FARM CREDIT
OF NEW MEXICO

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FARM CREDIT OF NEW MEXICO 2019 ANNUAL REPORT

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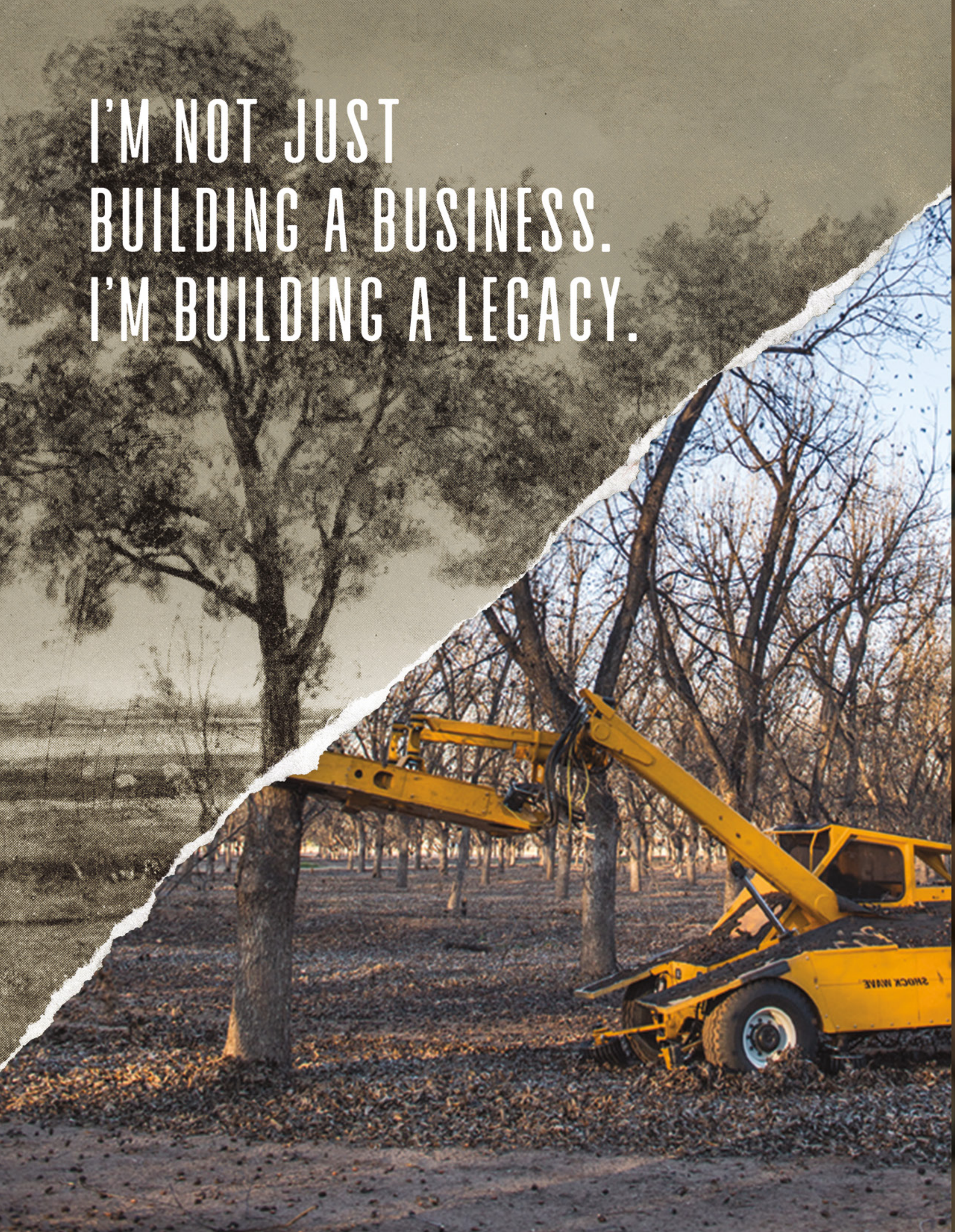
BUILDING ON TRADITION.



I'M NOT JUST BUILDING A BUSINESS. I'M BUILDING A LEGACY.

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2019 ANNUAL REPORT

LETTER TO STOCKHOLDERS

FARM CREDIT OF NEW MEXICO

To Our Stockholders:

On behalf of the Board of Directors and Association staff, I am pleased to present the 2019 Annual Report, which focuses on the financial condition of Farm Credit of New Mexico, ACA. We have achieved strong financial results and taken steps forward to increase our ability to serve you – our stockholders, owners, and customers more efficiently and effectively. I encourage you to review the contents of the report and contact us if you have any questions.

FINANCIAL HIGHLIGHTS: Farm Credit of New Mexico had a very profitable year with net income of $30.1 million, which is almost a $1.4 million increase from 2018 earnings.

In 2019, the earnings reflect an increase primarily due to the $4.1 million growth in net interest income. Strong earnings contribute to the overall capital position of the Association, which strengthens the Association's financial foundation. Your Association's financial position facilitates our ability to be a stabilizing force and a reliable source of capital in times of opportunity and challenges within the agricultural industry we proudly serve.

The Board of Directors is very pleased to report the Association achieved its financial goals in 2019; and based on this achievement has declared a 2019 cash patronage refund of $11.8 million to eligible shareholders. On average, the 2019 refund will reduce each eligible member's effective interest rate by approximately 0.75%. We have proudly returned $119.5 million back to our shareholders/members since the inception of our patronage program in 2005. After distribution of the patronage, the Association's capital position will remain in excess of 21.20%. As in past years, we expect to send the patronage refunds prior to March 31, 2020. The overall financial strength of the Association, including loan portfolio health, remains strong.

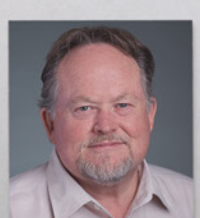
TRENDS: During 2019, the Association's average outstanding accrual loan volume increased $99.7 million, or 6.06%. The increase was mainly due to a well-established market presence and the marketing efforts of the staff, resulting in $263.4 million in new loan volume. At year-end, the combined Association staff was responsible for servicing 2,177 loans with an average outstanding loan volume of more than $1.76 billion. Year-end loan volume was $1.86 billion of which 93.79% was classified acceptable loan volume (includes special mention). Nonaccrual loans as a percentage of our loan portfolio volume increased from 0.99% in 2018 to 2.17% as of year-end 2019. As anticipated, our credit quality declined slightly due to profitability challenges experienced by some of our customers in certain agricultural segments. This decline did not materially affect our financial performance. We anticipate credit quality improvements in 2020.

GOALS: Three of the most important goals of your Board of Directors are to (1) improve our customer experience with increased speed of delivery and efficiency in process, (2) return a portion of the Association's earnings to its shareholders through a cash patronage refund and (3) maintain a strong capital position which enables our financial stability.

LOCATIONS: The Association maintains full-time lending offices in Albuquerque, Las Cruces, Roswell, Clovis and Tucumcari as well as a part-time office in Clayton. We believe our presence in these local communities supports our agricultural producers and rural economies in New Mexico.

Finally, we remain steadfast in our commitment to agriculture, maintaining our expertise and understanding of agricultural operations including your individual customer needs. We want to assure you we are stronger than ever to support you through the ups and downs of the ag economy. We value your business and continued support of Farm Credit of New Mexico. With this in mind, we would like to extend a special 'thank you' for partnering with us and making us an important part of the New Mexico economy. It is an honor to serve you.

Sincerely,



Alan Feit, President & Chief Executive Officer

SENIOR OFFICERS (L-R)

CLINT BOWER
Senior Vice President
Chief Business Development Officer

ALAN FEIT
President
Chief Executive Officer

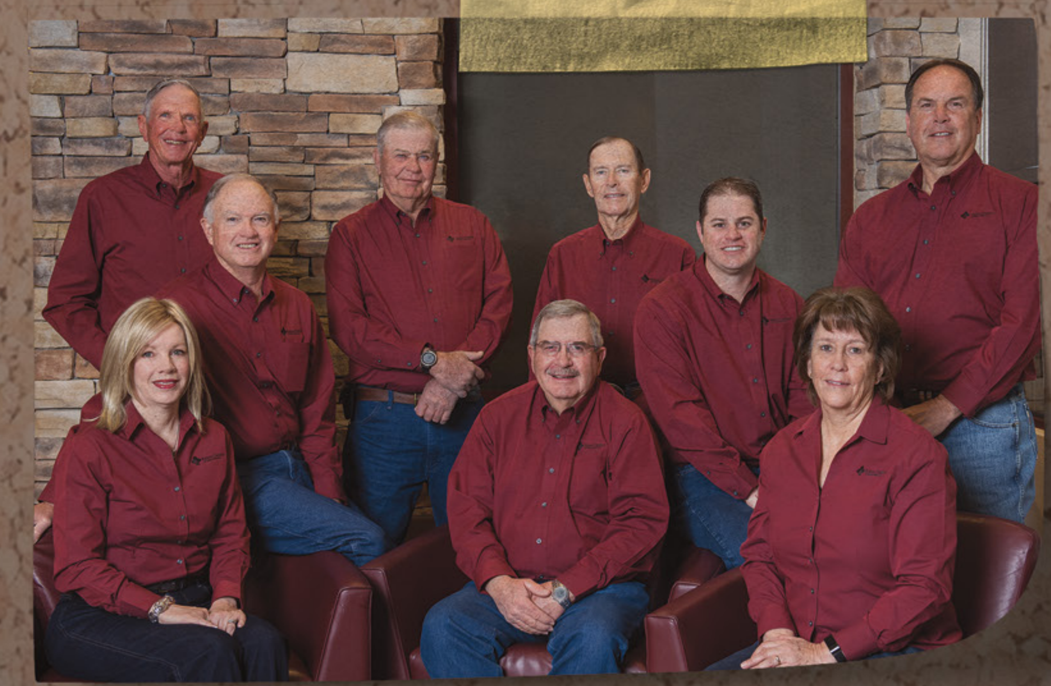
TROY LOCK
Senior Vice President
Chief Operations Officer

BEVERLY GABALDON
Senior Vice President
Chief Financial Officer

ALAN PEDERSEN
Senior Vice President
General Counsel ,
Standards of Conduct Officer

KEVIN KUPER
Senior Vice President
Chief Credit Officer

BOARD OF DIRECTORS



SEATED (L-R): Hilaire Mowduk, Scott Shafer, James Duffey, Jonathan Vander Dussen, Danita Agar
STANDING (L-R): Jim Hyatt, Martin Sweetser, Wess Wells, Tom Drake
MISSING FROM PHOTO: Mike Marley

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2019	2018	2017	2016	2015
Statement of Condition Data					
Loans	**$1,860,994**	$1,728,155	$1,649,572	$1,644,229	$1,514,360
Less allowance for loan losses	**14,823**	12,390	10,828	11,370	7,506
Net loans	**1,846,171**	1,715,765	1,638,744	1,632,859	1,506,854
Investment in CoBank, ACB	**58,689**	54,260	51,972	50,235	44,453
Other property owned	**8**	54	620	687	749
Other assets	**56,082**	55,693	49,986	48,712	41,275
Total assets	**$1,960,950**	$1,825,772	$1,741,322	$1,732,493	$1,593,331
Obligations with maturities of one year or less	**$ 29,441**	$ 37,445	$ 31,752	$ 26,600	$ 27,083
Obligations with maturities longer than one year	**1,509,682**	1,383,519	1,322,517	1,337,103	1,211,029
Reserve for unfunded commitments	**309**	242	210	434	-
Total liabilities	**1,539,432**	1,421,206	1,354,479	1,364,137	1,238,112
Protected borrower stock	**-**	-	-	3	3
Capital stock	**1,238**	1,215	1,187	1,211	1,206
Unallocated retained earnings	**422,356**	404,081	386,186	367,667	354,079
Accumulated other comprehensive income/(loss)	**(2,076)**	(730)	(530)	(525)	(69)
Total shareholders' equity	**421,518**	404,566	386,843	368,356	355,219
Total liabilities and shareholders' equity	**$1,960,950**	$1,825,772	$1,741,322	$1,732,493	$1,593,331

	For the Year Ended December 31				
	2019	2018	2017	2016	2015
Statement of Income/(Expense) Data					
Net interest income	**$ 50,730**	$ 46,635	$ 42,587	$ 41,379	$ 37,455
Patronage distribution from Farm Credit institutions	**6,136**	7,160	6,296	6,679	5,575
(Provision for credit losses)/Credit loss reversal	**(2,500)**	(2,197)	(442)	(4,319)	312
Noninterest expense, net	**(24,167)**	(22,776)	(20,300)	(20,432)	(17,864)
(Provision for)/Benefit from income taxes	**(119)**	(102)	45	(338)	(293)
Net income	**$ 30,080**	$ 28,720	$ 28,186	$ 22,969	$ 25,185
Comprehensive income	**$ 28,734**	$ 28,520	$ 28,181	$ 22,513	$ 25,357

