$ -	$ 469,175	$ -
Production and intermediate term	11,563	93,619	-	94,224	-
Total	$ 410,086	$ 492,338	$ -	$ 563,399	$ -

	Recorded Investment at 12/31/2017	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate term	$ 94,998	$ 137,395	$ 9,400	$ 521,658	$ -
Total	$ 94,998	$ 137,395	$ 9,400	$ 521,658	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,524,216	$ 1,524,412	$ -	$ 1,028,650	$ 22,971
Production and intermediate term	347,989	398,255	-	58,397	15,424
Total	$ 1,872,205	$ 1,922,667	$ -	$ 1,087,047	$ 38,395
Total impaired loans:					
Real estate mortgage	$ 1,524,216	$ 1,524,412	$ -	$ 1,028,650	$ 22,971
Production and intermediate term	442,987	535,650	9,400	580,055	15,424
Total	$ 1,967,203	$ 2,060,062	$ 9,400	$ 1,608,705	$ 38,395

	Recorded Investment at 12/31/2016	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate term	$ 1,110,660	$ 1,163,427	$ 216,070	$ 15,974	$ 8,897
Total	$ 1,110,660	$ 1,163,427	$ 216,070	$ 15,974	$ 8,897
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,319,242	$ 3,360,150	$ -	$ 1,713,461	$ 33,686
Production and intermediate term	440,110	1,311,112	-	421,935	17,230
Total	$ 2,759,352	$ 4,671,262	$ -	$ 2,135,396	$ 50,916
Total impaired loans:					
Real estate mortgage	$ 2,319,242	$ 3,360,150	$ -	$ 1,713,461	$ 33,686
Production and intermediate term	1,550,770	2,474,539	216,070	437,909	26,127
Total	$ 3,870,012	$ 5,834,689	$ 216,070	$ 2,151,370	$ 59,813

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

There were $435,754 and $183,070 in commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2018 and 2017, respectively. At December 31, 2016 there were no material commitments to lend additional funds to debtors whose loans were classified as impaired.

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	2018	2017	2016
Interest income which would have been recognized under the original terms	**$ 49,820**	$ 93,574	$ 243,236
Less: interest income recognized	**-**	(38,395)	(59,813)
Foregone interest income	**$ 49,820**	$ 55,179	$ 183,423

A summary of the changes in the allowance for credit losses and the ending balance of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Lease Receivable	Total
Allowance for Credit Losses:									
Balance at December 31, 2017	$ 114,695	$ 228,073	$ 76,118	$ 5,632	$ 17,473	$ 6,979	$ 7,675	$ -	$ 456,645
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	798	-	-	-	-	-	-	798
Provision for loan losses	17,831	35,456	11,833	876	2,716	1,085	1,193	-	70,990
Other	-	(7,315)	-	-	-	-	-	-	(7,315)
Balance at December 31, 2018	$ 132,526	$ 257,012	$ 87,951	$ 6,508	$ 20,189	$ 8,064	$ 8,868	$ -	$ 521,118
Ending Balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance: collectively evaluated for impairment	$ 132,526	$ 257,012	$ 87,951	$ 6,508	$ 20,189	$ 8,064	$ 8,868	$ -	$ 521,118
Recorded Investment in Loans Outstanding:									
Ending Balance at December 31, 2018	$ 95,145,782	$ 75,887,482	$ 50,813,882	$ 2,536,652	$ 6,157,840	$ 2,025,466	$ 9,272,275	$ 2,394,529	$ 244,233,908
Ending balance for loans individually evaluated for impairment	$ 398,523	$ 11,562	$ -	$ -	$ -	$ -	$ -	$ -	$ 410,085
Ending balance for loans collectively evaluated for impairment	$ 94,747,259	$ 75,875,920	$ 50,813,882	$ 2,536,652	$ 6,157,840	$ 2,025,466	$ 9,272,275	$ 2,394,529	$ 243,823,823

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Lease Receivable	Total
Allowance for Credit Losses:									
Balance at December 31, 2016	$ 107,983	$ 228,799	$ 163,621	$ 12,106	$ 45,580	$ 6,979	$ 16,498	$ -	$ 581,566
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	64,460	11,369	-	-	-	-	-	-	75,829
Provision for loan losses	(57,748)	(18,550)	(87,503)	(6,474)	(28,107)	-	(8,823)	-	(207,205)
Other	-	6,455	-	-	-	-	-	-	6,455
Balance at December 31, 2017	$ 114,695	$ 228,073	$ 76,118	$ 5,632	$ 17,473	$ 6,979	$ 7,675	$ -	$ 456,645
Ending Balance: individually evaluated for impairment	$ -	$ 9,400	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,400
Ending Balance: collectively evaluated for impairment	$ 114,695	$ 218,673	$ 76,118	$ 5,632	$ 17,473	$ 6,979	$ 7,675	$ -	$ 447,245
Recorded Investment in Loans Outstanding:									
Ending Balance at December 31, 2017	$ 85,595,538	$ 57,963,904	$ 57,199,508	$ 2,653,126	$ 7,563,688	$ 2,024,620	$ 7,958,026	$ 2,000,487	$ 222,958,897
Ending balance for loans individually evaluated for impairment	$ 1,524,216	$ 443,987	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,968,203
Ending balance for loans acquired with deteriorated credit quality	$ 84,071,322	$ 57,519,917	$ 57,199,508	$ 2,653,126	$ 7,563,688	$ 2,024,620	$ 7,958,026	$ 2,000,487	$ 220,990,694

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Lease Receivable	Total
Allowance for Credit Losses:									
Balance at December 31, 2015	$ 762,906	$ 187,289	$ 98,919	$ 7,319	$ 24,796	$ 6,979	$ 9,974	$ -	$ 1,098,182
Charge-offs	(699,852)	(85,267)	-	-	-	-	-	-	(785,119)
Recoveries	-	-	-	-	-	-	-	-	-
Provision for loan losses	44,929	124,033	64,702	4,787	20,784	-	6,524	-	265,759
Other	-	2,744	-	-	-	-	-	-	2,744
Balance at December 31, 2016	$ 107,983	$ 228,799	$ 163,621	$ 12,106	$ 45,580	$ 6,979	$ 16,498	$ -	$ 581,566
Ending Balance: individually evaluated for impairment	$ -	$ 216,070	$ -	$ -	$ -	$ -	$ -	$ -	$ 216,070
Ending Balance: collectively evaluated for impairment	$ 107,983	$ 12,729	$ 163,621	$ 12,106	$ 45,580	$ 6,979	$ 16,498	$ -	$ 365,496
Recorded Investment in Loans Outstanding:									
Ending Balance at December 31, 2016	$ 75,781,365	$ 55,121,048	$ 55,455,582	$ 3,406,311	$ 10,247,954	$ 2,023,774	$ 6,118,857	$ -	$ 208,154,891
Ending balance for loans individually evaluated for impairment	$ 2,319,257	$ 1,550,769	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,870,026
Ending balance for loans collectively evaluated for impairment	$ 73,462,108	$ 53,570,279	$ 55,455,582	$ 3,406,311	$ 10,247,954	$ 2,023,774	$ 6,118,857	$ -	$ 204,284,865

