AG NEW MEXICO, FARM CREDIT SERVICES, ACA

2017
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2017

REPORT OF MANAGEMENT

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

Frank Shelton, Chief Executive Officer
November 9, 2017

Ronnie Harral, Chairman, Board of Directors
November 9, 2017

Jason Felty, Controller
November 9, 2017

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

The following commentary reviews the financial performance of Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended September 30, 2017. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2016 Annual Report to Stockholders.

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

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

Significant Items:

The Association operates under a General Financing Agreement (GFA) with Farm Credit Bank of Texas (FCBT or 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, the Association fell below the minimum Return on Average Assets covenant and was granted a limited waiver of the covenant through March 31, 2018.

The Association and its regulator, FCA, entered into a Supervisory Agreement effective March 20, 2012, which superseded the Supervisory Agreement dated January 20, 2010, and the FCA Supervisory Letters dated June 25, 2009, November 13, 2009, and December 13, 2011.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 the Association was returned to normal supervision by the FCA on January 24, 2017.

During the years 2012 through 2016, the Bank performed various services for the benefit of the Association, which constituted a transfer of capital under the Farm Credit Administration (FCA) regulation 615.5171 (a)(1). The time frame and detail of services and costs are fully disclosed in the 2016 annual report as it pertains to the years 2012 through 2016.

Loan Portfolio:

Total loans outstanding at September 30, 2017, including nonaccrual loans and sales contracts, were $213,290,488 compared to $205,880,761 at December 31, 2016, reflecting an increase of 3.6 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.5 percent at September 30, 2017, compared to 1.4 percent at December 31, 2016.

The Association recorded $11,370 in recoveries and no charge-offs for the quarter ended September 30, 2017, and no recoveries or charge-offs for the same period in 2016. The Association's allowance for loan losses was 0.3 percent and 0.3 percent of total loans outstanding as of September 30, 2017, and December 31, 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. The following table illustrates the Association's components and trends of high-risk assets.

	September 30, 2017		December 31, 2016	
	Amount	**%**	Amount	%
Nonaccrual	**$ 1,020,127**	**39.6%**	$ 2,881,447	62.9%
Formally restructured	**966,702**	**37.6%**	988,579	21.6%
Other property owned, net	**587,400**	**22.8%**	711,480	15.5%
Total	**$ 2,574,229**	**100.0%**	$ 4,581,506	100.0%

Results of Operations:

The Association had net income of $605,328 and $2,265,114 for the three and nine months ended September 30, 2017, as compared to net income of $725,964 and $1,589,371 for the same periods in 2016, reflecting a decrease of 16.6 percent and an increase of 42.5 percent, respectively. Net interest income was $1,403,219 and $4,055,501 for the three and nine months ended September 30, 2017, compared to $1,379,836 and $3,902,798 for the same periods in 2016.

	Nine months ended:			
	September 30, 2017		September 30, 2016	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 209,065,495**	**$ 6,759,437**	$ 201,665,999	$ 6,146,735
Total interest-earning assets	**209,065,495**	**6,759,437**	201,665,999	6,146,735
Interest-bearing liabilities	**181,389,843**	**2,703,936**	174,550,536	2,243,937
Impact of capital	**$ 27,675,652**		$ 27,115,463	
Net interest income		**$ 4,055,501**		$ 3,902,798

	2017 Average Yield	2016 Average Yield
Yield on loans	**4.32%**	4.07%
Total yield on interest-earning assets	**4.32%**	4.07%
Cost of interest-bearing liabilities	**1.99%**	1.72%
Interest rate spread	**2.33%**	2.35%
Net interest income as a percentage of average earning assets	**2.59%**	2.59%

	Nine months ended: September 30, 2017 vs. September 30, 2016		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 225,328**	**$ 387,389**	**$ 612,717**
Total interest income	**225,328**	**387,389**	**612,717**
Interest expense	**87,842**	**372,172**	**460,014**
Net interest income	**$ 137,486**	**$ 15,217**	**$ 152,703**

Interest income for the three and nine months ended September 30, 2017, increased by $207,245 and $612,717, or 9.5 and 10.0 percent respectively, from the same periods of 2016, primarily due to increases in yields on earning assets. Interest expense for the three and nine months ended September 30, 2017, increased by $183,862 and $460,014, or 22.7 and 20.5 percent, from the same periods of 2016 primarily due to an increase in interest rates. Average loan volume the nine months ended September 30, 2017 was $209,065,495, compared to $201,665,999 in the same periods of 2016. The average net interest rate spread on the loan portfolio for the nine months ended September 30, 2017 was 2.33 percent, compared to 2.35 percent in the same period of 2016.