	2019	2018	2017	2016	2015
Key Financial Ratios					
For the Year					
Return on average assets	**1.63%**	1.66%	1.69%	1.42%	1.72%
Return on average shareholders' equity	**7.16%**	7.13%	7.35%	6.33%	7.15%
Net interest income as a percentage of average earning assets	**2.89%**	2.83%	2.68%	2.68%	2.69%
Net charge-offs as a percentage of average net loans	-	0.04%	0.08%	<0.01%	-
At Year End					
Shareholders' equity as a percentage of total asset	**21.50%**	22.16%	22.22%	21.26%	22.29%
Debt as a ratio to shareholders' equity	**3.65:1**	3.51:1	3.50:1	3.70:1	3.49:1
Allowance for loan losses as a percentage of loans	**0.80%**	0.72%	0.66%	0.69%	0.50%
Common equity tier 1 (CET1) capital ratio	**21.04%**	21.52%	21.77%	N/A	N/A
Tier 1 capital ratio	**21.04%**	21.52%	21.77%	N/A	N/A
Total regulatory capital ratio	**21.82%**	22.16%	22.40%	N/A	N/A
Tier 1 leverage ratio	**20.01%**	20.38%	20.62%	N/A	N/A
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	**21.69%**	22.04%	22.28%	N/A	N/A
Permanent capital ratio	**21.20%**	21.66%	21.90%	20.97%	21.89%
Total surplus ratio	**N/A**	N/A	N/A	20.90%	21.81%
Core surplus ratio	**N/A**	N/A	N/A	20.88%	21.69%
Net Income Distribution					
Cash patronage distributions paid	**$ 10,825**	$ 9,667	$ 9,381	$ 8,778	$ 8,094
Cash patronage declared	**$ 11,805**	$ 10,825	$ 9,667	$ 9,381	$ 8,778

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit of New Mexico, ACA (Association) for the year ended December 31, 2019. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, footnotes and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- Business Overview
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.farmcreditnm.com, or upon request. We are located at 5651 Balloon Fiesta Parkway, N.E., Albuquerque, New Mexico 87113 or may be contacted by calling (505) 884-1048.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

We are one of 68 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of all counties in the state of New Mexico, with the exception of San Juan County in the far northwest corner of the state. The counties in our territory are listed in Note 1 of the accompanying consolidated financial statements. We make long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses, and production and intermediate-term loans for agricultural production or operating purposes. Additionally, we provide other related services to our borrowers, such as credit life insurance, multi-peril crop and crop hail insurance, leasing, fee appraisals, advance conditional payment accounts, and information technology products and services.

As part of the System, we obtain the funding for our lending and operations from a Farm Credit Bank. Our funding bank, CoBank, ACB (CoBank), is a cooperative of which we are a member. CoBank, its related associations, and AgVantis, Inc. (AgVantis) are referred to as the District.

We, along with the borrower's investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 5651 Balloon Fiesta Parkway, N.E., Albuquerque, New Mexico 87113 or by calling (505) 884-1048 or (800) 451-5997. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. We entered into a new agreement effective January 1, 2019, that was scheduled to expire on December 31, 2021. However, a revised service agreement was signed effective January 1, 2020 and will expire on December 31, 2022. We are a shareholder in AgVantis, along with other AgVantis customers. Farm Credit Foundations, a human resource shared service provider for a number of Farm Credit institutions, provides administration for our payroll and benefits and may provide related human resource offerings.

The Association is the sole owner of two unincorporated business entities. FCNM Holdings, LLC, is a limited liability company used for the purpose of acquiring and managing other property owned at the conclusion of certain loan settlement agreements. Farm Credit Solutions, LLC is a limited liability company used for the purpose of information technology products and services sold.

ECONOMIC OVERVIEW

During 2019, economic conditions in our region continued to slow. The beneficial impacts from a snowy winter and cool and wet spring combined with a disappointing summer monsoon season led to drought conditions lessening marginally throughout the year. Currently, areas showing no drought conditions are at 53% compared to a year ago when no drought conditions were evident in just 26% of the state.

Dairy Operations have shown an increase in volume since year-end 2018. The portfolio concentration represents 27.99% or $528.4 million of the ACA portfolio as of December 31, 2019. This represents an increase of 6.85% since December 31, 2018. Milk prices for 2019 were on an increasing trend, averaging $18.15/cwt for Class III milk through October with the Southwest Uniform price averaging $17.23/cwt through December. Following increases in the first half of the year, we have seen sharp weakening in the producer price differential pricing, which does place pressure on the net milk price producers receive. Current milk/feed margins (from October 2019) are $10.88 (up from $7.71/cwt in January) as calculated by the Farm Service Agency, using the new Dairy Margin Coverage (DMC) program. The 12 month rolling average (11/2018 - 10/2019) milk/feed margin is $8.97/cwt. The 2018 and 2017 average milk/feed margins were $7.53/cwt and $9.80/cwt, respectively. During the fourth quarter, slight profits were incurred in most operations as a result of the current milk prices, feed costs, and general expenses associated with operating a dairy.

Cow/Calf Operations represented 19.89% or $377.3 million of the ACA portfolio as of December 31, 2019 as compared to the year-end 2018 figure of $369.9 million for 20.85%. An increase of $7.4 million in this industry has occurred for the year. Alfalfa Operations represented 8.25% or $156.5 million of the ACA portfolio as of December 31, 2019. This is an increase of $23.0 million from December 31, 2018 when this segment was $133.5 million or 7.52% of the total volume.

The real estate market during 2019 continues to show stability in terms of prices paid on "typical" farm and ranch sectors. In some sectors, there were fewer transactions occurring, while other sectors exhibited more activity. Overall, the farm and ranch markets are still considered typical and stable. "Typical" in this context refers to a property that was purchased with a highest and best use considered agricultural in nature. The dairy market is expected to have continued concerns due to slow market activity; however, stable feed costs and slightly higher milk prices have provided some relief.

Over the last few years, our pension expense has been decreasing; however, due to certain assumptions utilized in estimating plan expenses, our 2020 pension expense is anticipated to increase significantly.

The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law on December 20, 2018. This new Farm Bill will govern an array of federal farm and food programs, including commodity price support payments, farm credit, conservation programs, research, rural development and foreign and domestic food programs for five years through 2023. The new Farm Bill continues to provide support for crop insurance programs and commodity support programs, strengthen livestock disaster programs, and provides dairy producers with an updated voluntary margin protection program that will provide additional risk management options to dairy operations. The Farm Bill also clarifies the Insurance Corporation's authority, role and procedures for acting as a conservator or receiver of a troubled System institution. The Farm Bill provides a range of statutory options to the Insurance Corporation including, but not limited to, marshalling and liquidating assets, satisfying claims of creditors and using interim devices such as bridge banks. Many provisions of the Farm Bill will require the United States Department of Agriculture (USDA) to develop rules and procedures to fully implement these authorities. The timing for the issuance of those rules is uncertain.

LOAN PORTFOLIO

Total loans outstanding were $1.86 billion at December 31, 2019, an increase of $132.8 million, or 7.7%, from loans at December 31, 2018 of $1.73 billion, and an increase of $211.4 million, or 12.8%, from loans at December 31, 2017 of $1.65 billion. The increase in loans was due to new loans, loan advances with existing customers and draws on lines of credit, primarily relating to production and intermediate-term loans as well as new real estate mortgage loans. The types of loans outstanding at December 31 are reflected in the following table.

(dollars in thousands)	**2019** Volume	**2019** Percent	2018 Volume	2018 Percent	2017 Volume	2017 Percent
Real estate mortgage loans	**$ 1,100,603**	**59.1%**	$ 1,042,314	60.3%	$1,008,613	61.1%
Production and intermediate-term loans	**514,486**	**27.6%**	461,559	26.7%	395,174	24.0%
Agribusiness loans	**202,287**	**10.9%**	193,254	11.2%	204,024	12.4%
Rural infrastructure loans	**38,217**	**2.1%**	26,222	1.6%	36,372	2.2%
Agricultural export finance loans	**3,455**	**0.2%**	2,455	0.1%	2,455	0.1%
Rural residential real estate loans	**1,946**	**0.1%**	2,351	0.1%	2,934	0.2%
Total	**$ 1,860,994**	**100.0%**	$ 1,728,155	100.0%	$1,649,572	100.0%

Real estate mortgage loans outstanding increased 5.6% to $1.10 billion, compared with $1.04 billion at year-end 2018, primarily due to increased lending in the cow/calf and dairy farm industries. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies.

The production and intermediate-term loans increased 11.5% to $514.5 million, compared with 2018 loans of $461.6 million, primarily due to new loans and advances on lines of credit. Production loans are used to finance the ongoing operating needs of agricultural producers and generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years. Our production and intermediate-term loan portfolio shows some seasonality. Borrowings increase throughout the planting and growing seasons to meet farmers' operating and capital needs. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs.

Increases were also noted in agribusiness and rural infrastructure loan volume, where the majority of loan volume was due to loan participations. At December 31, 2019 approximately 83.3% of agribusiness, and 100% of rural infrastructure and agricultural export finance volume were a result of loan participations.

Portfolio Diversification

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by loan participations purchased and sold, geographic locations served, commodities financed and loan size as illustrated in the following four tables.

We purchase loan participations and lease participations from other System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System entities to reduce risk and comply with lending limits we have established.

Our volume of participations purchased and sold as of December 31 follows.

(dollars in thousands)	**2019**	2018	2017
Participations purchased	**$ 316,639**	$ 261,935	$ 277,268
Participations sold	**$ 425,290**	$ 488,530	$ 462,431

We have no loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in the loans sold.

The geographic distribution of loans by county at December 31 follows. As previously mentioned we purchase loan participations outside our territory, which are included in Other in the following table.

	2019	2018	2017
Chaves	**15.87%**	17.39%	15.97%
Curry	**11.03%**	11.02%	9.99%
Dona Ana	**10.22%**	11.19%	11.11%
Roosevelt	**8.56%**	8.69%	8.56%
Eddy	**5.51%**	4.58%	5.08%
Santa Fe	**2.37%**	2.21%	2.35%
Valencia	**2.32%**	1.46%	1.42%
Lincoln	**1.74%**	1.81%	1.65%
Lea	**1.72%**	1.85%	1.80%
Socorro	**1.57%**	0.84%	0.86%
Quay	**1.49%**	1.41%	1.23%
Torrance	**1.38%**	1.47%	1.15%
San Miguel	**1.25%**	1.14%	1.41%
Otero	**1.08%**	0.93%	0.85%
Cibola	**0.97%**	0.91%	0.99%
Luna	**0.86%**	1.09%	1.14%
Sierra	**0.82%**	0.81%	0.61%
Bernalillo	**0.67%**	0.74%	0.86%
Other – Inside loans service area	**4.47%**	4.27%	4.49%
Other – Outside loans service area	**26.10%**	26.19%	28.48%
Total	**100.00%**	100.00%	100.00%

We are party to a Territorial Approval Agreement (Agreement) with other associations in the states of Oklahoma, Colorado, Kansas and New Mexico. The Agreement eliminates territorial restrictions and allows associations that are a party to the Agreement to make loans in any other association's territory regardless of a borrower's place of residence, location of operations, location of loan security or location of headquarters. This Agreement can be terminated upon the earlier to occur of:

1) the time when all but one association has withdrawn as a party to the Agreement, or
2) December 31, 2025, or
3) when requested by FCA.

Additionally, we have a Reciprocal Territorial Approval Agreement (Reciprocal Agreement) with Ag New Mexico Farm Credit Services, ACA (Ag New Mexico). This Reciprocal Agreement allows us to make commercial loans in Ag New Mexico's territory and allows Ag New Mexico to make mortgage loans in our territory. The Reciprocal Agreement may be terminated at the mutual consent of both parties.

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System (SIC) published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, a large percentage of agricultural operations typically includes more than one commodity.

SIC Category	December 31 **2019**	2018	2017
Dairy	**28.42%**	27.86%	26.00%
Cow/Calf	**19.89%**	20.85%	19.49%
Alfalfa	**8.25%**	7.52%	8.01%
Pecans	**7.21%**	6.58%	6.68%
Cash Grains	**5.66%**	6.57%	6.79%
Ag Services	**4.24%**	4.19%	3.94%
Stockers	**2.92%**	1.65%	2.67%
Feedlots	**2.49%**	3.31%	3.78%
Hunting/Game Propagation	**2.22%**	2.55%	2.66%
Forestry	**1.85%**	1.63%	0.92%
Farm Supplies	**1.80%**	1.54%	1.55%
Vegetables & Melons	**1.44%**	2.22%	2.29%
Other	**13.61%**	13.53%	15.22%
Total	**100.00%**	100.00%	100.00%

Our loan portfolio contains a concentration of dairy and cow/calf producers. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral, which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers, which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy. Of our outstanding loan volume at December 31, 2019, 67.06% consists of borrowers with income not solely from agricultural sources, an increase from 65.35% for 2018, and 63.56% for 2017.