NOTE 4 — INVESTMENT IN THE FARM CREDIT BANK OF TEXAS

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. Estimating the fair value of the Association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The Association owned 1.7% of the issued stock of the Bank as of December 31, 2018. As of that date, the Bank's assets totaled $24.53 billion and members' equity totaled $1.78 billion. The Bank's earnings were $190.5 million during 2018.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2018	2017	2016
Land and improvements	**$ 599,601**	$ 599,601	$ 599,601
Building and improvements	**3,059,217**	2,932,317	2,907,677
Furniture and equipment	**123,103**	123,103	127,269
Computer equipment and software	**146,544**	89,052	102,624
Automobiles	**538,707**	412,707	426,398
Other	**2,113**	-	-
	4,469,285	4,156,780	4,163,569
Accumulated depreciation	**(1,310,971)**	(1,112,865)	(979,119)
Total	**$ 3,158,314**	$ 3,043,915	$ 3,184,450

The Association leases office space in Albuquerque, Las Cruces, and Roswell, New Mexico, as well as three copy machines. Lease expense was $65,668, $41,400, and $33,000 for 2018, 2017, and 2016, respectively. Minimum annual lease payments for the next five years are as follows:

	Operating
2019	$ 113,496
2020	114,501
2021	99,160
2022	57,125
2023	42,802
Thereafter	-
Total	$427,084

NOTE 6 — OTHER PROPERTY OWNED, NET:

Net (loss) gain on other property owned consists of the following for the years ended December 31:

	2018	2017	2016
(Loss) gain on sale, net	**$ (5,441)**	$ 24,221	$ -
Operating expense, net	**(27,530)**	(13,950)	(34,861)
Net (loss) gain on other property owned	**$ (32,971)**	$ 10,271	$ (34,861)

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2018	2017	2016
Accounts Receivable	**$ 383,226**	$ 198,495	$ 215,389
Other	**44,413**	159,669	566,828
Total	**$ 427,639**	$ 358,164	$ 782,217

Other liabilities comprised the following at December 31:

	2018	2017	2016
Postretirement benefit liability	**$ 1,280,484**	$ 1,428,207	$ 1,333,715
Accounts Payable	**678,507**	452,755	415,457
Accrued annual leave	**164,272**	145,840	156,283
Insurance premium payable	**156,631**	237,623	260,509
Other	**68,091**	-	-
Total	**$ 2,347,985**	$ 2,264,425	$ 2,165,964

NOTE 8 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets, and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the Association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2019, 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.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2018, 2017 and 2016, was $209,918,775 at 2.94 percent, $190,581,755 at 2.13 percent and $179,137,450 at 1.65 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2018, 2017 and 2016, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2018, was $243,944,118, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. At year end December 31, 2016, the Association was subject to remedies associated with the Return on Average Assets (ROA) covenant in the general financing agreement, which stipulates a minimum Return on Average Assets must be maintained to remain in compliance with the GFA. At December 31, 2016 the Association fell below the minimum ROA covenant and was granted a limited waiver of the covenant from December 31, 2016 through March 31, 2018. As of March 31, 2018 the Association achieved the minimum ROA required by the GFA and exceeded that minimum through December 31, 2018.

NOTE 9 — MEMBERS' EQUITY:

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

Protection of certain borrower equity is provided under the Act that requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates, and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class B capital stock or participation certificates is equal to 2 percent of the loan amount, up to a maximum amount $1,000. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the Board of Directors of the Association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

Each owner of Class B capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class B to Class A stock. Class A stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of common stock is made solely at the discretion of the Association's Board of Directors.

At December 31, 2018, 2017, and 2016, the Association had the following shares of Class A capital stock, Class B stock, and participation certificates outstanding at a par value of $5 per share:

	2018	2017	2016
Class A stock	**5,670**	3,070	2,870
Class B stock	**71,322**	61,284	59,517
Participation certificates	**17,479**	22,773	16,814
Total	**94,471**	87,127	79,201

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A capital stock, Class B capital stock, and participation certificates. In the event of liquidation of the Association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the Association's obligations to external parties and to the Bank would be distributed to the Association's stockholders.

Dividends 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 as unallocated retained earnings.

In 2018, 2017, and 2016 the Association declared patronage distributions of $586,000, $577,115, and $834,256, respectively. The Association paid patronage of $532,004 during 2018 with $586,000 remaining payable as of December 31, 2018.

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital, and Total Capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the Banks and associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past. As of December 31, 2018, the Association is not prohibited from retiring stock or distributing earnings.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2018:

Risk-adjusted:	**Regulatory Minimums**	**Conservation Buffer***	**Total**	**As of December 31, 2018**
Common equity tier 1 ratio	4.50%	2.50%	7.00%	14.48%
Tier 1 capital ratio	6.00%	2.50%	8.50%	14.48%
Total capital ratio	8.00%	2.50%	10.50%	14.71%
Permanent capital ratio	7.00%	0.00%	7.00%	14.28%
Non-risk-adjusted:				
Tier 1 leverage ratio**	4.00%	1.00%	5.00%	14.31%
UREE leverage ratio	1.50%	0.00%	1.50%	15.23%

*the 2.5% capital conservation buffer for the risk-adjusted ratios will be phased in over a three year period ending on December 31, 2019. There is no phase-in of the leverage buffer.

**Must include the regulatory minimum requirement for the URE and UREE Leverage ratio.

Risk-adjusted assets have been defined by FCA Regulations as the statement of condition assets and off balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance, and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt, and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The components of the Association's risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2018:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**39,944,644**	**39,944,644**	**39,944,644**	**39,944,644**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**468,625**	**468,625**	**468,625**	**468,625**
Allowance for loan losses and reserve for credit losses subject to certain limitations*			**559,818**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(5,139,035)**	**(5,139,035)**	**(5,139,035)**	**(5,139,035)**
	35,274,234	35,274,234	35,834,052	35,274,234
Denominator:				
Risk-adjusted assets excluding allowance	**252,741,911**	**252,741,911**	**252,741,911**	**252,741,911**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(5,139,035)**	**(5,139,035)**	**(5,139,035)**	**(5,139,035)**
Allowance for loan losses				**(508,788)**
	247,602,876	247,602,876	247,602,876	247,094,088

*Capped at 1.25% of risk-adjusted assets

The components of the Association's non-risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2018:

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**39,944,644**	**39,944,644**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**468,625**	**-**
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(5,139,035)**	**(2,379,200)**
	35,274,234	**37,565,444**
Denominator:		
Total Assets	**256,153,051**	**256,153,051**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(5,139,035)**	**(6,619,402)**
	251,014,016	249,533,649

An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

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

	2018	2017	2016
Nonpension postretirement benefits	**$ (191,720)**	$(365,959)	$(334,981)

The Association's accumulated other comprehensive (loss) relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive (loss) and the location on the income statement for the year ended December 31:

	2018	2017	2016
Accumulated other comprehensive (loss) at January 1	**$ (365,959)**	$(334,981)	$(353,126)
Actuarial gains (losses)	**117,853**	(53,448)	-
Prior service credit	**51,303**	-	-
Amortization of prior service credit included in salaries and employee benefits	**(11,131)**	(14,840)	(14,840)
Amortization of actuarial loss included in salaries and employee benefits	**41,814**	29,986	37,083
Income tax expense related to items of other comprehensive income	**(25,600)**	7,324	(4,098)
Other comprehensive income (loss), net of tax	**174,239**	(30,978)	18,145
Accumulated other comprehensive loss at December 31	**$ (191,720)**	$(365,959)	$(334,981)

NOTE 10 — INCOME TAXES:

The enactment of federal tax legislation in late December 2017, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. In accordance with GAAP, the change to the lower corporate tax rate led to a revaluation of our deferred tax liabilities and deferred tax assets in the period of enactment (2017). The provision for income taxes in 2017 was mainly due to a decrease in deferred tax assets without a corresponding valuation allowance resulting from the enactment of federal tax legislation in late December 2017.

The provision for (benefit from) income taxes follows for the years ended December 31:

	2018	2017	2016
Current:			
Federal	**$ -**	$ -	$ -
State	**100**	100	100
Total current	**100**	100	100
Deferred:			
Federal	**26,866**	177,327	(91,965)
State	**5,450**	35,933	(11,621)
Total deferred	**32,316**	213,260	(103,586)
Total provision for (benefit from) income taxes	**$ 32,416**	$ 213,360	$ (103,486)

The provision for (benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	2018	2017	2016
Federal tax at statutory rate	**$ 582,171**	$ 1,009,624	$ 710,235
State tax, net	**5,550**	23,433	(11,403)
Effect of nontaxable FLCA subsidiary	**(529,547)**	(980,452)	(604,826)
Change in Tax Rate	**-**	177,358	-
Patronage distributions	**(35,451)**	-	(157,500)
Other	**9,693**	(16,603)	(39,992)
Provision for (benefit from) income taxes	**$ 32,416**	$ 213,360	$ (103,486)

Deferred tax assets and liabilities in accordance with accounting guidance, "Accounting for Income Taxes," are comprised of the following at December 31:

	2018	2017	2016
Deferred Tax Assets			
Allowance for loan losses	**$ 56,419**	$ 57,800	$ 135,815
Loss carryforwards	**-**	45,478	7,505
Postretirement benefits, other	**257,131**	270,100	381,157
Other	**24,922**	23,004	96,950
Gross deferred tax assets	**338,472**	396,382	621,427
Deferred tax asset valuation allowance	**-**	-	-
Deferred Tax Liabilities			
Other	**(40,940)**	(40,933)	(62,274)
Gross deferred tax liabilities	**(40,940)**	(40,933)	(62,274)
Net deferred tax asset (liability)	**$ 297,532**	$ 355,449	$ 559,153

The ACA is required to maintain an investment in the Bank of 2 percent of the average direct note. This investment can be held by both the PCA and FLCA. A deferred tax liability is established for the PCA for any excess investment in the Bank over that allocated to the 2 percent investment requirement. Upon formation of the ACA, there were no additional amounts of excess investment previously held by the PCA over and above the calculation of the 2 percent requirement of the ACA. As a result, there was no effect on the related deferred tax.

NOTE 11 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the Association participate in either the defined benefit retirement plan (DB plan) or the defined contributions plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. These plans are described more fully in section H of Note 2, "Summary of Significant Accounting Policies." The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities, nor cost of any plan is segregated or separately accounted for by participating employers (Bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets, and the components of annual benefit expenses are recorded and reported upon District combination only. The Association records current contributions to the DB plan as an expense in the current year.

The CEO and certain executive or highly-compensated employees in the Association are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (supplemental 401(k) plan). This plan allows District employers to elect to participate in any or all of the following benefits:

- Restored Employer Contributions – to allow "make-up" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year

- Elective Deferrals – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan

- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule

One employee participated in the plan for the years ended December 31, 2018, 2017, and 2016.

The DB plan is noncontributory and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan's funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by a percentage approved by the plan sponsor. The plan sponsor is the Board of the Farm Credit Bank of Texas. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2018.

The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by then remaining participating employers.
c. If the Association chooses to stop participating in some of its multi-employer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan, the Association's contributions, and the percentage of Association contribution to total plan contributions for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Funded status of plan	**68.0** %	69.7 %	66.4 %
Association's contribution	**$ 137,758**	$ 107,939	$ 133,711
Percentage of Association's contribution to total contributions	**1.4** %	0.9 %	1.1 %

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 70.1 percent, 73.4 percent and 70.6 percent at December 31, 2018, 2017 and 2016, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. Medical and dental benefits are available to employees with a percentage of the premium paid by the Association based upon continuous services of employees hired prior to January 1, 2006. Employees hired on or after January 1, 2006, are eligible for medical and dental benefits, but are responsible for paying 100% of their associated medical and dental premiums at retirement.

The following table reflects the benefit obligation, cost, and actuarial assumptions for the Association's postretirement benefits:

Disclosure Information Related to Retirement Benefits	**2018**	2017	2016
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 1,428,207**	$ 1,320,955	$ 1,287,994
Service cost	**14,345**	16,095	19,910
Interest cost	**56,208**	59,827	59,583
Plan participants' contributions	**17,909**	4,200	4,140
Plan amendments	**(51,303)**	-	-
Actuarial (gain) loss	**(117,853)**	66,252	(12,794)
Benefits paid	**(67,029)**	(39,122)	(37,878)
Accumulated postretirement benefit obligation, end of year	**$ 1,280,484**	$ 1,428,207	$ 1,320,955
Change in Plan Assets			
Company contributions	**$ 49,120**	$ 34,922	$ 33,738
Plan participants' contributions	**17,909**	4,200	4,140
Benefits paid	**(67,029)**	(39,122)	(37,878)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (1,280,484)**	$ (1,428,207)	$ (1,320,955)
Amounts Recognized in Statement of Financial Position			
Other liabilities	**$ (1,280,484)**	$ (1,428,207)	$ (1,320,955)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss	**$ 209,092**	$ 368,759	$ 332,493
Prior service credit	**(51,303)**	(11,131)	(25,971)
Total	**$ 157,789**	$ 357,628	$ 306,522
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2018**	12/31/2017	12/31/2016
Discount rate	**4.75%**	4.00%	4.60%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**7.30%/6.90%**	7.70%/6.90%	6.75%/6.50%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2026/2027**	2026	2025