The Association's return on average assets for the nine months ended September 30, 2017, was 1.37 percent compared to 1.00 percent for the same period in 2016. The Association's return on average equity for the nine months ended September 30, 2017, was 8.06 percent, compared to 5.97 percent for the same period in 2016.

Liquidity and Funding Sources:

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

	September 30, 2017	December 31, 2016
Note payable to the bank	**$ 184,573,993**	$ 179,137,450
Accrued interest on note payable	**328,861**	259,252
Total	**$ 184,902,854**	$ 179,396,702

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2018. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of

$184,902,854 as of September 30, 2017, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.17 percent at September 30, 2017. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the General Financing Agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2016, is primarily due to the Association's increase in loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $27,809,623 at September 30, 2017. The maximum amount the Association may borrow from the Bank as of September 30, 2017, was $214,464,676 as defined by the General Financing Agreement. The indebtedness continues in effect until the expiration date of the General Financing Agreement, which is September 30, 2018, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources:

The Association's capital position increased by $2,275,380 at September 30, 2017, compared to December 31, 2016. The Association's debt as a percentage of members' equity was 4.84:1 as of September 30, 2017, compared to 5.02:1 as of December 31, 2016. Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations.

Other:

Agriculture Conditions

Beef cattle and dairy continue to be the two largest portfolio concentrations for the Association's loan portfolio. Nationally, profitability for cattle producers is being driven lower by continued increases in the size of the nation's cattle herd. After earning strong returns during the first half of 2017, cattle feedlots are expected to operate near breakeven for the remainder of the year. While beef production and cattle slaughtered in New Mexico have increased over the third quarter in 2016, the average live weight was down from the previous year. New Mexico's milk production during the July-September quarter was up 5.3 percent from the previous year. Nationally, U.S. milk production during the July-September quarter was up 1.7 percent from the July-September quarter in 2016. Additionally, lower feed and other input costs have greatly benefitted beef and dairy producers.

The mild, dry weather pattern experienced recently continues across much of New Mexico, providing crop producers plenty of time to harvest crops and finish seeding overwintered small grains. Currently, the state is experiencing little drought as only 1.9 percent of the state is in moderate drought conditions and 16.6 percent of the state is in abnormally dry conditions, concentrated along the western border of the state. Cattle producers continue to move their herds to wheat pastures for the winter, with grazing prospects reported to be fairly good in many locations. Statewide, topsoil moisture levels were reported as 82 percent adequate to surplus, compared with 27 percent last year, and a 5-year average of 32 percent. Overall, pasture and range condition was reported as 45 percent good to excellent, compared with 32 percent last year, and a 5-year average of 27 percent. Stock water supplies were reported as 76 percent adequate, and 5 percent surplus.

Corn yield reports were generally favorable, however plantings for 2017/2018 are expected to decline. Usage has recently bumped up, but the increase is expected to be short-lived. Prices in the $3.50 range are expected, with a downward trend, before rebounding next year. Most of our producers are able to break even with the corn prices in the $4.00 range; however, it will depend largely on whether or not input costs also decline. Most of the Ag New Mexico producers have been able to generate profits and re-build financial strength, as well as being the beneficiaries of risk management such as price protection for the near term. Several of the top producers have been able to use hedging and forward contracting to obtain prices in the breakeven range.

Onions, chiles, and other truck garden type crops remain a major portion of the economy in southern New Mexico. This year looks favorable; however, some producers faced adversity in the recent past. Acreage for this year is expected to be reduced, which should strengthen prices; nevertheless, the overall economy has a strong effect on onion prices. The chiles and onion crop appear to be very good.

Pecan production in New Mexico is forecast up 10 percent from the 2016 season. If realized, this will represent the largest pecan production on record.

Significant Recent Accounting Pronouncements:

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

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

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

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled "Presentation of Financial Statements — Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance became effective for interim and annual periods ending after December 15, 2016, and early application was permitted. The Association adopted this guidance in the fourth quarter of 2016 and management made its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on its financial condition or results of operations.

Regulatory Matters:

On March 10, 2016, the Farm Credit Administration approved a final rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that the institutions continue to hold sufficient regulatory capital to fulfill its 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 became effective on January 1, 2017. The Association is in compliance with the required minimum capital standards as of September 30, 2017.