The loans outstanding at December 31, 2019 for loans $250 thousand or less accounted for 5.0% of loan volume and 53.1% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loans outstanding by dollar size at December 31 for the last three years.

	2019		2018		2017	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 92,351**	**1,157**	$ 86,797	1,105	$ 87,414	1,118
$251 - $500	**111,544**	**316**	105,245	298	111,564	311
$501 - $1,000	**198,349**	**272**	191,973	262	168,163	227
$1,001 - $5,000	**817,758**	**353**	774,110	340	772,239	347
$5,001 - $25,000	**614,644**	**78**	542,811	64	482,131	64
$25,001 – $100,000	**26,348**	**1**	27,219	1	28,061	1
Total	**$ 1,860,994**	**2,177**	$ 1,728,155	2,070	$ 1,649,572	2,068

Approximately 12.8% of our loans outstanding is attributable to ten (10) borrowers. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

The credit risk of some long-term real estate loans has been reduced by entering into agreements that provide long-term standby commitments by Federal Agricultural Mortgage Corporation (Farmer Mac) to purchase the loans in the event of default. The amount of loans subject to these Farmer Mac credit enhancements was $194.9 million at December 31, 2019, $189.2 million at December 31, 2018 and $184.4 million at December 31, 2017. Included in other operating expenses were fees paid for these Farmer Mac commitments totaling $809 thousand in 2019, $753 thousand in 2018 and $779 thousand in 2017. Under the Farmer Mac long-term standby commitment to purchase agreements, we continue to hold the loans in our portfolio, and we pay commitment fees to Farmer Mac for the right to put a loan designated in these agreements to Farmer Mac at par in the event the loan becomes significantly delinquent (typically four months past due). If the borrower cures the default, we must repurchase the loan and the commitment remains in place. Farmer Mac long-term standby commitments to purchase agreements are further described in Note 3. Other than the contractual obligations arising from these business transactions with Farmer Mac, Farmer Mac is not liable for any debt or obligation of ours and we are not liable for any debt or obligation of Farmer Mac. For more information on Farmer Mac, refer to their website at www.farmermac.com.

Credit guarantees with government agencies of $35.5 million at year-end 2019, $28.2 million at year-end 2018 and $19.2 million at year-end 2017 were outstanding.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated 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. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2019.

(dollars in thousands)	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Over 5 years**	**Total**
Commitments to extend credit	$ 186,744	$ 142,788	$ 168,213	$ 117,384	$ 615,129
Standby letters of credit	3,796	1,568	42	–	5,406
Commercial letters of credit	–	60	–	–	60
Total commitments	$ 190,540	$ 144,416	$ 168,255	$ 117,384	$ 620,595

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 Consolidated Statement of Condition 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 we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. We consider potential losses related to unfunded commitments, and a reserve for unfunded commitments is included in the liabilities section of the Consolidated Statement of Condition. The related provision for the reserve for unfunded commitment is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income.

High Risk Assets

Nonperforming loan volume is comprised of nonaccrual loans, restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Comparative information regarding high risk assets in the portfolio, including accrued interest, follows:

(dollars in thousands)	**2019**	2018	2017
Nonaccrual loans:			
Real estate mortgage	**$ 12,627**	$ 1,727	$ 10,242
Production and intermediate-term	**27,429**	15,216	11,352
Agribusiness	**212**	184	–
Rural residential real estate	**56**	–	27
Total impaired loans	**40,324**	17,127	21,621
Other property owned	**8**	54	620
Total high risk assets	**$ 40,332**	$ 17,181	$ 22,241
Nonaccrual loans to total loans	**2.17%**	0.99%	1.31%
Impaired loans to total loans	**2.17%**	0.99%	1.31%
High risk assets to total loans	**2.17%**	0.99%	1.35%
High risk assets to total shareholders' equity	**9.57%**	4.25%	5.75%

We had no loans classified as restructured or 90 days past due still accruing interest for the years presented.

Total high risk assets increased $23.2 million, or 134.7%, to $40.3 million at December 31, 2019 compared with year-end 2018. Contributing to the increase in our high risk assets were loans to borrowers adversely impacted by commodity price volatility and higher farm input costs in the current agricultural environment and borrowers who were adversely impacted due to stress in the general economy.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume increased $23.2 million compared with December 31, 2018 due to loans related to dairy, cash grains and alfalfa. Two customers comprise nearly 80% of total nonaccrual volume at December 31, 2019. The following table provides additional information on nonaccrual loans as of December 31 for the last three fiscal years.

(dollars in thousands)	**2019**	2018	2017
Nonaccrual loans current as to principal and interest	**$ 22,039**	$ 13,545	$ 5,118

For the years presented, we had no cash basis nonaccrual loans and no restructured loans in nonaccrual status.

Other property owned is real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure or other means. We had other property owned of $8 thousand at December 31, 2019, compared with $54 thousand at December 31, 2018 and $620 thousand at December 31, 2017. During 2019, we sold one property for a gain of $5 thousand.

High risk asset volume is anticipated to increase in the future as continued pressure is placed on the general agriculture economy, specifically related to the dairy industry.

Credit Quality

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS), which is used by all System institutions. Following are the classification definitions.

- 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 as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are not considered collectible.

The following table presents statistics based on UCS related to the credit quality of the loan portfolio, including accrued interest at December 31 for the last three fiscal years.

	2019	2018	2017
Acceptable	**87.70%**	91.47%	92.62%
OAEM	**6.09%**	4.23%	3.49%
Substandard	**6.21%**	4.30%	3.89%
Total	**100.00%**	100.00%	100.00%

Recent economic conditions have created challenges for some borrowers and our credit quality has declined. Loans classified as Acceptable and OAEM were 93.79% at December 31, 2019, 95.70% at December 31, 2018 and 96.11% at December 31, 2017. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased and remained at a low level of 0.28% at December 31, 2019, compared with 0.54% at December 31, 2018 and 0.08% at December 31, 2017.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable and estimable losses inherent in the loan portfolio identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors. The following table provides relevant information regarding the allowance for loan losses as of December 31 for the last three fiscal years.

(dollars in thousands)	**2019**	2018	2017
Balance at beginning of year	**$ 12,390**	$ 10,828	$ 11,370
Charge-offs:			
Real estate mortgage	**–**	603	–
Agribusiness	**–**	–	1,208
Total charge-offs	**–**	603	1,208
Net charge-offs	**–**	603	1,208
Provision for loan losses	**2,433**	2,165	666
Balance at December 31	**$ 14,823**	$ 12,390	$ 10,828
Net charge-offs to average net loans	**–**	0.04%	0.08%

The following table presents the allowance for loan losses by loan type as of December 31 for the last three fiscal years.

(dollars in thousands)	**2019**	2018	2017
Real estate mortgage	**$ 5,154**	$ 5,370	$ 5,566
Production and intermediate-term	**9,295**	6,670	4,926
Agribusiness	**302**	310	277
Rural infrastructure	**70**	37	56
Rural residential real estate	**1**	2	2
Agricultural export finance	**1**	1	1
Total	**$ 14,823**	$ 12,390	$ 10,828

The allowance for loan losses increased $2.4 million from December 31, 2018, to $14.8 million at December 31, 2019. The increase in allowance for loan losses was due to the provision for loan losses totaling $2.4 million that was recorded due to continued deterioration of margins in our dairy portfolio and increased risk exposure on certain loans. During the last three years, charge-off activity has remained low relative to the size of our loan portfolio. During 2018, our allowance for loan losses increased $1.6 million from 2017 primarily due to the provision for loan losses totaling $2.2 million that was recorded due to increasing risks in large loan exposures as well as the deterioration of margins in our dairy portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	December 31		
	2019	2018	2017
Allowance as a percentage of:			
Loans	**0.80%**	0.72%	0.66%
Impaired loans	**36.76%**	72.34%	50.08%
Nonaccrual loans	**36.76%**	72.34%	50.08%

We maintain a separate reserve for unfunded commitment, which is included in Liabilities on our Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses.

A summary of changes in the reserve for unfunded commitment follows.

(dollars in thousands)	**2019**	2018	2017
Balance at beginning of year	**$ 242**	$ 210	$ 434
Provision for/(Reversal of) reserve for unfunded commitments	**67**	32	(224)
Total	**$ 309**	$ 242	$ 210

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit and related services to young, beginning and small (YBS) farmers and ranchers. The mission of this program is to make concerted and cooperative efforts to help this group of borrowers enter and be successful in the agricultural industry. Following are FCA regulatory definitions for YBS farmers and ranchers.

- Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.

- Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The following table outlines our percentage of YBS loans as a percentage of the number of loans in our loan portfolio while the USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2017 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

		December 31		
	USDA	**2019**	2018	2017
Young	8.74%	**5.82%**	5.80%	5.49%
Beginning	29.13%	**9.77%**	9.59%	8.34%
Small	96.19%	**19.31%**	18.68%	17.71%

Our percentages are based on the number of loans in our portfolio, while the USDA percentages are based on the number of farmers and ranchers. While this definition difference does exist, the information is the best comparative information available.

We have developed qualitative targets to monitor our progress. Farm Credit of New Mexico will offer related services either directly or in conjunction with others that are responsive to the needs of YBS. The following actions are being projected for the three year planning period. We will look for new opportunities to expand the program throughout this period. Below are specific goals:

Goal One - Offer related services either directly or in coordination with others that are responsive to the needs of YBS. Specific actions that will be taken in 2019, 2020, and 2021: Sponsor the New Mexico Ag Leadership, Support Future Farmers of America, 4H, Kids, Kows, and More, and other functions related to YBS.

Goal Two - Take full advantage of opportunities for coordinating credit and services offered with other System institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS during 2019, 2020, and 2021.

Goal Three - Implement an effective outreach program to attract YBS farmers and ranchers including an advisory committee comprised of “young”, “beginning”, and “small” farmers and ranchers which can provide views on how the credit and services of the Association could best serve the credit and service needs of YBS farmers and ranchers during 2019, 2020, and 2021.

Qualitative YBS Results

Goal One
Offer related services either directly or in coordination with others that are responsive to the needs of YBS.

Educational Institute/AgriFuture
Designed to help young farmers and ranchers throughout the state of New Mexico become more efficient producers of agricultural commodities. We work with the New Mexico Farm and Livestock Bureau’s Young Farmers and Ranchers Committee to establish a bi-annual training session.

New Mexico Ag Leadership
New Mexico Ag Leadership, Inc. is constructed with the express purpose to identify and support effective leadership within the agricultural industry of the state. The program is set up for participants to develop and cultivate their leadership skills in order to serve as better leaders within food, agriculture, and natural resource industries and serve a more positive role in their communities. Participants enrolled in the program attend a series of nine seminars over the course of two years. We provide an annual $5 thousand sponsorship.

Future Farmers of America, 4H, Kids, Kows, and More and other functions
The Association participates in a variety of activities that help Ag related groups with time and money including:

Farm Credit of New Mexico’s Scholarship Endowment
A scholarship endowment at New Mexico State University was established in 2005 with $250 thousand. The endowment funds a scholarship for Farm Credit of New Mexico members’ children and grandchildren who attend the University. It provides $2 thousand annual scholarships (for undergraduate students majoring in any subject, who are full-time sophomores, juniors or seniors.) Through the spring of 2020, 58 scholarships worth $116 thousand have been provided.

Other Activities
The Association participates in many other events at a total of 104 activities spending $212 thousand with a variety of organizations all over the state in conjunction with YBS. All of the activities are to help encourage YBS producers.

Goal Two
Take full advantage of opportunities for coordinating credit and services offered with other system institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS.

Take full advantage of FSA loan guarantees

Growing Futures Loan Program
Implemented in 2005, it is designed to help better service this important group. Underwriting Standards have been created to assist these borrowers (for more information refer to Underwriting Standards Lending Programs Section 1500 Subject 1520.) The program allows for special pricing and fee concessions for a young/beginning combination applicant or a young applicant. Branch Managers will approve 100 basis points below the applicant's qualifying risk rating category. The pricing concession will only apply to variable rate products and are only good for the first 5 years that the individual borrows from the Association. Typically, this discount will apply to variable loans, but may be applied to ARMs or fixed to conversion products as long as the fixed period occurs within the first 5 years of the loan. After the 5 years are completed, member's rate converts to normal spread for whichever risk rating level he, she or entity may qualify. Farm Credit of New Mexico has 103 of these loans with loan volume of $32.8 million as of December 31, 2019.

Goal Three
Implement an effective outreach program to attract YBS farmers and ranchers.

Advisory Committee
The Association has an advisory committee comprised of "young," "beginning," and "small" farmers and ranchers to provide views on how the credit and services of the Association could best serve the credit and service needs of YBS farmers and ranchers.

Loan volume and number goals and results are in the following table.