Total Cost	**2018**	2017	2016
Service cost	**$ 14,345**	$ 16,095	$ 19,910
Interest cost	**56,208**	59,827	59,583
Amortization of:			
Unrecognized prior service credit	**(11,131)**	(14,840)	(14,840)
Unrecognized net loss	**41,814**	29,986	37,083
Net postretirement benefit cost	**$ 101,236**	$ 91,068	$ 101,736
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial (gain) loss	**$ (117,853)**	$ 66,252	$ (12,794)
Amortization of net actuarial gain	**(41,814)**	(29,986)	(37,083)
Prior service (credit) cost	**(51,303)**	-	14,840
Amortization of prior service credit	**11,131**	14,840	-
Total recognized in other comprehensive income	**$ (199,839)**	$ 51,106	$ (35,037)
AOCI Amounts Expected to be Amortized Into Expense in 2019			
Unrecognized prior service credit	**$ (4,485)**		
Unrecognized net loss	**12,187**		
Total	**$ 7,702**		
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	**12/31/2018**	12/31/2016	12/31/2015
Discount rate	**4.75%**	4.60%	4.70%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**7.30%/6.90%**	6.75%/6.50%	7.00%/6.50%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2026/2027**	2025	2025

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2019	**$ 66,906**
Fiscal 2020	**70,701**
Fiscal 2021	**73,642**
Fiscal 2022	**73,632**
Fiscal 2023	**68,428**
Fiscal 2024–2028	**351,386**
Expected Contributions	
Fiscal 2019	**$ 66,906**

NOTE 12 — RELATED PARTY TRANSACTIONS:

Directors of the Association, except for any director-elected directors, are required to be borrowers/stockholders of the Association. Also, in the ordinary course of business, the Association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors, or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons at December 31, 2018, 2017, and 2016 for the Association amounted to $13,608,034, $13,590,515 and $18,138,776. During 2018, $18,382,472 of new loans were made, and repayments totaled $18,364,953. In the opinion of management, no such loans outstanding at December 31, 2018, 2017 and 2016 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled $495,703, $293,513, and $323,921 in 2018, 2017 and 2016, respectively.

The Association received patronage payments from the Bank totaling $1,761,493, $1,607,396 and $1,329,677 during 2018, 2017 and 2016, respectively.

NOTE 13 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," for additional information.

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

December 31, 2018	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$ -**	**$ -**
Other property owned	**-**	**-**	**481,184**	**481,184**

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

December 31, 2016	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 894,590	$ 894,590
Other property owned	-	-	790,533	790,533

The Association revised fair value measurements for the reporting of certain loans measured at fair value on a nonrecurring basis using Level 3 inputs at December 31, 2016. The disclosure was revised to report impaired loans with specific reserves only. The Level 3 fair value was $2,665,377 on the 2016 Annual Report, for the December 31, 2016 disclosure, and has been revised to $894,590.

Management has evaluated the impact of these errors and concluded that the amounts are immaterial to previously issued financial statements; however, it has elected to revise the reporting of certain loans measured at fair value on a nonrecurring basis in order to correctly present such amounts. The correction had no effect on the balance sheet, the statement of comprehensive income, earnings, or the financial ratios.

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Consolidated Balance Sheets for each of the fair value hierarchy values are summarized as follows:

December 31, 2018
Fair Value Measurement Using

	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Net loans	**240,597,130**	**-**	**-**	**235,735,955**	**235,735,955**
Total Assets	**$ 240,597,130**	**$ -**	**$ -**	**$ 235,735,955**	**$ 235,735,955**
Liabilities:					
Note payable to Bank	**$ 209,918,775**	**$ -**	**$ -**	**$ 205,686,611**	**$ 205,686,611**
Total Liabilities	**$ 209,918,775**	**$ -**	**$ -**	**$ 205,686,611**	**$ 205,686,611**

December 31, 2017
Fair Value Measurement Using

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ -	$ -	$ -	$ -	$ -
Net loans	219,809,702	-	-	214,907,520	214,907,520
Total Assets	$ 219,809,702	$ -	$ -	$ 214,907,520	$ 214,907,520
Liabilities:					
Note payable to Bank	$ 190,581,755	$ -	$ -	$ 186,340,043	$ 186,340,043
Total Liabilities	$ 190,581,755	$ -	$ -	$ 186,340,043	$ 186,340,043

December 31, 2016
Fair Value Measurement Using

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 100,880	$ 100,880	$ -	$ -	$ 100,880
Net loans	202,633,818	-	-	200,024,182	200,024,182
Total Assets	$ 202,734,698	$ 100,880	$ -	$ 200,024,182	$ 200,125,062
Liabilities:					
Note payable to Bank	$ 179,137,450	$ -	$ -	$ 175,934,439	$ 175,934,439
Total Liabilities	$ 179,137,450	$ -	$ -	$ 175,934,439	$ 175,934,439

Sensitivity to Changes in Significant Unobservable Inputs

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

With regard to impaired and other property owned, it is not practicable to provide specific information or inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other owned and take into account unobservable inputs such as income and expense, comparable, replacement cost, and comparability adjustments.

Information about Other Financial Instrument Fair Value Measurements:

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Other Financial Instrument Fair Value Measurements:

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Note payable to bank	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," accounting 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. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following represent a brief summary of the valuation techniques used by the Association for assets and liabilities:

Loans

For certain loans individually evaluated for impairment under impairment guidance, the fair value is based upon the underlying collateral since the loans are 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 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 14 — COMMITMENTS AND CONTINGENCIES

In addition to those commitments and contingencies discussed in Note 2, "Summary of Significant Accounting Policies," the Association is involved in various legal proceedings in the ordinary 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.

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. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2018, $82,414,219 in commitments 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 their amounts are not reflected on 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.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. Outstanding standby letters of credit have expiration dates ranging from February 1, 2018 to June 9, 2022 and amounted to $835,877. The maximum potential amount of future payments the Association is required to make under the guarantees is minimal to the Association at December 31, 2018.

NOTE 15 — REGULATORY ENFORCEMENT MATTERS

The Association and its regulator, Farm Credit Administration (FCA), entered into a Supervisory Agreement effective March 20, 2012 which superseded the Supervisory Agreement dated January 20, 2010, and the FCA Supervisory Letters dated June 25, 2009, November 13, 2009, and December 31, 2011. In November of 2015, FCA terminated the Supervisory Agreement dated March 20, 2012 and placed the Association under Special Supervision as of November 16, 2015. The conditions which led to Special Supervision were addressed and Ag New Mexico, Farm Credit Services, ACA was returned to normal supervision by the Farm Credit Administration on January 24, 2017.