Relationship with the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2016 Annual Report of Association New Model more fully describe the Association's relationship with the Bank.

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

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Ag New Mexico, Farm Credit Services, ACA, 4501 N. Prince St., Clovis, New Mexico 88101 or calling (575) 762-3828. The annual and quarterly stockholder reports for the Association are also available on its website at www.agnewmexico.com. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing jason.felty@farmcreditbank.com.

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Cash	$ -	$ 100,880
Loans	213,290,488	205,880,761
Less: allowance for loan losses	662,785	581,566
Net loans	212,627,703	205,299,195
Accrued interest receivable	3,151,946	2,274,130
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	5,135,395	4,940,470
Other	1,010,927	680,045
Deferred taxes, net	559,153	559,153
Other property owned, net	587,400	711,480
Premises and equipment, net	3,094,078	3,184,450
Other assets	248,384	782,217
Total assets	$ 226,414,986	$ 218,532,020
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ 184,573,993	$ 179,137,450
Advance conditional payments	806,049	56,832
Accrued interest payable	328,839	259,252
Drafts outstanding	9,902	-
Patronage distributions payable	4	450,000
Other liabilities	1,958,297	2,165,964
Total liabilities	187,677,084	182,069,498
MEMBERS' EQUITY		
Capital stock and participation certificates	427,225	396,005
Unallocated retained earnings	38,621,497	36,401,498
Accumulated other comprehensive income (loss)	(310,820)	(334,981)
Total members' equity	38,737,902	36,462,522
Total liabilities and members' equity	$ 226,414,986	$ 218,532,020

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2017	2016	**2017**	2016
INTEREST INCOME				
Loans	**$ 2,398,613**	$ 2,191,368	**$ 6,759,437**	$ 6,146,720
Total interest income	**2,398,613**	2,191,368	**6,759,437**	6,146,720
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**995,394**	811,532	**2,703,936**	2,243,922
Total interest expense	**995,394**	811,532	**2,703,936**	2,243,922
Net interest income	**1,403,219**	1,379,836	**4,055,501**	3,902,798
(NEGATIVE) PROVISION FOR LOAN LOSSES	**(68,246)**	11,955	(2,828)	75,866
Net interest income after provision for loan losses	**1,471,465**	1,367,881	**4,058,329**	3,826,932
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**335,569**	282,330	**1,010,464**	833,459
Loan fees	**61,391**	91,110	**204,575**	213,919
Financially related services income	**475**	723	**1,474**	1,542
(Loss) gain on other property owned, net	**(1,163)**	(4,841)	**14,954**	(22,245)
(Loss) gain on sale of premises and equipment, net	**-**	-	**(2,650)**	42,717
Other noninterest income	**16,208**	17,028	**1,096,867**	74,927
Total noninterest income	**412,480**	386,350	**2,325,684**	1,144,319
NONINTEREST EXPENSES				
Salaries and employee benefits	**829,048**	610,155	**2,366,130**	2,021,440
Directors' expense	**32,379**	35,503	**124,735**	128,396
Purchased services	**64,630**	70,656	**566,111**	202,878
Travel	**66,083**	49,631	**192,002**	154,812
Occupancy and equipment	**75,324**	81,337	**238,850**	220,416
Communications	**7,936**	6,667	**27,210**	16,226
Advertising	**7,793**	9,157	**23,255**	24,283
Public and member relations	**31,216**	25,100	**52,062**	50,308
Supervisory and exam expense	**36,199**	41,542	**127,176**	120,427
Insurance Fund premiums	**60,046**	70,826	**175,489**	184,444
Other noninterest expense	**67,963**	70,213	**225,879**	182,482
Total noninterest expenses	**1,278,617**	1,070,787	**4,118,899**	3,306,112
Income before income taxes	**605,328**	683,444	**2,265,114**	1,665,139
Provision for (benefit from) income taxes	**-**	(42,520)	**-**	75,768
NET INCOME	**605,328**	725,964	**2,265,114**	1,589,371
Other comprehensive income:				
Change in postretirement benefit plans	**3,789**	5,562	**24,161**	16,686
Other comprehensive income, net of tax	**3,789**	5,562	**24,161**	16,686
COMPREHENSIVE INCOME	**$ 609,117**	$ 731,526	**$ 2,289,275**	$ 1,606,057