(dollars in thousands)	**2019 Goals**		**2019 Results**		2020 Goals		2021 Goals	
	Volume	**Number**	**Volume**	**Number**	Volume	Number	Volume	Number
Young	**$ 7,000**	**25**	**$ 52,103**	**77**	$ 8,000	27	$ 10,000	32
Beginning	**$ 10,000**	**38**	**$ 26,757**	**91**	$ 12,000	38	$ 18,000	42
Small	**$ 40,000**	**100**	**$ 47,748**	**200**	$ 25,000	85	$ 25,000	85

The number of YBS farmers and ranchers as a percentage of the total portfolio is listed in the following table and is representative of demographics in the state.

	2019 Goals	**2019 Results**	**2020 Goals**	**2021 Goals**
Young	8%	**5.82%**	8%	8%
Beginning	13%	**9.77%**	10%	10%
Small	30%	**19.31%**	28%	28%

Quarterly reports are provided to our Board of Directors detailing the number, volume and credit quality of our YBS customers. We have developed quantitative targets to monitor our progress.

- Loan volume and loan number goals for YBS farmers and ranchers in our territory;
- Percentage goals representative of the demographics of YBS farmers and ranchers in our territory;
- Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in our territory; and
- Goals for capital committed to loans made to YBS farmers and ranchers in our territory.

Goals for the percentage of new YBS borrowers are in the following table:

	2019 Goals		**2019 Results**		2020 Goals		2021 Goals	
	Volume	**Number**	**Volume**	**Number**	Volume	Number	Volume	Number
Young	**2%**	**4%**	**9.25%**	**16.28%**	1%	4%	1%	4%
Beginning	**3%**	**4%**	**4.75%**	**19.24%**	3%	4%	3%	4%
Small	**3%**	**4%**	**8.48%**	**42.28%**	3%	4%	3%	4%

Capital committed for loans made to YBS farmers and ranchers is in the following table.

(dollars in thousands)	**2019 Goals**	**2019 Results**	2020 Goals	2021 Goals
Young	$22,000	**$52,103**	$22,000	$25,000
Beginning	$22,000	**$26,757**	$22,000	$25,000
Small	$22,000	**$47,748**	$22,000	$25,000

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we use the above mentioned programs. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers. Details of this are provided in the above results.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio and also in our unfunded loan commitments and standby letters of credit. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

Underwriting standards are utilized to determine an applicant's operational, financial, and managerial resources available for repaying debt within the terms of the note and loan agreement. Underwriting standards include among other things, an evaluation of:

- character – borrower integrity and credit history;
- capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income;
- collateral – to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- capital – ability of the operation to survive unanticipated risks; and
- conditions – intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, we cannot have loan commitments to one borrower for more than 15% of our lending and lease limit base. The lending and lease limit base is defined as permanent capital with any applicable adjustments related to preferred stock and any investment held in connection with the sale of loan participation interest. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established for individual loan size, commodity type, special lending programs and geographic concentrations. We have adopted an individual lending limit maximum of $30.0 million of lending and lease limit base for our highest quality borrowers.

We have established internal lending delegations to properly control the loan approval process. Delegations to staff are based on our risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the credit staff member. Larger and more complex loans or loans perceived to have higher risk are typically approved by our loan committee with the most experienced and knowledgeable credit staff serving as members.

The majority of our lending is first mortgage real estate loans, which must be secured by a first lien on real estate. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured by livestock, crops and equipment. Collateral evaluations are completed in compliance with FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All collateral evaluations must be performed by a qualified appraiser. Certain appraisals must be performed by individuals with a state certification or license.

We use a two-dimensional risk rating model (Model) based on the Farm Credit System's Combined System Risk Rating Guidance. The Model estimates each loan's probability of default (PD) and loss given default (LGD). PD estimates the probability that a borrower will experience a default within twelve months from the date of determination. LGD provides an estimation of the anticipated loss with respect to a specific financial obligation of a borrower assuming a default has occurred or will occur within the next twelve months. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. PDs and LGDs are utilized in loan and portfolio management processes and are utilized for the allowance for loan losses estimate.

The Model's 14-point probability of default scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category and one loss category; each carrying a distinct percentage of default probability. The Model's LGD scale provides 6 categories, A through F, that have the following anticipated principal loss and range of economic loss expectations:

- A 0% anticipated principal loss; 0% to 5% range of economic loss

- B 0% to 3% anticipated principal loss; >5% to 15% range of economic loss
- C > 3% to 7% anticipated principal loss; >15% to 20% range of economic loss
- D > 7% to 15% anticipated principal loss; >20% to 25% range of economic loss
- E > 15% to 40% anticipated principal loss; >25% to 50% range of economic loss
- F above 40% anticipated loss; above 50% range of economic loss

RESULTS OF OPERATIONS

Earnings Summary

In 2019, we recorded net income of $30.1 million, compared with $28.7 million in 2018, and $28.2 million in 2017. The increase in 2019 was primarily due to an increase in net interest income and offset by an increase in noninterest expense and a decrease in noninterest income. The increase in 2018 was primarily due to an increase in net interest income and offset by increases in noninterest expense and provision for credit losses. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2019 vs. 2018**	2018 vs. 2017
Net income, prior year	**$ 28,720**	$ 28,186
Increase/(Decrease) from changes in:		
Interest income	**10,511**	13,706
Interest expense	**(6,416)**	(9,658)
Net interest income	**4,095**	4,048
Provision for credit losses	**(303)**	(1,755)
Noninterest income	**(1,668)**	589
Noninterest expense	**(747)**	(2,201)
Provision for income taxes	**(17)**	(147)
Total increase in net income	**1,360**	534
Net income, current year	**$ 30,080**	$ 28,720

Return on average assets decreased to 1.63% from 1.66% in 2018, primarily because of increased total average assets. Return on average shareholders' equity increased to 7.16% from 7.13% in 2018, primarily as a result of increased year-to-date net income.

Net Interest Income

Net interest income for 2019 was $50.7 million compared with $46.6 million for 2018 and $42.6 million for 2017. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to an increase in average loan volume. The following table provides an analysis of the individual components of the change in net interest income during 2019 and 2018.

(dollars in thousands)	**2019 vs. 2018**	2018 vs. 2017
Net interest income, prior year	**$ 46,635**	$ 42,587
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**4,498**	10,531
Interest rates paid	**(3,929)**	(8,611)
Volume of interest-bearing assets and liabilities	**2,990**	1,705
Interest income on nonaccrual loans	**536**	423
Increase in net interest income	**4,095**	4,048
Net interest income, current year	**$ 50,730**	$ 46,635

The following table illustrates net interest margin and the average interest rates on loans and debt cost and interest rate spread.

	For the Year Ended December 31		
	2019	2018	2017
Net interest margin	**2.89%**	2.83%	2.68%
Interest rate on:			
Average loan volume	**5.05%**	4.74%	4.05%
Average debt	**2.68%**	2.39%	1.71%
Interest rate spread	**2.37%**	2.35%	2.34%

The increase in interest rate spread resulted from a 31 basis point increase in interest rates on average loan volume and a 29 basis point increase in interest rates on average debt. The increase in net interest margin in addition to the change in spread was due to higher earnings on our own capital.

Provision for Credit Losses

We monitor our loan portfolio and unfunded commitments on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for loan losses or reserve for unfunded commitment is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio and unfunded commitments. We recorded net provision for credit losses of $2.5 million in 2019, compared with $2.2 million in 2018 and $442 thousand in 2017. The provision for loan losses of $2.4 million and the provision for reserve for unfunded commitments of $67 thousand recorded during 2019 were primarily due to continued deterioration of margins in our dairy portfolio and increased risk exposure on certain loans. The provision for loan losses recorded in 2018 and 2017 were primarily due to increasing risks in large loan exposures and deterioration of margins in our dairy portfolio. The provision for reserve for unfunded commitments of $32 thousand in 2018 was recorded to fund projected allocated losses associated with unfunded commitments. The reversal of provision for reserve for unfunded commitments recorded in 2017 was due to less projected allocated losses associated with unfunded commitments.

Noninterest Income

During 2019, we recorded noninterest income of $9.6 million, compared with $11.2 million in 2018 and $10.7 million in 2017. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. The total patronage from CoBank is comprised of two sources: patronage based on our borrowing balance (direct note patronage) and patronage based on loans we originate and then sell a portion to them as a participant (sold volume patronage). Patronage earned from CoBank was $6.1 million in 2019, $7.1 million in 2018, which includes a one-time cash patronage distribution of $754 thousand relating to tax reform changes, and $6.3 million in 2017.

During August 2017, CoBank management announced changes to their capital plans and patronage programs for eligible customer-owners designed to address a number of market place challenges. The changes were intended to strengthen CoBank's long-term capacity to serve customers' borrowing needs, enhance CoBank's ability to capitalize future customer growth, and ensure equitability among different customer segments. The plan included a reduction to our patronage income in 2018 of 5 basis points on participation loans with CoBank. Additionally, the changes include a reduction in patronage related to our direct note with CoBank for all other loans of 5 basis points in 2019 and a further reduction of 4 basis points in 2020. During 2019, we received 95 basis points on participation loans and 40 basis points on our direct note with CoBank for all other loans. In 2018, we received 95 basis points on participation loans and 45 basis points on our direct note with CoBank for all other loans.

In 2019, we recorded a cash patronage of $18 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services, which will be paid in the following year. This compares with $15 thousand recorded in 2018 and $12 thousand in 2017. Patronage from Farm Credit Foundations and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received a refund of $399 thousand during 2019 and $1.1 million during 2018 from Farm Credit System Insurance Corporation (FCSIC). No refund was received in 2017. The FCSIC refund is our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts.

We received mineral income of $1.2 million during 2019, which is distributed to us quarterly by CoBank. Mineral income increased from $1.1 million in 2018 and $999 thousand in 2017. The increase is attributed to an increase in production revenue resulting from additional wells being brought online.

Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees in 2019 were $909 thousand, a decrease of $56 thousand from 2018, primarily due to a decrease in loan origination fees.

Noninterest Expense

Noninterest expense for 2019 increased $747 thousand, or 2.8%, to $27.6 million compared with 2018 and $2.9 million, or 12.0% compared with 2017. Noninterest expense for each of the three years ended December 31 is summarized as follows:

				Percent of Change	
(dollars in thousands)	**2019**	2018	2017	**2019/2018**	2018/2017
Salaries & employee benefits	**$ 17,180**	$ 16,928	$ 14,716	**1.49%**	15.03%
Occupancy & equipment	**1,099**	1,116	1,049	**(1.52%)**	6.39%
Purchased services from AgVantis	**2,187**	1,959	1,581	**11.64%**	23.91%
Supervisory & examination costs	**596**	571	557	**4.38%**	2.51%
Other	**5,356**	5,220	4,898	**2.61%**	6.57%
Total operating expense	**26,418**	25,794	22,801	**2.42%**	13.13%
(Gain)/Losses on other property owned, net	**(5)**	(43)	75	**88.37%**	(157.33%)
Farm Credit Insurance Fund premium	**1,193**	1,108	1,782	**7.67%**	(37.82%)
Total noninterest expense	**$ 27,606**	$ 26,859	$ 24,658	**2.78%**	8.93%

For the year ended December 31, 2019, total operating expense increased $624 thousand, or 2.4%, compared with the year ended December 31, 2018, primarily due to an increase in salaries and benefits related to merit increases and an increase in purchased services from AgVantis related to an increase in costs. Insurance Fund premium increased $85 thousand to $1.2 million at December 31, 2019 due to an increase in volume. The premium rate remained constant from 2018.

Provision for income taxes/Benefit from income taxes

We recorded $119 thousand in provision for income taxes during 2019, compared with $102 thousand in 2018 and benefit from income taxes of $45 thousand in 2017. The increase in 2019 was primarily due to taxable related services income. Tax expense was also impacted by our patronage refund program. We operate as a Subchapter T cooperative for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 2 for additional details.

Tax expense in 2017 was impacted by the enactment of federal tax legislation in late December 2017 which, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. In accordance with accounting principles generally accepted in the United States (GAAP), the change to the lower corporate tax rate led to a revaluation of our deferred tax assets and deferred tax liabilities in the period of enactment (2017). This change is a provisional estimate based on nuances within our operations.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with CoBank, fund loans and other commitments, and fund business operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction and liquidate nonearning assets. Our direct loan with CoBank, cash on hand and borrower loan repayments provide adequate liquidity to fund our on-going operations and other commitments.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank, which matures on December 31, 2022. The annual average principal balance of the note payable to CoBank was $1.40 billion in 2019, $1.30 billion in 2018 and $1.26 billion in 2017.

We plan to continue to fund lending operations through the utilization of our funding arrangement with CoBank, retained earnings from current and prior years and from borrower stock investments. CoBank's primary source of funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Bank Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets experienced significant volatility in the last few years, we were able to obtain sufficient funding to meet the needs of our customers.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and its asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed excess loanable funds with CoBank at a fixed rate for a specified term as a part of CoBank's Association Equity Positioning Program (AEPP). This enables us to reduce our overall cost of funds with CoBank without significantly increasing our overall interest rate risk position.