Effective December 13, 2017, the Association received a Supervisory Letter from FCA related to recent changes within its management team. The FCA also established a number of supervisory requirements including: (1) the engagement of a qualified firm approved by the FCA for the identification, evaluation and selection of a qualified chief executive officer (CEO), (2) FCA notification prior to any proposed employment offers for the CEO position, any material personnel actions and any changes in procedures, practices and standards until a permanent CEO is in place, and (3) monthly updates to the FCA on the status of the search process of the hiring of a new CEO by the Board chair and Audit Committee chair.

In response to the supervisory requirements, the Board engaged FCC Services to assist in the search to replace the CEO position, and during the second quarter of 2018, Brett Valentine was selected as the Association's new CEO. The Association was returned to normal supervision in June 2018.

NOTE 16 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 (in thousands) follow:

	2018				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 1,498**	**$ 1,428**	**$ 1,501**	**$ 1,523**	**$ 5,950**
(Provision for) reversal of loan losses	**(35)**	**(12)**	**(4)**	**(20)**	**(71)**
Noninterest expense, net	**(343)**	**(754)**	**(773)**	**(1,269)**	**(3,139)**
Net income	**$ 1,120**	**$ 662**	**$ 724**	**$ 234**	**$ 2,740**

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,296	$ 1,356	$ 1,403	$ 1,381	$ 5,436
(Provision for) reversal of loan losses	(54)	(11)	68	204	207
Noninterest expense, net	(924)	(3)	(866)	(1,179)	(2,972)
Net income	$ 318	$ 1,342	$ 605	$ 406	$ 2,671

	2016				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,224	$ 1,299	$ 1,380	$ 1,312	$ 5,215
(Provision for) reversal of loan losses	(23)	(41)	(12)	(190)	(266)
Noninterest expense, net	(800)	(796)	(642)	(596)	(2,834)
Net income	$ 401	$ 462	$ 726	$ 526	$ 2,115

NOTE 17 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 13, 2019, which is the date the financial statements were issued or available to be issued and has determined that there were no other events requiring disclosure.

DISCLOSURE INFORMATION AND INDEX

(Unaudited)

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report.

The descriptions of significant developments that had or could have a material impact on earnings, interest rates to borrowers, patronage, or dividends and acquisitions or dispositions of material assets, changes in the reporting entity, changes in patronage policies or practices and financial assistance provided by or to the Association through loss sharing or capital preservation agreements or from any other source, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

The Ag New Mexico, Farm Credit Services, ACA (Association) serves its statewide territory through its main administrative and lending office at Clovis, New Mexico. Additionally, there are three service center lending offices located throughout the territory. The Association leases office space in Las Cruces, Roswell, and Albuquerque, New Mexico. The Association owns the office buildings in Clovis and Belen, New Mexico, free of debt.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 8, "Note Payable to the Bank," Note 11, "Employee Benefit Plans" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 14 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The Association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (Bank), as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the Association.

The annual and quarterly stockholder reports of the Farm Credit Bank of Texas (Bank) are available free of charge, upon request. This report can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the Bank's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports 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 will be available approximately 40 days after quarter end and can be obtained by writing to Ag New Mexico, Farm Credit Services, ACA, 4501 N. Prince, Clovis, New Mexico or calling (575) 762-3828. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *will.fisher@farmcreditbank.com.* The Association's annual stockholder report is available on its website at www.agnewmexico.com 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2018, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to stockholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis," which precedes the consolidated financial statements in this annual report, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The Association's member-elected and director-elected Board of Directors and senior officers are as follows:

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Randy Autrey	Chairman	2011	2021, (Left Board in 2019)
Dwayne "Butch" Vidlar	Vice-Chairman	2010	2019
Larry Hammit	Appointed Director	2012	2021
Ronnie Harral	Director	2005	2018
Linda Miller Brown	Director	2013	2019
Marty Franzoy	Director	2015	2020
F.T. "Ted" McCollum, III	Director	2017	2021
Thomas "TJ" Runyan	Director	2018	2021
Brett Valentine	President & Chief Executive Officer	2015	-
David Wright	Chief Credit Officer	2013	-
Will Fisher	Chief Financial Officer	2017	-
Shane Hall	Chief Lending Officer	2018	-
John Logsdon	SVP – Compliance/Capital Markets	1996	-

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

Randy Autrey, Chairman, was elected to the Board in 2011 and resigned from the Board in January 2019. Mr. Autrey has had a lifelong involvement in agriculture. He is a rancher and has a small farm in Torrance County, where he operates cow-calf and stocker cattle operations, Autrey Cattle Company and Starvation Flats. He is also a trustee and the vice-chairman for the Autrey Family Revocable Trust. Mr. Autrey has served in the past on the Torrance County Fair Board, Torrance County USDA Farm Service Agency Advisory Committee, Estancia Basin Water Planning Committee, and Production Credit Association Board of Directors in Albuquerque, New Mexico. He served on the Association's Audit Committee and was the Chairman of the Board until his resignation in January 2019. Mr. Autrey and his wife, Lori, have two sons. Mr. Autrey has been an Ag New Mexico FCS, ACA stockholder since 1983.

Dwayne "Butch" Vidlar, Vice-Chairman, was elected to the Board in 2010. His current term will expire in 2019. He lives and farms near Floyd, New Mexico, and has been a stockholder of the Association since 1977. Mr. Vidlar is the president and secretary of Vidlar Inc., a farming operation. His main crops for the last five years were corn, alfalfa, sorghum, wheat, hay grazer, and some land in the CRP program. He also runs wheat cattle in the winter months. He graduated from New Mexico State University in 1973 and earned a Bachelor of Science degree in Agronomy. He currently serves on the Audit Committee and is also Chairman of the Board.

Larry Hammit, was appointed to the Board in 2012, and his term expires in 2021. Mr. Hammit was born and raised on a farm near Hale Center, Texas. He was employed by the Farm Credit System for 34 years and served as a director for the last six years. Mr. Hammit spent 23 years at Plainview Production Credit Association, the first 10 years as a loan officer, six years as credit supervisor, and the last seven years as credit supervisor, CFO, and executive vice president. His most recent past employment was with Great Plains Ag Credit (an antecedent entity of Ag Texas Farm Credit Association) as CFO, where he was employed for 11 years. Mr. Hammit received his Bachelor of Business Administration in 1973 from Baylor University with a concentration in management and marketing. He is chairman of the Association's Audit Committee. Mr. Hammit currently resides near Canyon, Texas, and owns and operates a small ranch near Memphis, Texas.