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2015	$ 354,975	$ 35,120,310	$ (353,126)	$ 35,122,159
Comprehensive income	-	1,589,371	16,686	1,606,057
Preferred Stock Issued				
Capital stock/participation certificates and allocated retained earnings issued	64,170	-	-	64,170
Capital stock/participation certificates and allocated retained earnings retired	(34,960)	-	-	(34,960)
Patronage refunds:				
Cash	-	(384,041)	-	(384,041)
Balance at September 30, 2016	$ 384,185	$ 36,325,640	$ (336,440)	$ 36,373,385
Balance at December 31, 2016	$ 396,005	$ 36,401,498	$ (334,981)	$ 36,462,522
Comprehensive income	-	2,265,114	24,161	2,289,275
Preferred Stock Issued				
Capital stock/participation certificates and allocated retained earnings issued	73,340	-	-	73,340
Preferred Stock retired				
Capital stock/participation certificates and allocated retained earnings retired	(42,120)	-	-	(42,120)
Patronage refunds:				
Cash	-	(45,115)	-	(45,115)
Balance at September 30, 2017	**$ 427,225**	**$ 38,621,497**	**$ (310,820)**	**$ 38,737,902**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

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

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2016, as contained in the 2016 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2016, as contained in the 2016 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2017. Descriptions of the significant accounting policies are included in the 2016 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

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

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

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

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

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." This guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to 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 results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on its financial condition or results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2017, are not necessarily indicative of the results to be expected for the year ended December 31, 2017. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

Effective April 1, 2014, the Bank purchased Ag New Mexico's securitized Farmer Mac Agricultural Mortgage Backed Securities (AMBS) Investments through a Capitalized Participation Pool transaction. The purchase of $9,051,849 included outstanding principal and accrued interest as of that date. There was no gain or loss recognized by the Association on this transaction. The Association will continue to service the underlying loans that were included in this security. Also, to date there has been no effect to Ag New Mexico's income based on this transaction as the Bank has paid the Association a patronage equivalent to the net income it would have earned on the AMBS investment. The amount of patronage received in 2016 was $121,049. The Bank's payment of patronage is at the discretion of the Bank's board of directors.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**September 30, 2017 Amount**	December 31, 2016 Amount
Production agriculture:		
Real estate mortgage	**$ 82,997,523**	$ 74,626,339
Production and intermediate term	**53,008,541**	54,453,882
Agribusiness:		
Loans to cooperatives	**5,893,295**	4,160,927
Processing and marketing	**44,668,471**	41,294,032
Farm-related business	**4,825,957**	9,687,703
Communication	**2,673,527**	3,405,630
Energy	**7,712,526**	10,155,695
Water and waste water	**1,994,185**	1,993,552
Rural residential real estate	**7,495,724**	6,103,001
Lease receivables	**2,020,739**	-
Total	**$ 213,290,488**	$ 205,880,761

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2017:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 6,799,836	$ 24,232,962	$ -	$ -	$ 6,799,836	$ 24,232,962
Production and intermediate term	4,564,965	14,587,349	-	-	4,564,965	14,587,349
Agribusiness	33,977,433	10,936,520	-	-	33,977,433	10,936,520
Communication	2,673,526	-	-	-	2,673,526	-
Energy	7,712,526	-	-	-	7,712,526	-
Water and waste water	1,994,185	-	-	-	1,994,185	-
Lease receivables	2,020,739	-	-	-	2,020,739	-
Total	$ 59,743,210	$ 49,756,831	$ -	$ -	$ 59,743,210	$ 49,756,831

The association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of offset exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is currently not paid by the Association on such balances. Balances of ACPs were $1,394,174 and $468,326 at September 30, 2017, and December 31, 2016, respectively.

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

	September 30, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	**$ 924,129**	$ 1,770,787
Production and intermediate term	**95,998**	1,110,660
Total nonaccrual loans	**1,020,127**	2,881,447
Accruing restructured loans:		
Real estate mortgage	**514,880**	548,470
Production and intermediate term	**451,822**	440,110
Total accruing restructured loans	**966,702**	988,580
Accruing loans 90 days or more past due:		
Total accruing loans 90 days or more past due	**-**	-
Total nonperforming loans	**1,986,829**	3,870,027
Other property owned	**587,400**	711,480
Total nonperforming assets	**$ 2,574,229**	$ 4,581,507