Funds Management

We offer variable, fixed, adjustable prime-based and LIBOR-based rate loans to borrowers. Our Board of Directors determines the interest rate charged based on the following factors: 1) the interest rate charged by CoBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

Uncertainty Surrounding the Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority, which regulates the London Inter-Bank Offered Rate (LIBOR), announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021.

In the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York. Specifically, the ARRC has proposed the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR and the Federal Reserve Bank of New York began publishing SOFR in April 2018.

In September 2018, the FCA issued guidance for System institutions to follow as they prepare for the expected phase-out of LIBOR.

We continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. At this time, we are unable to predict whether or when LIBOR will cease to be available or if SOFR or any other alternative reference rate will become the benchmark to replace LIBOR. Because we engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on the Association and our borrowers.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2019 totaled $421.5 million, compared with $404.6 million at December 31, 2018 and $386.8 million at December 31, 2017. The increase of $17.0 million in shareholders' equity reflects net income and net stock issuances, partially offset by patronage refunds and an increase in accumulated other comprehensive loss. Our capital position is reflected in the following ratio comparisons.

	2019	2018	2017
Debt to shareholders' equity	**3.65:1**	3.51:1	3.50:1
Shareholders' equity as a percent of net loans	**22.83%**	23.58%	23.61%
Shareholders' equity as a percent of total assets	**21.50%**	22.16%	22.22%

Debt to shareholders' equity increased due to an increase in note payable to CoBank and shareholders' equity as a percent of net loans and of total assets decreased from 2018 primarily due to an increase in net loans.

Retained Earnings

Our retained earnings increased $18.3 million to $422.4 million at December 31, 2019 from $404.1 million at December 31, 2018 and increased $36.2 million from $386.2 million at December 31, 2017. The increase in 2019 was a result of net income of $30.1 million, partially offset by $11.8 million of patronage distributions declared.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, the Bylaws address increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of $10.8 million in 2019, $9.7 million in 2018 and $9.4 million in 2017. During 2019, we declared patronage distributions of $11.8 million to be paid in March 2020.

Stock

Our total stock increased $23 thousand to $1.2 million at December 31, 2019, from December 31, 2018 and increased $51 thousand from December 31, 2017. The increase during 2019 was due to $127 thousand of stock issuances, partially offset by $104 thousand of stock retirements. We require a stock investment for each borrower. We have a Borrower Level Stock Program which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s).

Accumulated Other Comprehensive Income or Loss

Accumulated other comprehensive loss totaled $2.1 million at December 31, 2019, an increase of $1.3 million compared with year-end 2018 and an increase of $1.5 million compared with year-end 2017. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Accounting guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income/loss.

Capital Plan and Regulatory Requirements

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

As shown in the following table, at December 31, 2019, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions, retire equities and pay preferred stock dividends.

	2019	2018	2017	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	**21.04%**	21.52%	21.77%	7.00%
Tier 1 Capital ratio	**21.04%**	21.52%	21.77%	8.50%
Total Capital ratio	**21.82%**	22.16%	22.40%	10.50%
Tier 1 Leverage ratio	**20.01%**	20.38%	20.62%	5.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage ratio	**21.69%**	22.04%	22.28%	1.50%
Permanent capital ratio	**21.20%**	21.66%	21.90%	7.00%

The minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2019, we have exceeded our goals.

As displayed in the following table we exceeded the minimum regulatory capital requirements in effect through December 31, 2016.

	2016	2015	2014	2013	2012	Regulatory Minimum
Permanent capital ratio	20.97%	21.89%	21.98%	20.32%	19.63%	7.00%
Total surplus ratio	20.90%	21.81%	21.89%	20.23%	19.53%	7.00%
Core surplus ratio	20.88%	21.69%	21.89%	20.23%	19.42%	3.50%

Refer to Note 8, Shareholders' Equity, in this report for additional information on our capital and related requirements and restrictions.

REGULATORY MATTERS

As of December 31, 2019, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

GOVERNANCE

Board of Directors

We are governed by a ten member board that provides direction and oversees our management. Of these directors, seven are elected by the shareholders and three are appointed by the elected directors. Our Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, evaluates and compensates the chief executive officer;
- approves the strategic plan, capital plan, financial plan and the annual operating budget;
- oversees the lending operations;
- directs management on significant issues; and
- oversees the financial reporting process, communications with shareholders and our legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in our interest. All our directors are independent from the perspective that none of our management or staff serves as Board members. However, we are a financial services cooperative, and the Farm Credit Act and FCA Regulations require our elected directors to have a loan relationship with us.

The elected directors, as borrowers, have a vested interest in ensuring our Association remains strong and successful. However, our borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of our Board. Annually, in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of six members of the Board of Directors. During 2019, five meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls or auditing matters.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of five members of the Board of Directors. The Committee annually reviews, evaluates and approves the compensation policies, programs and plans for senior officers and employees including benefits programs. During 2019, three meetings were held.

Diversification Committee

The Diversification Committee, referred to as the CREED Council (Culture, Recruitment, Engagement and Diversity) is responsible for the oversight and implementing the diversity and inclusion education and training for our staff and Board of Directors. The Council is composed of staff and one member of the Board of Directors.

Other Governance

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We strive to maintain strong governance and financial reporting through the following actions:

- a system for the receipt and treatment of whistleblower complaints;
- a code of ethics for our President/CEO, Chief Financial Officer and Chief Credit Officer;
- open lines of communication between the independent auditors, management, and the Audit Committee;
- "plain English" disclosures;
- officer certification of accuracy and completeness of the consolidated financial statements; and
- information disclosure through our website.

Code of Ethics

Our directors and employees are responsible for maintaining the highest of standards in conducting our business. In that regard, we established a Code of Ethics for the Board of Directors and a Code of Ethics for the Chief Executive Officer, Chief Financial Officer, Chief Credit Officer, and other senior financial professionals who are involved, directly or indirectly, with the preparation of our financial statements and the maintenance of financial records supporting the financial statements. These Codes of Ethics supplement our Standards of Conduct Policies for Directors and Employees. Annually, each employee and director files a written and signed disclosure statement as required under the Standards of Conduct Policies. Likewise, all employees certify compliance with our Code of Ethics on an annual basis.

Whistleblower Program

We maintain a program for employee complaints related to accounting, financial reporting, internal accounting controls, or auditing matters. This program allows employees to submit confidential, anonymous concerns regarding accounting, financial reporting, internal accounting controls, fraud or auditing matters without the fear of reprisal, retaliation or adverse action being taken against any employee who, in good faith, reports or assists in the investigation of a violation or suspected violation, or who makes an inquiry about the appropriateness of an anticipated or actual course of action.

FORWARD-LOOKING INFORMATION

Our discussion 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," and "will," or other variations of these terms are intended to identify 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;
- weather, disease, 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/or the Farm Credit System; and
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because we have to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying consolidated financial statements. The development and selection of critical accounting policies, and the related disclosures, have been reviewed by our Audit Committee. A summary of critical policies relating to the determination of the allowance for loan losses follows.

Allowance for Loan Losses/Reserve for Unfunded Commitment

The allowance for loan losses is our best estimate of the amount of probable loan losses existing in and inherent in our loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. Additionally, we provide line of credit financing to our customers. We have established a reserve for unfunded commitment to cover probable losses. This reserve is reported as a liability in our consolidated balance sheet. The reserve for unfunded commitment is increased through provision for the reserve for unfunded commitments and is decreased through reversals of the reserve for unfunded commitments. Provision for loan losses and provision for reserve for unfunded commitments are referred to as a provision for credit losses on the Consolidated Statement of Comprehensive Income. We determine the allowance for loan losses and the reserve for unfunded commitment based on a regular evaluation of the loan and commitment portfolios, which generally considers recent historical charge-off experience adjusted for relevant factors.

Loans are evaluated based on the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

Changes in the factors we consider in the evaluation of losses in the loan portfolio could occur for various credit related reasons and could result in a change in the allowance for loan losses, which would have a direct impact on the provision for loan losses and results of operations. See Notes 2 and 3 to the accompanying consolidated financial statements for detailed information regarding the allowance for loan losses.

CUSTOMER PRIVACY

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers and employees. FCA regulations and our Standards of Conduct Policies specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic information.

Report of Management

The consolidated financial statements of Farm Credit of New Mexico, ACA (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2019 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on 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. To monitor compliance, management engaged Deloitte and Touche, LLP to perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as appropriate. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the Board of Directors has overall responsibility for the Association's system of internal control and financial reporting. The Audit Committee consults regularly with management and reviews the results of the examinations by the various entities named above. The independent auditors have direct access to the Audit Committee.

The undersigned certify the Farm Credit of New Mexico, ACA Annual Report has been reviewed and 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.

James Duffey
Chairman of the Board

Alan Feit
President and Chief Executive Officer

Beverly Hope Gabaldon
Chief Financial Officer

March 09, 2020

Report on Internal Control Over Financial Reporting

Farm Credit of New Mexico, ACA (Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2019. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2019.

Alan Feit	**Beverly Hope Gabaldon**
President and Chief Executive Officer	Chief Financial Officer

March 09, 2020

AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes five (5) members from the Board of Directors of Farm Credit of New Mexico, ACA (Association). In 2019, five (5) Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association'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 responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2019.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2019 were $87,200 for audit services and $9,300 for tax services.

The Committee reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2019 (the "Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2019 and for filing with the Farm Credit Administration.

Tom Drake, Chairman of the Audit Committee

<u>Audit Committee Members</u>
Scott Shafer, Vice Chairman
Danita Agar, Member
Jonathan Vander Dussen, Member
James Duffey, Chairman of the Board

March 09, 2020

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Farm Credit of New Mexico, ACA and its subsidiaries (the Association), which comprise the consolidated statements of condition as of December 31, 2019, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in shareholders' equity, and of 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 Association'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 Association'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 Farm Credit of New Mexico, ACA and its subsidiaries as of December 31, 2019, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 9, 2020

PricewaterhouseCoopers LLP, 1100 Walnut Street, Suite 1300, Kansas City, MO 64106
T: (816) 472 7921, www.pwc.com/us

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2019	2018	2017
ASSETS			
Loans	**$ 1,860,994**	$ 1,728,155	$ 1,649,572
Less allowance for loan losses	**14,823**	12,390	10,828
Net loans	**1,846,171**	1,715,765	1,638,744
Cash	**4,678**	10,229	6,295
Accrued interest receivable	**21,742**	19,485	16,637
Investment in CoBank, ACB	**58,689**	54,260	51,972
Premises and equipment, net	**12,979**	12,483	12,774
Other property owned	**8**	54	620
Prepaid benefit expense	**3,040**	2,204	1,597
Other assets	**13,643**	11,292	12,683
Total assets	**$ 1,960,950**	$ 1,825,772	$ 1,741,322
LIABILITIES			
Note payable to CoBank, ACB	**$ 1,506,996**	$ 1,381,014	$ 1,320,855
Advance conditional payments	**4,401**	13,961	10,080
Accrued interest payable	**2,686**	2,505	1,662
Patronage distributions payable	**11,805**	10,825	9,667
Accrued benefits liability	**2,724**	1,461	1,071
Reserve for unfunded commitments	**309**	242	210
Other liabilities	**10,511**	11,198	10,934
Total liabilities	**$ 1,539,432**	$ 1,421,206	$ 1,354,479
Commitments and Contingencies (See Note 14)			
SHAREHOLDERS' EQUITY			
Capital stock	**1,238**	1,215	1,187
Unallocated retained earnings	**422,356**	404,081	386,186
Accumulated other comprehensive income/(loss)	**(2,076)**	(730)	(530)
Total shareholders' equity	**421,518**	404,566	386,843
Total liabilities and shareholders' equity	**$ 1,960,950**	$ 1,825,772	$ 1,741,322

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2019	2018	2017
INTEREST INCOME			
Loans	**$ 88,630**	$ 78,119	$ 64,413
Total interest income	**88,630**	78,119	64,413
INTEREST EXPENSE			
Note payable to CoBank, ACB	**37,709**	31,253	21,713
Other	**191**	231	113
Total interest expense	**37,900**	31,484	21,826
Net interest income	**50,730**	46,635	42,587
Provision for credit losses	**2,500**	2,197	442
Net interest income after provision for credit losses	**48,230**	44,438	42,145
NONINTEREST INCOME			
Financially related services income	**872**	878	880
Loan fees	**909**	965	926
Patronage distribution from Farm Credit institutions	**6,136**	7,160	6,296
Farm Credit Insurance Fund distribution	**399**	1,064	-
Mineral income	**1,213**	1,114	999
Other noninterest income	**46**	62	1,553
Total noninterest income	**9,575**	11,243	10,654
NONINTEREST EXPENSE			
Salaries and employee benefits	**17,180**	16,928	14,716
Occupancy and equipment	**1,099**	1,116	1,049
Purchased services from AgVantis, Inc.	**2,187**	1,959	1,581
(Gain)/Losses on other property owned, net	**(5)**	(43)	75
Farm Credit Insurance Fund premium	**1,193**	1,108	1,782
Supervisory and examination costs	**596**	571	557
Other noninterest expense	**5,356**	5,220	4,898
Total noninterest expense	**27,606**	26,859	24,658
Income before income taxes	**30,199**	28,822	28,141
Provision for/(Benefit from) income taxes	**119**	102	(45)
Net income	**30,080**	28,720	28,186
COMPREHENSIVE INCOME			
Amortization of retirement costs	**148**	108	112
Actuarial loss in retirement obligation	**(1,494)**	(308)	(117)
Total comprehensive income	**$ 28,734**	$ 28,520	$ 28,181