Ronnie Harral, served on the Board from 2005 to 2018. Mr. Harral served as Board Chairman and on the Audit Committee until June 2018, when he left the Board. He and his wife, Sharon, live in Corona, New Mexico, and are involved in the livestock business with their son-in-law and daughter, Jeff and Alena Brandenberger, and their son and daughter-in-law, Jerrod and Brittani Harral. He is a partner in 99 Cattle and Harral Partnership, both of which are cattle operations. Mr. Harral holds a bachelor's degree in Ag Business and has been in the cattle business since high school. Mr. Harral has been an Ag New Mexico FCS, ACA stockholder since 1973.

Linda Miller Brown, was elected to the Board in 2013, and her current term will expire in 2019. She serves as chairman of the Association's Risk Management Committee, and is a member of the Audit and Compensation Committees. She also represents Ag New Mexico on the Farm Credit Bank of Texas' Nominating and Stockholders Advisory Committees, and the Tenth District Farm Credit Council. Linda is a lifelong farmer and cattleman. She and her husband, Wesley, farm and ranch in Roosevelt and Guadalupe counties with the help of their son, daughters, and son-in-law. She serves as secretary and director of Traveling Water, Inc., a ranching/cattle operation, and Brown Farms, Inc., a farming operation, owned by her and her husband, and partners with her husband in W L Brown JV, a farming joint venture. Linda has a bachelor's degree in computer science and a master's degree in mathematics. Past experience includes serving on the Roosevelt County FSA County Committee, National Peanut Growers Group Steering Committee, chairman of New Mexico Peanut Growers Association and New Mexico Peanut Commission, Nominating Committees of Roosevelt County FSA and Ag New Mexico. She has been a stockholder since 1984.

Marty Franzoy, was elected to the Board in 2015, and his current term expires in 2020. Mr. Franzoy resides in Hatch, New Mexico. Mr. Franzoy is a farmer and managing partner in Skyline Produce, LLC. He also owns Majestic Farms & Sale Valley Farms, is a partial owner of Moss Equity, LLC, Fran Cuchi LLC, Majestic Properties LLC, is a partner in Cielo Nogal Estates LLC, and B&J, all of which produce or process crops. Crops grown are onions, chilies, alfalfa, wheat, cotton, and pecans. Mr. Franzoy operates 730 acres. Mr. Franzoy earned a Bachelor of Science in Agronomy from New Mexico State University in 1979. Mr. Franzoy currently serves on the Association's Compensation and Audit Committees.

F.T. "Ted" McCollum, III, was appointed to the Board in January 2017 and re-elected to the Board in May 2018. He has served on the Audit, Risk, and Compensation Committees for Ag New Mexico. Currently he serves as Vice Chairman of the Board and Chairman of the Compensation Committee. Since the early 1990's, he has been co-owner of McCollum Cattle Co., along with his brother Mark and sister-in-law Kim McCollum. McCollum Cattle Co. manages cow-calf and stocker/backgrounder operations and feeds cattle. Ted also has ownership interest in the ranching company 4McC Cattle Co., LLC. He is a partner in FCC McCollum LLC, which holds an interest in Frontera Cattle Co. II, LLC, a commercial cattle feeding operation in Muleshoe, Texas, where he serves on the Board and as a member of the management team for feed yard operations. Raised in DeBaca County, New Mexico, Dr. McCollum earned a Bachelor of Arts degree from Baylor University and graduate degrees in Ruminant Nutrition from New Mexico State University. He was on the faculty at Oklahoma State University and recently retired from Texas A&M AgriLife Extension Service in Amarillo, where he worked with the various production segments of the beef industry in northwestern Texas and eastern New Mexico for many years as a beef cattle specialist. He now consults and oversees family business interests. The McCollums have been Ag New Mexico FCS, ACA stockholders since 1979.

Thomas "TJ" Runyan, was elected to the Board in 2018, and his term will expire in 2021. Mr. Runyan resides in Las Cruces, New Mexico, and is a lifelong New Mexico resident. Mr. Runyan has been involved in agriculture his entire life and is a produce marketer working with farmers across New Mexico as well as growers in Texas. His company, Mesilla Valley Produce, markets onions, watermelons, fresh green chilies, and pumpkins. He also has farm ground in Deming, New Mexico, and a small pecan farm. Mr. Runyan has served on several boards, including the National Onion Association and National Watermelon Association, and has also served as a past president of the National Watermelon Promotion Board.

Brett Valentine, President and Chief Executive Officer, joined the Association in August 2015 with over 20 years of credit experience. The majority of his experience is within the Farm Credit System, except for the period from November 2013 to August 2015. During that time, Mr. Valentine was with Rabo Ag Finance in Clovis, New Mexico. He brings a strong credit background along with experience in personnel management. Mr. Valentine holds a Bachelor of Science degree from New Mexico State University.

David Wright, Chief Credit Officer, was employed by the Association in June of 2013. He brings 37 years of agricultural, commercial, energy, and real estate lending experience to the Association. Mr. Wright graduated from the University of Arizona with a Bachelor of Science degree in Corporate Finance and is an honors graduate of the Pacific Coast Banking School (1992) at the University of Washington. Prior to joining the Association, he held senior lending and management positions with First Interstate Bancorp, Wyoming Bancoporation, and Buffalo Federal Savings Bank.

Will Fisher, Chief Financial Officer, is a Certified Public Accountant who joined the Association in November 2017. He holds a Bachelor of Business Administration degree with majors in Accounting and Finance from the University of New Mexico and a Master of Business Administration, also from the University of New Mexico. His audit and accounting background started over 11 years ago. Prior to his Farm Credit experience, Mr. Fisher was an excise tax revenue agent with the Internal Revenue Service.

Shane Hall, Chief Lending Officer, has 19 years of lending experience at Farm Credit of New Mexico, U.S. AgBank, and First American Bank. Hall graduated from New Mexico State University in 1993 with a bachelor's degree in Agricultural Extension and Education. Prior to starting his lending career, he taught agricultural education and coached football. Hall started his lending career in Tucumcari, New Mexico, with Farm Credit of New Mexico. He then was offered, and took, an opportunity to work for U.S. AgBank in Wichita, Kansas, with their Quality Assurance team in 2003. He then came back to New Mexico and joined the Roswell branch of Farm Credit of New Mexico. Then in 2012, he took the opportunity to broaden his base of knowledge and went to work for First American Bank as the Bank Center President of Roswell, New Mexico. Shane has specialized in business development and has worked with all types of credit.

John Logsdon, Senior Vice President – Compliance/Capital Markets, was employed by the Association in 1996 and has been in his current position since December 2011. Prior to 2011, he held the position of Chief Credit Officer at the Association for over 15 years. Mr. Logsdon has been employed with the Farm Credit System in various capacities at the Production Credit Association and Federal Land Bank Association levels since 1978. He holds a Bachelor of Science degree with a major in Agriculture Economics from Oklahoma State University.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium. Directors receive $1,000 for board meetings, $150 for conference calls, and $425 a day for conferences. Monthly retainers are paid to the chairman of the board, vice-chairman of the board, and to the board member designated as the financial expert at a rate of $600, $200, and $600, respectively. In addition, all directors were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2018 was paid at the IRS-approved rate of 54.5 cents per mile. A copy of the travel, subsistence, and other related expenses policy is available to stockholders of the Association upon request.