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

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

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

	September 30, 2017		December 31, 2016	
Real estate mortgage				
Acceptable	**96**	%	93	%
OAEM	**3**		3	
Substandard/doubtful	**1**		4	
	100		100	
Production and intermediate term				
Acceptable	**93**		94	
OAEM	**5**		3	
Substandard/doubtful	**2**		3	
	100		100	
Agribusiness				
Acceptable	**99**		99	
OAEM	**1**		1	
Substandard/doubtful	**-**		-	
	100		100	
Energy and water/waste water				
Acceptable	**100**		100	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100		100	
Communication				
Acceptable	**100**		100	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100		100	
Rural residential real estate				
Acceptable	**100**		100	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100		100	
Lease receivables				
Acceptable	**100**		-	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100		-	
Total loans				
Acceptable	**96**		95	
OAEM	**3**		2	
Substandard/doubtful	**1**		3	
	100	%	100	%

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

September 30, 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	**$ 8,744,864**	**$ 924,129**	**$ 9,668,993**	**$ 75,098,530**	**$ 84,767,523**	**$ -**
Production and intermediate term	**298,425**	**95,998**	**394,423**	**53,585,677**	**53,980,100**	**-**
Loans to cooperatives	**-**	**-**	**-**	**5,902,309**	**5,902,309**	**-**
Processing and marketing	**-**	**-**	**-**	**44,942,505**	**44,942,505**	**-**
Farm-related business	**11,491**	**-**	**11,491**	**4,865,101**	**4,876,592**	**-**
Communication	**-**	**-**	**-**	**2,674,147**	**2,674,147**	**-**
Energy	**-**	**-**	**-**	**7,745,117**	**7,745,117**	**-**
Water and waste water	**-**	**-**	**-**	**2,004,407**	**2,004,407**	**-**
Rural residential real estate	**-**	**-**	**-**	**7,520,159**	**7,520,159**	**-**
Lease receivables	**-**	**-**	**-**	**2,029,575**	**2,029,575**	**-**
Total	**$ 9,054,780**	**$ 1,020,127**	**$ 10,074,907**	**$ 206,367,527**	**$ 216,442,434**	**$ -**

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	-
Loans to cooperatives	-	-	-	4,165,919	4,165,919	-
Processing and marketing	-	-	-	41,466,286	41,466,286	-
Farm-related business	-	-	-	9,823,377	9,823,377	-
Communication	-	-	-	3,406,311	3,406,311	-
Energy	-	-	-	10,247,954	10,247,954	-
Water and waste water	-	-	-	2,023,774	2,023,774	-
Rural residential real estate	-	-	-	6,118,857	6,118,857	-
Lease receivables	-	-	-	-	-	-
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.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Real estate mortgage	$ 514,875	$ 548,469	$ -	$ -
Production and intermediate term	451,822	440,110	-	-
Total	$ 966,697	$ 988,579	$ -	$ -

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

Additional impaired loan information is as follows:

	September 30, 2017			December 31, 2016		
	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -
Production and intermediate term	95,998	137,395	215,704	1,110,660	1,163,427	216,070
Total	$ 95,998	$ 137,395	$ 215,704	$ 1,110,660	$ 1,163,427	$ 216,070
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	$1,439,004	$ 1,439,004	$ -	$ 2,319,242	$ 3,360,150	$ -
Production and intermediate term	451,822	474,516	-	440,110	1,311,112	-
Total	$1,890,826	$ 1,913,520	$ -	$ 2,759,352	$ 4,671,262	$ -
Total impaired loans:						
Real estate mortgage	$1,439,004	$ 1,439,004	$ -	$ 2,319,242	$ 3,360,150	$ -
Production and intermediate term	547,820	611,911	215,704	1,550,770	2,474,539	216,070
Total	$1,986,824	$ 2,050,915	$ 215,704	$ 3,870,012	$ 5,834,689	$ 216,070

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

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2017		September 30, 2016		September 30, 2017		September 30, 2016	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Production and intermediate term	289,017	-	-	-	665,103	-	-	-
Total	$ 289,017	$ -	$ -	$ -	$ 665,103	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	$1,445,783	$ 6,521	$1,413,586	$ 6,234	$1,457,026	$ 18,975	$1,802,237	$ 19,066
Production and intermediate term	458,134	5,571	429,070	4,412	449,242	15,424	416,245	12,711
Total	$1,903,917	$ 12,092	$1,842,656	$ 10,646	$1,906,268	$ 34,399	$2,218,482	$ 31,777
Total impaired loans:								
Real estate mortgage	$1,445,783	$ 6,521	$1,413,586	$ 6,234	$1,457,026	$ 18,975	$1,802,237	$ 19,066
Production and intermediate term	747,151	5,571	429,070	4,412	1,114,345	15,424	416,245	12,711
Total	$2,192,934	$ 12,092	$1,842,656	$ 10,646	$2,571,371	$ 34,399	$2,218,482	$ 31,777