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2016	$ 3	$ 1,211	$ 367,667	$ (525)	$ 368,356
Comprehensive income			28,186	(5)	28,181
Stock issued	-	83			83
Stock retired	(3)	(107)			(110)
Patronage Distributions: Cash			(9,667)		(9,667)
Balance at December 31, 2017	-	1,187	386,186	(530)	386,843
Comprehensive income			28,720	(200)	28,520
Stock issued	-	133			133
Stock retired	-	(105)			(105)
Patronage distributions: Cash			(10,825)		(10,825)
Balance at December 31, 2018	-	1,215	404,081	(730)	404,566
Comprehensive income			30,080	(1,346)	28,734
Stock issued	-	127			127
Stock retired	-	(104)			(104)
Patronage distributions: Cash			(11,805)		(11,805)
Balance at December 31, 2019	**$ -**	**$ 1,238**	**$ 422,356**	**$ (2,076)**	**$ 421,518**

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 30,080**	$ 28,720	$ 28,186
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**925**	891	879
Provision for credit losses	**2,500**	2,197	442
Patronage stock from CoBank, ACB	**(434)**	(532)	(599)
Carrying value adjustment for other property owned	**-**	-	67
Gains on sales of premises and equipment	**(136)**	(45)	(131)
Gains on sales of other property owned	**(5)**	(47)	-
Change in assets and liabilities:			
Increase in accrued interest receivable	**(2,257)**	(2,848)	(3,460)
Increase in prepaid benefit expense	**(836)**	(607)	(490)
(Increase)/Decrease in other assets	**(1,917)**	1,923	2,360
Increase in accrued interest payable	**181**	843	510
(Decrease)/Increase in accrued benefits liability	**(83)**	190	180
(Decrease)/Increase in other liabilities	**(687)**	264	694
Total adjustments	**(2,749)**	2,229	452
Net cash provided by operating activities	**27,331**	30,949	28,638
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	**(132,839)**	(79,232)	(6,551)
Increase in investment in CoBank, ACB	**(4,429)**	(2,288)	(1,737)
Expenditures for premises and equipment	**(1,149)**	(1,326)	(626)
Proceeds from sales of premises and equipment	**(136)**	771	210
Proceeds from sales of other property owned	**51**	659	-
Net cash used in investing activities	**(138,502)**	(81,416)	(8,704)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on/(repayment of) note payable to CoBank, ACB	**125,982**	60,159	(15,096)
(Decrease)/Increase in advance conditional payments	**(9,560)**	3,881	3,987
Protected borrower stock retired	**-**	-	(3)
Capital stock retired	**(104)**	(105)	(107)
Capital stock issued	**127**	133	83
Cash patronage distributions paid	**(10,825)**	(9,667)	(9,381)
Net cash provided by/(used in) financing activities	**105,620**	54,401	(20,517)
Net (decrease)/increase in cash	**(5,551)**	3,934	(583)
Cash at beginning of year	**10,229**	6,295	6,878
Cash at end of year	**$ 4,678**	$ 10,229	$ 6,295
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 37,719**	$ 30,641	$ 21,316
Income taxes	**$ -**	$ -	$ 253
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Patronage stock from CoBank, ACB	**$ 434**	$ 532	$ 599
Loans transferred to other property owned	**$ -**	$ 46	$ -
Net charge-offs	**$ -**	$ 603	$ 1,208
Patronage distributions payable	**$ 11,805**	$ 10,825	$ 9,667
Change in accumulated other comprehensive income/(loss)	**$ (1,346)**	$ (200)	$ (5)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)

NOTE 1 – ORGANIZATION AND OPERATIONS

A. Organization: Farm Credit of New Mexico, ACA and its subsidiaries, Farm Credit of New Mexico, FLCA, (Federal Land Credit Association (FLCA)) and Production Credit Association of Southern New Mexico, (Production Credit Association (PCA)), (collectively called "the Association") are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in all the counties except San Juan and that half of Rio Arriba lying west of the Continental Divide in the state of New Mexico.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which 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 (the Farm Credit Act). At December 31, 2019, the System was comprised of three Farm Credit Banks and one Agricultural Credit Bank (System Banks) and 68 associations.

CoBank, ACB (funding bank or the "Bank"), its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. The CoBank District consists of CoBank, 21 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA) and AgVantis.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans and 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 institutions to ensure their compliance with the Farm Credit Act, FCA regulations and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) 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 System wide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. 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% of the aggregate Insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other 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 Insurance Corporation is required to reduce premiums, as necessary to maintain the Insurance Fund at the 2.0% level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions.

B. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which 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, their cooperatives, rural residents and farm-related businesses.

The Association also serves as an intermediary in offering credit life insurance, multi-peril crop and crop hail insurance, advance conditional payment accounts, leasing and provides additional services to borrowers such as fee appraisals and information technology products and services.

The Association is the sole owner of two unincorporated business entities. FCNM Holdings, LLC, is a limited liability company used for the purpose of acquiring and managing other property owned at the conclusion of certain loan settlement agreements. Farm Credit Solutions, LLC is a limited liability company used for the purpose of information technology products and services sold.

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting the Association at 5651 Balloon Fiesta Parkway, NE., Albuquerque, New Mexico 87113 or by calling (505) 884-1048 or (800) 451-5997. Upon request, Association shareholders will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of CoBank's and District's financial condition, changes in financial condition, and results of operations. In addition, the CoBank Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation.

In addition, the Farm Credit Council acts as a full-service federated trade association, which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The consolidated financial statements (the "financial statements") of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts of Production Credit Association of Southern New Mexico and Farm Credit of New Mexico, FLCA and reflect the investments in and allocated earnings of the service organizations in which the Association has partial ownership interests. Inter-company transactions have been eliminated in consolidation.

Reclassifications

Certain amounts in prior year's financial statements have been reclassified to conform to current financial statement presentation. The accounting and reporting policies of the Association conform to GAAP and prevailing practices within the banking industry.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

Recently Issued 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 became 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 has evaluated the impact of adoption on the Association's financial condition and its results of operations and determined the impact to be immaterial.

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 became 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 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. On October 16, 2019, the FASB approved deferral of the effective date for certain entities for this guidance by two years, which will result in the new credit loss standard becoming effective for interim and annual reporting periods beginning after December 15, 2022. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on its 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. The guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

Summary of the Association's Significant Accounting Policies

A. 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 made for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loan origination fees and direct loan origination costs are capitalized and the net fee or cost is 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 contract 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 is collected or otherwise discharged in full.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or when 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 reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (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 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.

When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectability of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is 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 Association purchases loan and lease participations from other System entities to generate additional earnings and diversify risk. Additionally, the Association sells a portion of certain large loans to other System entities to reduce risk and comply with established lending limits. Loans are sold and the sale terms comply with requirements under Accounting Standards Codification (ASC) 860 "Transfers and Servicing."

The Association uses a two-dimensional loan rating model based on 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 and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) 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 and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations and appraisals to change over time. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

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, 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 as previously discussed.

B. Cash: Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.

C. Investment in CoBank: The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.00 percent of the prior year's average direct loan volume. The investment in CoBank is comprised of patronage based stock and purchased stock. The requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the prior ten-year average of such participations sold to CoBank.

D. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful life for the buildings range from 5 to 31 years, and ranges from 1 to 10 years for furniture and equipment and 1 to 3 years for automobiles. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed and improvements above certain thresholds are capitalized.

E. Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition. 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 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 Consolidated Statement of Comprehensive Income.

F. Other Assets and Other Liabilities: Other assets are comprised primarily of accounts receivable, prepaid expenses, and investment in Farm Credit institutions other than CoBank. Significant components of other liabilities primarily include accounts payable and employee benefits.

G. Advance Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advance conditional payments are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in liabilities. Restricted advance conditional payments are primarily associated with mortgage loans, while unrestricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.

H. Employee Benefit Plans: Substantially all employees of the Association participate in the Ninth Farm Credit District Pension Plan (Pension Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan). The Pension Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Pension Plan was closed to employees beginning January 1, 2007.

The 401(k) Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue code. The Association matches a certain percentage of employee contributions. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also participates in the Farm Credit Foundations Retiree Medical Plan. These postretirement benefits (other than pensions) are provided to eligible retired employees of the Association. The anticipated costs of these benefits were accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

The Association also participates in the Ninth District nonqualified defined benefit Pension Restoration Plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under this plan are offset by the benefits payable from the pension plan.

Certain eligible employees may also participate in a nonqualified deferred compensation plan where they are able to defer a portion of their compensation. The Association matches a certain percentage of employee contributions to the plan.

I. Patronage Distribution from CoBank: Patronage distributions from CoBank are accrued by the Association in the year earned.

J. Income Taxes: As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a 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 taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state or local laws.

The Association elected 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 distributions. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association 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 (over 50 percent probability), based on management's estimate, the deferred tax assets 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.

Deferred income taxes have not been recorded by the Association on stock patronage distributions received from the Bank prior to January 1, 1993, the adoption date of accounting guidance on income taxes. Association management's intent is to permanently invest these and other undistributed earnings in CoBank, or if converted to cash, to pass through any such earnings to Association borrowers through qualified patronage allocations.

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings.

K. Other Comprehensive Income/Loss: Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the balance of these transactions. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan. See Note 8 for further information.

L. Fair Value Measurement: Accounting 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 include assets held in trust funds which relate to the Association's deferred compensation plan and supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

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.

Level 3 — Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about factors that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are 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. Level 3 assets include other property owned.

The fair value disclosures are presented in Note 15.

M. 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 follows.

	December 31		
	2019	2018	2017
Real estate mortgage	**$ 1,100,603**	$ 1,042,314	$ 1,008,613
Production and intermediate-term	**514,486**	461,559	395,174
Agribusiness	**202,287**	193,254	204,024
Rural infrastructure	**38,217**	26,222	36,372
Rural residential real estate	**1,946**	2,351	2,934
Agricultural export finance	**3,455**	2,455	2,455
Total loans	**$ 1,860,994**	$ 1,728,155	$ 1,649,572

* Lease receivables are included with Production and Intermediate-term loan volume.

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2019.

	Other Farm Credit Institutions	
	Purchased	Sold
Real estate mortgage	$ 28,282	$ 167,446
Production and intermediate-term	65,523	191,188
Agribusiness	168,506	54,000
Rural infrastructure	50,873	12,656
Agricultural export finance	3,455	–
Total	$ 316,639	$ 425,290

A substantial portion of the Association's loans are collateralized. 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 first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed or enhanced 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 loan to value ratios in excess of the regulatory maximum.

The Association has obtained credit enhancements by entering into Standby Commitment to Purchase Agreements (Agreements) with Federal Agricultural Mortgage Corporation (Farmer Mac), covering loans with principal balance outstanding of $194.9 million, $189.2 million and $184.4 million at December 31, 2019, 2018 and 2017, respectively. Under the Agreements, Farmer Mac agrees to purchase loans from the Association in the event of default (typically four months past due), subject to certain conditions, thereby mitigating the risk of loss from covered loans. In return, the Association pays Farmer Mac commitment fees based on the outstanding balance of loans covered by the Agreements. Such fees, totaling $809 in 2019, $753 in 2018 and $779 in 2017 are reflected in noninterest expense.

In addition to Farmer Mac, credit enhancements with federal government agencies of $35.5 million at year-end 2019, $28.2 million at year-end 2018 and $19.2 million at year-end 2017 were outstanding.

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.
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification system as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

	2019	2018	2017
Real estate mortgage			
Acceptable	**89.98%**	92.99%	94.80%
OAEM	**5.78%**	3.85%	2.73%
Substandard	**4.24%**	3.16%	2.47%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**78.38%**	85.62%	82.57%
OAEM	**8.53%**	5.46%	7.46%
Substandard	**13.09%**	8.92%	9.97%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**97.96%**	95.88%	99.79%
OAEM	**1.89%**	4.02%	0.21%
Substandard	**0.15%**	0.10%	–
Total	**100.00%**	100.00%	100.00%
Rural infrastructure			
Acceptable	**90.91%**	100.00%	100.00%
OAEM	**5.21%**	–	–
Substandard	**3.88%**	–	–
Total	**100.00%**	100.00%	100.00%
Rural residential real estate			
Acceptable	**92.23%**	95.53%	95.14%
OAEM	**4.34%**	3.80%	3.31%
Substandard	**3.43%**	0.67%	1.55%
Total	**100.00%**	100.00%	100.00%
Agricultural export finance			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**87.70%**	91.47%	92.62%
OAEM	**6.09%**	4.23%	3.49%
Substandard	**6.21%**	4.30%	3.89%
Total	**100.00%**	100.00%	100.00%

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following presents information relating to impaired loans including accrued interest.