	Number of Days Servced Associated With		
Director	**Board Meetings**	**Other Official Activities**	**Total Compensation in 2018**
Randy Autrey	12	24	$ 22,600
Dwayne "Butch" Vidlar	11	23	16,250
Ronnie Harral	5	11	13,700
Larry Hammit	12	23	23,350
Linda Miller Brown	11	22	15,425
Marty Franzoy	11	22	16,100
Ted McCollum, III	12	26	18,975
Thomas "TJ" Runyan	6	12	7,700
			$ 134,100

The aggregate compensation paid to directors in 2018, 2017 and 2016 was $134,100, $134,475 and $109,200, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2018:

	Committee			
Director	**Audit**	**Compensation**	**Governance**	**Risk Management**
Randy Autrey	$ 10,600	$ -	$ -	$ -
Dwayne "Butch" Vidlar	2,000	2,000	1,300	-
Larry Hammit	8,500	-	2,800	-
Ronnie Harral	6,500	-	2,200	-
Linda Miller Brown	1,100	1,100	1,100	1,100
Marty Franzoy	1,700	1,700	-	1,700
Ted McCollum, III	2,300	2,300	-	2,300
TJ Runyan	900	-	-	900
	$ 33,600	$ 7,100	$ 7,400	$ 6,000

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $50,249, $43,259, and $131,475 in 2018, 2017 and 2016, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

Overview

The objective of the Association's salary administration program is to attract, develop, retain, and motivate staff that are knowledgeable and efficient in the ability to support the Association in the execution of its strategic objectives and delivery of Association results that maximize the value received by the membership. The board and its Compensation Committee have utilized a philosophy of compensating the Association's employees, including senior officers, based upon market competitive data that provides the basis for equitable compensation to all employees. The Association administers a compensation program that focuses on the individual performance and contributions of its employees and senior officers in working to achieve the Association's financial and operational objectives, all for the ultimate benefit of its membership and fulfillment of its government sponsored enterprise mission.

The Board fully recognizes the relationship between the financial performance of the Association and its ability to reward senior officers and other employees, thus no incentive or bonus plans are funded until the Board is satisfied with year-end financial results. The Board allows input from the Compensation Committee on any bonus plan structure that includes senior officers, but the responsibility for final decisions for the amount, if any, and the timing of the payment of a bonus reside with the Board. The bonus plan is discretionary and based upon the Association's performance for the full year that includes accomplishment of strategic goals, financial expectations, credit administration, and regulatory compliance. All employees, including senior officers, are eligible for consideration of bonus award.

The Board establishes a total dollar pool amount to be used exclusively to fund bonus award payments to Association employees, including senior officers. This pool of dollars is administratively assigned to the CEO for distribution to employees based upon the CEO's assessment of their individual contributions to the Association during the plan's year. Any award is discretionary in amount and recipient.

The Board determines the amount, if any, of bonus award that will be paid to the chief executive officer. The amount of any bonus paid to the CEO is not included in the employees' bonus pool.

The Association's Board of Directors, through its Compensation Committee, establishes annual salary and bonus programs utilizing the services of the human resources compensation team at the Farm Credit Bank of Texas to compile "compensation market data" annually that is used by the Compensation Committee, the Board, and management in establishing salary grades and ranges. The compensation market data reveals salary and bonus levels for similar sized institutions operating in our general geographic area.

The Association uses a structured Business Incentive Plan (the Plan) with the objective of increasing the Association's profitability, while maintaining high credit quality. The Plan is designed to focus each individual's energy and attention to the overall performance of the institution with respect to quality core loan growth and ROA growth. The Plan provides an annual award that is paid after the Association's operational results and strategic business plan objectives are reported and assessed by the Compensation Committee of the Board. The Compensation Committee and Board have the final authority to determine if a Plan award is to be paid. The Plan award was approved by the Compensation Committee and the Board of Directors as of December 31, 2018, and subsequently paid in February 2019. In February 2019, a separate bonus award amount was paid to the CEO, who was evaluated by the Board for his performance and the Association's accomplishments in 2018.

Chief Executive Officer (CEO) Compensation Policy

The Board reserves the right to establish compensation of the Association's CEO/President. The CEO/President had constructive receipt during the course of the year of salary, bonus, and perquisite. The perquisite is the personal use of an Association vehicle, which is discussed in the following paragraphs.

Summary Compensation Table

The following table summarizes the compensation paid to the CEO and all senior officers of the Association during 2018, 2017 and 2016. This may include other non-senior officers if their total compensation is within the top five highest paid employees. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Individual or number in group (a)	Year	Salary (b)	Bonus (c)	Change in Pension Value (d)	Deferred/ Perquisite (e)	Total
Brett Valentine						
President & CEO	2018	**$ 205,027**	**$ 10,000**	**$ -**	**$ 20,396**	**$ 235,423**
	2017	19,506	-	-	1,235	20,741
Frank Shelton	2017	200,292	20,000	-	25,498	245,790
CEO	2016	216,308	20,000	-	24,938	261,246
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable)						
5	2018	**$ 702,670**	**$ 36,425**	**$ (19,188)**	**$ 61,040**	**$ 780,947**
5	2017	646,748	35,000	143,186	60,711	885,645
5	2016	668,719	31,000	100,618	49,504	849,841

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.
(b) Gross salary, including retention plan compensation for certain senior officers.
(c) Bonuses paid within the first 30 days of the subsequent calendar year.
(d) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.
(e) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits and premiums paid for life insurance.

Disclosure of the compensation paid during 2018 to any senior officer or officer included in the table is available and will be disclosed to stockholders of the Association upon request.

Pension Benefits Table

The following table presents the total annual benefit provided from the defined benefit pension plan for the year ended December 31, 2018:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2018
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable)				
1	Farm Credit Bank of Texas Pension Plan	43	$ 1,321,479	$ -

Pension Benefits Table Narrative Disclosure

Certain senior officers and other highly compensated employees of the Association participate in the Farm Credit Bank of Texas Pension Plan (the "Pension Plan"), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation, and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 ("FAC60"). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation items and (ii) "Years of Benefit Service" (not to exceed 35). The present value of the senior officers' accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 59.33. The Pension Plan's benefit formula for the Normal

Retirement Pension assumes that the senior officer is married on the date the annuity begins, that the spouse is exactly two years younger than the senior officer and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

Employees assigned an Association automobile reimburse the Association for personal miles at a board-established rate. Employees who use their personal automobiles for business purposes were reimbursed during 2018 at the IRS-approved rate of 54.5 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation exceeding $5,000 in 2018, 2017, or 2016.