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Lease Receivables	Total
Allowance for Credit Losses:								
Balance at June 30, 2017	$ 181,057	$ 273,551	$ 176,673	$ 13,072	$ 56,752	$ 17,814	$ -	$ 718,919
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	11,370	-	-	-	-	-	11,370
Provision for loan losses	(9,139)	(38,389)	(13,848)	(1,025)	(4,449)	(1,396)	-	(68,246)
Other	-	743	-	-	-	-	-	743
Balance at September 30, 2017	$ 171,918	$ 247,275	$ 162,825	$ 12,047	$ 52,303	$ 16,418	$ -	$ 662,786
Balance at December 31, 2016	$ 107,983	$ 228,799	$ 163,621	$ 12,106	$ 52,559	$ 16,498	$ -	$ 581,566
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	64,460	11,369	-	-	-	-	-	75,829
Provision for loan losses	(525)	(1,112)	(796)	(59)	(256)	(80)	-	(2,828)
Other	-	8,219	-	-	-	-	-	8,219
Balance at September 30, 2017	$ 171,918	$ 247,275	$ 162,825	$ 12,047	$ 52,303	$ 16,418	$ -	$ 662,786
Ending Balance:								
Individually evaluated for impairment	$ -	$ 215,704	$ -	$ -	$ -	$ -	$ -	$ 215,704
Collectively evaluated for impairment	171,918	31,571	162,825	12,047	52,303	16,418	-	447,082
Balance at September 30, 2017	$ 171,918	$ 247,275	$ 162,825	$ 12,047	$ 52,303	$ 16,418	$ -	$ 662,786
Balance at June 30, 2016	$ 107,364	$ 203,018	$ 104,664	$ 7,744	$ 33,620	$ 10,554	$ -	$ 466,964
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(26,867)	21,978	11,259	833	3,617	1,135	-	11,955
Other	-	(2,770)	-	-	-	-	-	(2,770)
Balance at September 30, 2016	$ 80,497	$ 222,226	$ 115,923	$ 8,577	$ 37,237	$ 11,689	$ -	$ 476,149
Balance at December 31, 2015	$ 762,906	$ 187,289	$ 98,919	$ 7,319	$ 31,775	$ 9,974	$ -	$ 1,098,182
Charge-offs	(699,852)	-	-	-	-	-	-	(699,852)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	17,443	32,984	17,004	1,258	5,462	1,715	-	75,866
Other	-	1,953	-	-	-	-	-	1,953
Balance at September 30, 2016	$ 80,497	$ 222,226	$ 115,923	$ 8,577	$ 37,237	$ 11,689	$ -	$ 476,149
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	80,497	222,226	115,923	8,577	37,237	11,689	-	476,149
Balance at September 30, 2016	$ 80,497	$ 222,226	$ 115,923	$ 8,577	$ 37,237	$ 11,689	$ -	$ 476,149

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Lease Receivables	Total
Recorded Investments in Loans Outstanding:								
Ending Balance at September 30, 2017	$84,767,524	$ 53,980,100	$ 55,721,405	$ 2,674,147	$ 9,749,524	$ 7,520,159	$2,029,575	$216,442,434
Individually evaluated for impairment	$ 1,439,004	$ 547,820	$ -	$ -	$ -	$ -	$ -	$ 1,986,824
Collectively evaluated for impairment	$83,362,316	$ 53,432,280	$ 55,721,405	$ 2,674,147	$ 9,749,524	$ 7,520,159	$2,029,575	$214,489,406
Ending Balance at September 30, 2016	$77,487,312	$ 49,204,390	$ 63,284,153	$ 3,326,460	$ 13,695,534	$11,701,520	$ -	$218,699,369
Individually evaluated for impairment	$ 1,406,177	$ 439,234	$ -	$ -	$ -	$ -	$ -	$ 1,845,411
Collectively evaluated for impairment	$76,081,135	$ 48,765,156	$ 63,284,153	$ 3,326,460	$ 13,695,534	$11,701,520	$ -	$216,853,958

NOTE 4 — CAPITAL:

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

Regulatory Capitalization Requirements

Effective January 1, 2017, the regulatory capital requirements for System banks and associations were modified. The new regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect.