	December 31		
	2019	2018	2017
Nonaccrual loans:			
Current as to principal and interest	**$ 22,039**	$ 13,545	$ 4,018
Past due	**18,285**	3,582	17,603
Total nonaccrual loans	**40,324**	17,127	21,621
Total impaired loans	**$ 40,324**	$ 17,127	$ 21,621

The Association had no loans classified as accruing restructured or accruing loans 90 days or more past due for the years presented.

There were no material commitments to lend additional funds to debtors whose loans were classified impaired for the years presented.

High risk assets consist of impaired loans and other property owned. The following table presents these in a more detailed manner than the previous table. These nonperforming assets (including related accrued interest) are as follows:

	December 31		
	2019	2018	2017
Nonaccrual loans			
Real estate mortgage	**$ 12,627**	$ 1,727	$ 10,242
Production and intermediate-term	**27,429**	15,216	11,352
Agribusiness	**212**	184	–
Rural residential real estate	**56**	–	27
Total nonaccrual loans	**40,324**	17,127	21,621
Total impaired loans	**40,324**	17,127	21,621
Other property owned	**8**	54	620
Total high risk assets	**$ 40,332**	$ 17,181	$ 22,241

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/19	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 1,201	$ 1,218	$ 9	$ 617	$ –
Production and intermediate-term	15,027	15,113	2,777	10,527	–
Total	$ 16,228	$ 16,331	$ 2,786	$ 11,144	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 11,426	$ 11,710		$ 4,891	$ 168
Production and intermediate-term	12,402	13,233		7,532	880
Agribusiness	212	186		193	–
Rural residential real estate	56	55		24	–
Total	$ 24,096	$ 25,184		$ 12,640	$ 1,048
Total impaired loans:					
Real estate mortgage	$ 12,627	$ 12,928	$ 9	$ 5,508	$ 168
Production and intermediate-term	27,429	28,346	2,777	18,059	880
Agribusiness	212	186	–	193	–
Rural residential real estate	56	55	–	24	–
Total	$ 40,324	$ 41,515	$ 2,786	$ 23,784	$ 1,048

	Recorded Investment at 12/31/18	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ 1,471	$ –
Production and intermediate-term	1,109	1,100	82	4,376	–
Total	$ 1,109	$ 1,100	$ 82	$ 5,847	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,727	$ 1,877		$ 5,257	$ 369
Production and intermediate-term	14,107	15,324		3,220	96
Agribusiness	184	185		7	–
Rural residential real estate	–	–		25	17
Total	$ 16,018	$ 17,386		$ 8,509	$ 482
Total impaired loans:					
Real estate mortgage	$ 1,727	$ 1,877	$ –	$ 6,728	$ 369
Production and intermediate-term	15,216	16,424	82	7,596	96
Agribusiness	184	185	–	7	–
Rural residential real estate	–	–	–	25	17
Total	$ 17,127	$ 18,486	$ 82	$ 14,356	$ 482

	Recorded Investment at 12/31/17	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 1,703	$ 1,703	$ 653	$ 1,088	$ –
Production and intermediate-term	1,100	1,100	71	–	–
Agribusiness	–	–	–	629	–
Total	$ 2,803	$ 2,803	$ 724	$ 1,717	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 8,539	$ 8,864		$ 4,448	$ 22
Production and intermediate-term	10,252	19,198		8,286	29
Agribusiness	–	–		106	–
Rural residential real estate	27	55		38	–
Total	$ 18,818	$ 28,117		$ 12,878	$ 51
Total impaired loans:					
Real estate mortgage	$ 10,242	$ 10,567	$ 653	$ 5,536	$ 22
Production and intermediate-term	11,352	20,298	71	8,286	29
Agribusiness	–	–	–	735	–
Rural residential real estate	27	55	–	38	–
Total	$ 21,621	$ 30,920	$ 724	$ 14,595	$ 51

* Unpaid principal balance represents the recorded principal balance of the loan

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

	Year Ended December 31		
	2019	2018	2017
Interest income recognized on:			
Nonaccrual loans	**$ 1,008**	$ 472	$ 49
Accrual loans 90 days or more past due	**40**	10	2
Interest income recognized on impaired loans	**$ 1,048**	$ 482	$ 51

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

	Year Ended December 31		
	2019	2018	2017
Interest income which would have been recognized under the original loan terms	**$ 1,717**	$ 1,719	$ 2,342
Less: interest income recognized	**1,008**	472	49
Interest income not recognized	**$ 709**	$ 1,247	$ 2,293

The following table provides an age analysis of past due loans (including accrued interest).

December 31, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 2,001	$ 1,120	$ 3,121	$ 1,115,293	$ 1,118,414	$ –
Production and intermediate-term	17,023	2,997	20,020	497,420	517,440	–
Agribusiness	–	212	212	202,977	203,189	–
Rural infrastructure	–	–	–	38,277	38,277	–
Rural residential real estate	–	56	56	1,897	1,953	–
Agricultural export finance	–	–	–	3,463	3,463	–
Total	$ 19,024	$ 4,385	$ 23,409	$ 1,859,327	$ 1,882,736	$ –

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	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 5,185	$ 1,061	$ 6,246	$ 1,051,733	$ 1,057,979	$ –
Production and intermediate-term	1,596	1,080	2,676	461,659	464,335	–
Agribusiness	3,944	12	3,956	190,256	194,212	–
Rural infrastructure	–	–	–	26,293	26,293	–
Rural residential real estate	–	–	–	2,362	2,362	–
Agricultural export finance	–	–	–	2,459	2,459	–
Total	$ 10,725	$ 2,153	$ 12,878	$ 1,734,762	$ 1,747,640	$ –

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	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 4,322	$ 3,216	$ 7,538	$ 1,014,536	$ 1,022,074	$ –
Production and intermediate-term	3,259	8,100	11,359	386,166	397,525	–
Agribusiness	–	–	–	204,751	204,751	–
Rural infrastructure	–	–	–	36,452	36,452	–
Rural residential real estate	–	27	27	2,921	2,948	–
Agricultural export finance	–	–	–	2,459	2,459	–
Total	$ 7,581	$ 11,343	$ 18,924	$ 1,647,285	$ 1,666,209	$ –

Note: The recorded investment in the loan 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 loan receivable.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) 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. There were no loans restructured during the periods ending December 31, 2019, 2018 and 2017 and no TDRs in the portfolio for the periods presented. There were no additional commitments to lend to borrowers whose loans have been modified in TDR at December 31, 2019, 2018 and 2017.

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

	Balance at December 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2019
Real estate mortgage	$ 5,370	$ –	$ –	$ (216)	$ 5,154
Production and intermediate-term	6,670	–	–	2,625	9,295
Agribusiness	310	–	–	(8)	302
Rural infrastructure	37	–	–	33	70
Rural residential real estate	2	–	–	(1)	1
Agricultural export finance	1	–	–		1
Total	$ 12,390	$ –	$ –	$ 2,433	$ 14,823

	Balance at December 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2018
Real estate mortgage	$ 5,566	$ 603	$ –	$ 407	$ 5,370
Production and intermediate-term	4,926	–	–	1,744	6,670
Agribusiness	277	–	–	33	310
Rural infrastructure	56	–	–	(19)	37
Rural residential real estate	2	–	–	–	2
Agricultural export finance	1	–	–	–	1
Total	$ 10,828	$ 603	$ –	$ 2,165	$ 12,390

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2017
Real estate mortgage	$ 5,250	$ –	$ –	$ 316	$ 5,566
Production and intermediate-term	5,250	–	–	(324)	4,926
Agribusiness	788	1,208	–	697	277
Rural infrastructure	77	–	–	(21)	56
Rural residential real estate	4	–	–	(2)	2
Agricultural export finance	1	–	–	–	1
Total	$ 11,370	$ 1,208	$ –	$ 666	$ 10,828

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on our Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses.

A summary of changes in the reserve for unfunded commitments follows:

	For the Year Ended December 31		
	2019	2018	2017
Balance at beginning of period	**$ 242**	$ 210	$ 434
Provision for/(Reversal of) reserve for unfunded commitments	**67**	32	(224)
Total	**$ 309**	$ 242	$ 210

Additional information on the allowance for loan losses follows.

	Allowance for Loan Losses Ending Balance at December 31, 2019		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2019	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ 9	$ 5,145	$ 12,627	$ 1,105,787
Production and intermediate-term	2,777	6,518	27,429	490,011
Agribusiness	–	302	212	202,977
Rural infrastructure	–	70	–	38,277
Rural residential real estate	–	1	56	1,897
Agricultural export finance	–	1	–	3,463
Total	$ 2,786	$ 12,037	$ 40,324	$ 1,842,412

	Allowance for Loan Losses Ending Balance at December 31, 2018		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2018	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 5,370	$ 1,727	$ 1,056,252
Production and intermediate-term	82	6,588	15,216	449,119
Agribusiness	–	310	184	194,028
Rural infrastructure	–	37	–	26,293
Rural residential real estate	–	2	–	2,362
Agricultural export finance	–	1	–	2,459
Total	$ 82	$ 12,308	$ 17,127	$ 1,730,513

	Allowance for Loan Losses Ending Balance at December 31, 2017		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2017	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ 724	$ 4,842	$ 10,242	$ 1,011,832
Production and intermediate-term	–	4,926	11,352	386,173
Agribusiness	–	277	–	204,751
Rural infrastructure	–	56	–	36,452
Rural residential real estate	–	2	68	2,880
Agricultural export finance	–	1	–	2,459
Total	$ 724	$ 10,104	$ 21,662	$ 1,644,547

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2019, the Association's investment in CoBank is in the form of Class A stock with a par value of $100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.00 percent of the Association's prior year average direct loan balance. The current requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the Association's prior ten-year average balance of such participations sold to CoBank. Under the current CoBank capital plan, patronage from CoBank related to these participations sold is paid 75 percent cash and 25 percent Class A stock on participations for agricultural cooperatives and communications customers and 80 percent cash and 20 percent Class A stock on participations for electric distribution and generation cooperatives and rural water customers. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements for its joint and several liability under the Farm Credit Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

The Association owned approximately 1.63 percent of the outstanding common stock of CoBank at December 31, 2019, compared with 1.60 percent at December 31, 2018 and 1.62 percent at December 31, 2017.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
	2019	2018	2017
Land	**$ 1,709**	$ 1,709	$ 1,862
Buildings and leasehold improvements	**13,961**	12,957	13,217
Furniture, equipment and automobiles	**4,370**	4,210	3,927
Construction in progress	**1**	34	–
	20,041	18,910	19,006
Less: accumulated depreciation	**7,062**	6,427	6,232
Total	**$ 12,979**	$ 12,483	$ 12,774

NOTE 6 – OTHER PROPERTY OWNED

(Gains)/Losses on other property owned, net as reflected on the Consolidated Statement of Comprehensive Income consisted of the following.

	December 31		
	2019	2018	2017
Gains on sale, net	**$ (5)**	$ (47)	$ –
Carrying value adjustments	**–**	–	67
Operating expense, net	**–**	4	8
(Gains)/Losses on other property owned, net	**$ (5)**	$ (43)	$ 75

NOTE 7 – NOTE PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA). According to the agreement, the aggregate outstanding amount of principal and accrued interest shall not at any time exceed the line of credit. The GFA is subject to periodic renewals in the normal course of business. The GFA will mature on December 31, 2022. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2019. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing.

	December 31		
	2019	2018	2017
Line of credit	**$ 1,600,000**	$ 1,450,000	$ 1,400,000
Outstanding principal and accrued interest balance	**$ 1,509,672**	$ 1,383,500	$ 1,322,508
Average outstanding principal balance under the line of credit	**$ 1,397,724**	$ 1,300,741	$ 1,258,180
Weighted average interest rate	**2.70%**	2.40%	1.73%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. Other than the funding relationship with the Bank, and our advanced conditional payments, the Association has no other uninsured or insured debt. See Note 2 for additional information. CoBank, consistent with FCA regulations, has 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, 2019, the Association's notes payable was within the specified limitations.

The Association has the opportunity to commit loanable funds with CoBank under a variety of programs at either fixed or variable rates for specified timeframes. Participants in the program receive a credit on the committed loanable funds balance classified as a reduction of interest expense. These committed funds are netted against the note payable to the Bank. The average committed funds as of December 31 are as follows.

	2019	2018	2017
Average committed funds	**$ 370,917**	$ 359,881	$ 349,196
Average rates	**1.98%**	1.51%	0.95%

NOTE 8 – SHAREHOLDERS' EQUITY

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

A. Protected Borrower Stock

Protection of certain stock is provided under the Farm Credit Act which requires the Association, when retiring protected stock, to retire it at par or stated value regardless of its book value. Protected stock includes stock and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988.