Senior officers, including CEO, are reimbursed for reasonable travel, subsistence, and other related expenses while conducting Association business. A copy of the Association's travel policy is available to shareholders upon request.

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 12 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

During the past five years, none of the Association's officers or directors have been involved in legal proceedings, such as bankruptcy, conviction in criminal proceedings, or under order, or decree, that are material to an evaluation of the ability or integrity of any person who served as a director or senior officer on January 1, 2018, or any time during the fiscal year just ended.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The Association engaged the independent accounting firm of PricewaterhouseCoopers, LLP to perform the annual audit of the Association's consolidated financial statements included in this annual report. During 2018, the Association incurred audit fees totaling $53,472 to PricewaterhouseCoopers, LLP. In addition, PricewaterhouseCoopers, LLP performed tax services for the Association in 2018 as approved by the Association's Audit Committee. The Association incurred tax preparation fees totaling $11,000 to PricewaterhouseCoopers, LLP. In relation to 2018 the Association also incurred $900 in non-audit services which were also as approved by the Association's Audit Committee.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The Association is the sole owner of an unincorporated business entity, ANMFCS, LLC, a limited liability company. This company is used for the purpose of acquiring and managing unusual or complex collateral associated with loan workouts.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers, LLP dated March 13, 2019, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. Our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the Association or its members.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

Consistent with FCA regulations, Ag New Mexico tracks data on loans and members who meet the definition of Young, Beginning, and Small Farmers. Furthermore, the Association's business plan sets out goals for loan volume and activities ascribed to said members. The definition of those groups is as follows:

- **Young Borrowers**—those who are ≤35 years old.
- **Small Borrowers**—those with gross agricultural sales of <$250,000.
- **Beginning Borrowers**—those who have been farming for ≤10 years.

Borrowers may qualify for a designation in more than one category dependent on the aforementioned definitions.

In order to quantify the number of these customers that the Association is servicing, data from the 2012 USDA Agricultural Census (most recent information available) was obtained and the percentage of total operators in the state of New Mexico who meet those definitions was calculated.

The USDA Ag Census, categorizes data in the following ways, which do not exactly match our criteria:

1. **Young**: The census captures data for operators who are "under 25 years", "25-34 years", and "35 to 44 years". Our methodology (and FCA's policy) is to monitor operators who are age 35 and less; however the census data captured will only be up to 34 years.

2. **Beginning**: The census categorizes operators who have been farming for "2 years of less", "3 or 4 years", "5 to 9 years" and "10 years or more" (in addition to many other categories). This is not consistent with the Association's (and FCA's) methodology since the definition of a beginning farmer is one who has been in business for 10 years or less. For the purpose of this analysis, data for 9 years and less will be utilized.

3. **Small**: The census captures various "operation sizes" in *multiple categories* up to $249k in gross revenue or as the census describes, "Market value of agricultural products sold and government payments" whereas the Association and FCA categorizes "small" operations as <$250k. Data up to $249k will be used.

4. The Association percentages are based on loans while the census data is based on number of farms.

Although these slight variations exist, the USDA census data is the most reliable and sound data to compare to. It is the custom of many, if not all, Farm Credit institutions to utilize this data.

The following chart demonstrates the number of farms in the U.S., New Mexico, and Ag New Mexico who fall in the Young, Beginning, and Small demographic groups. There is also a comparison to Ag New Mexico's market share:

	2012 (Most Recent) USDA Census Data National		New Mexico		Ag NM FYE 2018		% of State Ag NM Served
	# of Farms	% of Farms	# of Farms	% of Farms	# of Farms	% of Farms	Market Share
Total	3,180,074		24,721		830		
Young	257,454	12.21%	2,732	11.05%	95	11.45%	3.48%
Beginning	689,034	32.67%	8,033	32.49%	129	15.54%	1.61%
Small	1,854,428	87.92%	23,709	95.91%	295	35.54%	1.24%

Market Share: According to the 2012 Ag Census (this is the latest Ag Census that USDA has conducted as it is only performed every 5 years), there were a total of 23,709 "small" farms in NM with total agricultural sales of <$250,000. Of those, only 3,337 had total agricultural sales of ≥$25,000. The farms with less than $25,000 in gross sales were excluded from the Market Share analysis for the following reasons:

- Even with gross profit margins approaching 100 percent, farms with less than $25,000 in sales do not represent an operation that can be viable above a hobby or supplementary role. This includes 4-H'ers and FFA'ers, as they do not file taxes on these items.
- It is not typical for operators in this category of sales to access traditional credit sources.

Please Note These calculations are the percentage of operators within the respective categories that *Ag New Mexico* is financing. The territory in which Ag New Mexico operates is shared by another FCS association and other commercial and local financing institutions. In order to fully quantify the penetration that the Farm Credit System has in providing service to Y/B/S borrowers in our trade area, the data from both of the respective institutions would have to be considered together.

As previously stated, Ag New Mexico sets goals in its annual business plan relative to Y/B/S volume and growth. Illustrated in the following chart is the Association's loan volume for 2017, the results compared to goals in 2018, as well as its goals for 2019.

	FYE 2017		FYE 2018						FYE 2019	
	Actual Results		Actual Results		Goal (↑ 5%)		#/$ to Goal		Goal (↑ 5%)	
$'s in '000s	*# of Loans*	*Loan Volume*	*# of Loans*	*Loan Volume*	*# of Loans*	*Loan Volume*	*# of Loans*	*Loan Volume*	*# of Loans*	*Loan Volume*
Young	85	$ 21,357	95	$ 27,561	89	$ 22,425	6	$ 5,136	100	$ 28,939
Beginning	122	$ 45,513	129	$ 33,115	128	$ 47,789	1	$ (14,674)	135	$ 34,771
Small	263	$ 50,489	295	$ 55,749	276	$ 53,391	19	$ 2,358	310	$ 58,536
Total	470	$117,359	519	$116,425	493	$123,605	26	$ (7,180)	545	$122,246

YBS statistics are dynamic and ever changing, as there is a constant rate of attrition of qualified borrowers becoming ineligible through age, growth or experience. If an association's emphasis upon YBS is not maintained, the overall YBS portfolio will tend to stagnate and even decline through the impact of attrition alone. The Association's yearend report for YBS loans shows that the Association was able to increase the number of loans made, but the volume remained low due to the commodity prices that the borrowers received was such that they were able to fund many of their expenses from cash on hand. While the pool of YBS candidates in New Mexico and the United States continues to decline due to high capital investment requirements and economies of scale challenges, we believe that our outreach efforts and commitment to serving this segment of New Mexico agriculture will support continued growth in future years.