The Association's ratios were as follows:

Risk-adjusted:	**Regulatory Minimums**	**Conservation Buffer**	**Total**	**As of September 30, 2017**
Common equity tier 1 ratio	4.50%	2.50%	7.00%	15.61%
Tier 1 capital ratio	6.00%	2.50%	8.50%	15.61%
Total capital ratio	8.00%	2.50%	10.50%	15.97%
Permanent capital ratio	7.00%	0.00%	7.00%	15.67%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	15.05%
UREE leverage ratio	1.50%	0.00%	1.50%	16.06%

*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.

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 stock 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, 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 minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary bonus payments to senior officers 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 September 30, 2017:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Regulatory capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**37,637,045**	**37,637,045**	**37,637,045**	**37,637,045**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**418,405**	**418,405**	**418,405**	**418,405**
Allowance for loan losses and reserve for credit losses subject to certain limitations			**755,978**	
Regulatory Adjustments and Deductions:				
Amount of investments in other System institutions	**(5,007,611)**	**(5,007,611)**	**(5,007,611)**	**(5,007,611)**
	33,047,839	33,047,839	33,803,817	33,047,839
Denominator:				
Risk-adjusted assets excluding allowance	**216,686,810**	**216,686,810**	**216,686,810**	**216,686,810**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(5,007,611)**	**(5,007,611)**	**(5,007,611)**	**(5,007,611)**
Allowance for loan losses				**(725,630)**
	211,679,199	211,679,199	211,679,199	210,953,569

The components of the Association's non-risk-adjusted capital, based on 90 day average balances, were as follows at September 30, 2017:

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**37,637,045**	**37,637,045**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**418,405**	**-**
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(5,007,611)**	**(2,379,200)**
Other regulatory required deductions	**-**	**-**
	33,047,839	**35,257,845**
Denominator:		
Total Assets	**224,582,833**	**224,582,833**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(5,007,611)**	**(5,007,611)**
	219,575,222	219,575,222

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

Accum Other Comp Income (Loss)			
September 30, 2017	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ 314,923**	**$ (4,103)**	**$ 310,820**
Total	**314,923**	**(4,103)**	**310,820**

September 30, 2016	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ 336,440	$ -	$ 336,440
Total	336,440	-	336,440

The Association's accumulated other comprehensive income (loss) relates entirely to its non-pension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2017	2016
Accumulated other comprehensive income (loss) at January 1	**$ (334,981)**	$ (353,126)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(11,130)**	(11,127)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**31,188**	27,813
Income tax expense related to items of other comprehensive income	**4,103**	-
Other comprehensive income (loss), net of tax	**24,161**	16,686
Accumulated other comprehensive income at September 30	**$ (310,820)**	$ (336,440)

NOTE 5 — INCOME TAXES:

The Association conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. The Association operates 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 dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 to the 2016 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

September 30, 2017	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 728,594**	**$ 728,594**
Other property owned	**-**	**-**	**652,667**	**652,667**

December 31, 2016	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$2,665,377	$ 2,665,377
Other property owned	-	-	790,533	790,533

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

Valuation Techniques

As more fully discussed in Note 14 to the 2016 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2016 Annual Report to Stockholders.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities are classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services, pricing models that utilize observable inputs or discounted cash flows. Generally, these securities are classified as Level 2. This would include U.S. Treasury and certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-backed securities and certain mortgage-backed securities, including private label-FHA/VA securities and those issued by Farmer Mac.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans Evaluated for Impairment

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

Other Property Owned

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

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	2017	2016
Service cost	**$ 12,071**	$ 9,956
Interest cost	**44,870**	29,792
Amortization of prior service (credits) costs	**(11,130)**	(7,420)
Amortization of net actuarial (gain) loss	**22,490**	18,542
Net periodic benefit cost	**$ 68,301**	$ 50,870

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2017, was $1,351,528 and is included in "Other Liabilities" in the balance sheet.

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2016, that it expected to contribute $51,442 to the district's defined benefit pension plan in 2017. As of September 30, 2017, the full contribution had been made. The Association presently does not anticipate additional contributions to fund the defined benefit pension plan.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 9, 2017, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 9, 2017.