B. Capital Stock

In accordance with the Farm Credit Act, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership of the stock at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. The Association has a first lien on the stock owned by its borrowers. 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 stock. Our bylaws generally permit stock to be retired at the discretion of the Board of Directors and in compliance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2019, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00 percent of the amount of the loan to 10.00 percent of the loan. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. Currently, the Association has a stock requirement of the lesser of one thousand dollars or 2.00 percent of the amount of the borrower's combined loan volume.

C. Regulatory Capitalization Requirements and Restrictions

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. Effective January 1, 2017, new regulatory capital surplus 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.

The following sets forth the regulatory capital ratio requirements and ratios at December 31.

Ratio	Primary Components of Numerator	Denominator	2019	2018	2017	Minimum with Buffer*	Minimum Requirement
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	Risk-adjusted assets	21.04%	21.52%	21.77%	7.0%	4.5%
Tier 1 Capital	CET1 Capital, noncumulative perpetual preferred stock	Risk-adjusted assets	21.04%	21.52%	21.77%	8.5%	6.0%
Total Capital	Tier 1 Capital, allowance for loan losses[2], common cooperative equities[3], and term preferred stock and subordinated debt[4]	Risk-adjusted assets	21.82%	22.16%	22.40%	10.5%	8.0%
Tier 1 Leverage**	Tier 1 Capital	Total assets	20.01%	20.38%	20.62%	5.0%	4.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	21.69%	22.04%	22.28%	–	1.5%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	21.20%	21.66%	21.90%	–	7.0%

* The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.
** Must include the regulatory minimum requirement for the URE and UREE Leverage ratio.
1 Equities outstanding 7 or more years
2 Capped at 1.25% of risk-adjusted assets
3 Outstanding 5 or more years, but less than 7 years
4 Outstanding 5 or more years

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.

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

D. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicate the number of shares outstanding at December 31, 2019. Unless otherwise indicated, all classes of stock have a par value of $5.00. All classes of stock are transferable to other customers who are eligible to hold such class of stock. Transfers of stock are only allowed as long as the Association meets the regulatory minimum capital requirements. Refer to the Management's Discussion and Analysis Capital Resources discussion for further information.

Class A Common Stock (Nonvoting, at-risk, no shares outstanding) – Issued in exchange for Class B Common Stock or Class C Common Stock; as a patronage refund; as a dividend; or in exchange for allocated surplus. Retirement is at the sole discretion of the Board of Directors.

Class B Common Stock (Voting, at-risk, 228,184 shares outstanding) – Issued solely to, and shall be acquired by, borrowers and other applicants who are farmers, ranchers, or producers or harvesters of aquatic products and who are eligible to vote. Class B Common Stock may also be held by those borrowers who exchanged one share of Class F Common Stock for one share of Class B Common Stock. Each Class B Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class B Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

Class C Common Stock (Nonvoting, at-risk, 19,330 shares outstanding) – Class C Common Stock may be issued to borrowers or applicants who are: (a) rural residents, including persons eligible to hold voting stock, to capitalize rural housing loans; (b) persons or organizations furnishing farm-related services; (c) other persons or organizations who are eligible to borrow from or participate with the Association but who are not eligible to hold voting stock. Class C Common Stock may be issued to any person who is not a shareholder but who is eligible to borrow from the Association for the purpose of qualifying such person for technical assistance, financially related services and leasing services offered by the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class C Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

Class D Common Stock (Nonvoting, at-risk, no shares outstanding) – Issued to CoBank or to any person through direct sale.

Class E Preferred Stock (Nonvoting, at-risk, no shares outstanding, par value as may be determined by any agreement of financial assistance between the Association and CoBank) - Issued only to CoBank in consideration of financial assistance to the Association from CoBank. Retirement is at the sole discretion of the Board of Directors.

Class F Common Stock (Voting, protected, no shares outstanding) – Shall be issued to those individuals and entities who held the same class of stock in a predecessor to the Association. The Association shall not issue any additional Class F Common Stock. Each Class F Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class F Common Stock shall be converted to Class G Common Stock. Retirement is at the sole discretion of the Board of Directors.

Class G Common Stock (Nonvoting, protected, no shares outstanding) – Issued only to those individuals and entities who held the same class of stock in a predecessor to the Association and as necessary for conversions from Class F Common Stock. No further shares of Class G Common Stock will be issued. It must be retired upon repayment of the loan.

Class H Common Stock (Nonvoting, at risk, no shares outstanding) – May be issued for allocated surplus distributions and patronage distributions. This stock shall be issued in series with the stock issued in each calendar year constituting a separate series. Retirement is at the sole discretion of the Board of Directors.

The changes in the number of shares of protected and capital stock outstanding during 2019 are summarized in the following table.

Shares in whole numbers	Capital
Balance outstanding at January 1, 2019	242,999
Issuances	25,321
Retirements	(20,806)
Balance outstanding at December 31, 2019	247,514

E. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of Class B, C, F and G Stock out of the whole or any part of net earnings which remain at the end of the fiscal year, as the Board of Directors may determine, in accordance with the regulations for banks and associations of the System. Additionally, patronage distributions may be allocated to System institutions with whom or for whom the Association conducts specified business transactions. However, distributions and retirements are precluded by regulation until the minimum capital adequacy standards have been attained. Amounts not distributed are retained as unallocated retained earnings. The Association made a cash patronage distribution of $10.8 million during 2019, $9.7 million during 2018 and $9.4 million during 2017. The Association declared a $11.8 million cash patronage during 2019 to be distributed during 2020.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: First, pro rata to all classes of preferred stock; second, pro rata to all classes of common stock; third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance; fourth, to the holders of allocated surplus evidenced by non-qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance. Any remaining assets of the Association after such distributions shall be distributed to present and former Patrons on a patronage basis, to the extent practicable.

At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage refund. For 2019, the Association allocated 39.72 percent of its patronage-sourced net income to its patrons. That portion of patronage-sourced net income not distributed in cash is also allocated to patrons. In accordance with Internal Revenue Service requirements, each customer is sent a nonqualified written notice of allocation. Allocated, but not distributed patronage refunds, are included in the unallocated retained earnings account. Such allocations may provide a future basis for a distribution of capital. The Board of Directors considers these unallocated retained earnings to be permanently invested in the Association. As such, there is no current plan to revolve or redeem these amounts. No express or implied right to have such capital retired or revolved at any time is granted.

F. Accumulated Other Comprehensive Income/Loss

The Association reports accumulated other comprehensive income/loss in its Consolidated Statement of Changes in Shareholders' Equity. As more fully described in Note 2, accumulated other comprehensive income/loss results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits. The Association has accumulated other comprehensive loss of $2.1 million in 2019, $730 in 2018 and $530 in 2017. There were no other items affecting comprehensive income or loss.

The following table presents activity in the accumulated other comprehensive income/(loss), net of tax by component.

	2019	2018	2017
Pension benefit plan:			
Beginning balance	**$ (730)**	$ (530)	$ (525)
Other comprehensive loss before reclassifications	**(1,494)**	(308)	(117)
Amounts reclassified from accumulated other comprehensive loss	**148**	108	112
Net current period other comprehensive income/(loss)	**(1,346)**	(200)	(5)
Year-end balance	**$ (2,076)**	$ (730)	$ (530)

The following table represents reclassifications out of accumulated other comprehensive income/(loss).

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)			Location of Gain/Loss Recognized in Statement of Income
	December 31			
	2019	2018	2017	
Pension and other benefit plans:				
Net actuarial loss	**$ 148**	$ 108	$ 112	Salaries and employee benefits
Total reclassifications	**$ 148**	$ 108	$ 112	

NOTE 9 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

Patronage income recognized from Farm Credit institutions to the Association follows.

	2019	2018	2017
CoBank	**$ 6,118**	$ 7,145	$ 6,284
Farm Credit Foundations	**18**	15	12
Total	**$ 6,136**	$ 7,160	$ 6,296

Patronage distributed from CoBank was in cash and stock. The amount earned in 2019 was accrued and will be paid by CoBank in March 2020. The amount earned and accrued in 2018 and 2017 was paid by CoBank in March of the following year. In 2018, we received a one-time cash patronage distribution from CoBank of $754 thousand relating to tax reform changes.

Patronage distributed by Farm Credit Foundations was accrued at the end of the year and will be paid in March 2020. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

NOTE 10 – INCOME TAXES

The provision for/(benefit from) income taxes follows.

	Year Ended December 31		
	2019	2018	2017
Current:			
Federal	**$ 97**	$ 83	$ (33)
State	**22**	19	(12)
Provision for/(Benefit from) income taxes	**$ 119**	$ 102	$ (45)

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.

	Year Ended December 31		
	2019	2018	2017
Federal tax at statutory rate	**$ 6,342**	$ 6,052	$ 9,568
State tax, net	**18**	15	(8)
Effect of non-taxable entity	**(5,919)**	(5,587)	(8,087)
Prior year federal tax adjustments	**–**	–	(169)
Patronage distributions	**(987)**	(1,172)	(346)
Increase/(Decrease) in valuation allowance	**357**	841	(1,810)
Change in tax rates	**–**	–	821
Provision to return difference	**308**	–	–
Other	**–**	(47)	(14)
Provision for/(Benefit from) income taxes	**$ 119**	$ 102	$ (45)

Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2019	2018	2017
Deferred income tax assets:			
Allowance for loan losses	**$ 2,551**	$ 1,852	$ 1,344
Nonaccrual loan interest	**426**	350	207
Net operating loss carry forwards	**586**	586	570
Depreciation	**44**	–	–
Gross deferred tax assets	**3,607**	2,788	2,121
Deferred tax asset valuation allowance	**(3,180)**	(2,744)	(1,716)
Deferred income tax liabilities:			
Bank patronage allocation	**(427)**	–	(364)
Depreciation	**–**	(44)	(41)
Gross deferred tax liability	**(427)**	(44)	(405)
Net deferred tax asset	**$ –**	$ –	$ –

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income retained. The expected future tax rates are based upon enacted tax laws.

The Association recorded a valuation allowance of $3.2 million in 2019, $2.7 million in 2018 and $1.7 million in 2017. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. Due to tax reform, any federal and state net operating losses recorded in 2019 and 2018 have an indefinite carryforward period. At December 31, 2017, the Association had federal and state net operating loss carryforwards of $570 that expire from 2026 to 2028.

Tax expense in 2017 was impacted by the enactment of federal tax legislation in late December 2017 which, 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 the Association's deferred tax assets and deferred tax liabilities in the period of enactment (2017).

The Association has no uncertain tax positions as of December 31, 2019, 2018 or 2017. The Association recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2016 and forward.

NOTE 11 – EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth Retirement Plan, a multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers eligible employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if the Association chooses to stop participating in the plan, the Association may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

The defined benefit pension plan reflects an unfunded liability totaling $81.2 million at December 31, 2019. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the plan was $333.7 million at December 31, 2019, $274.4 million at December 31, 2018 and $292.6 million at December 31, 2017. The fair value of the plan assets was $252.5 million at December 31, 2019, $204.9 million at December 31, 2018 and $208.0 million at December 31, 2017. The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated ownership percentage of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $6.8 million in 2019, $10.8 million in 2018, and $12.7 million in 2017. The Association's allocated share of plan expenses included in salaries and employee benefits was $431 in 2019, $710 in 2018, and $859 in 2017. Participating employers contributed $20.0 million in 2019, $20.0 million in 2018 and $20.0 million in 2017 to the plan. The Association's allocated share of these pension contributions was $1.3 million in 2019, $1.3 million in 2018, and $1.4 million in 2017. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2020 is $30.0 million. The Association's allocated share of these pension contributions is expected to be $2.2 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits (primarily health care benefits) included in salaries and employee benefits were income of $2 in 2019, $1 in 2018, and $2 in 2017. The Association made cash contributions of $5 in 2019, $8 in 2018 and $11 in 2017.

The Association participates in a non-qualified defined benefit Pension Restoration Plan that is unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. Pension Restoration Plan expenses included in salaries and employee benefits were $295 in 2019, $223 in 2018, and $215 in 2017.

The funding status and the amounts recognized in the Consolidated Statement of Condition for the Association's Pension Restoration Plan follows.

	Nonqualified Pension Benefits		
	2019	2018	2017
Change in projected benefit obligation:			
Benefit obligation at the beginning of the period	**$ 1,364**	$ 964	$ 766
Service cost	**95**	85	81
Interest cost	**52**	30	22
Actuarial loss	**1,494**	308	117
Benefits paid	**(371)**	(23)	(22)
Benefit obligation at the end of the period	**$ 2,634**	$ 1,364	$ 964
Change in plan assets:			
Company contributions	**371**	23	22
Benefits paid	**(371)**	(23)	(22)
Fair value of plan assets at the end of the period	**$ –**	$ –	$ –
Funded status of the plan	**$ (2,634)**	$ (1,364)	$ (964)
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	**$ 2,634**	$ 1,364	$ 964
Net amount recognized	**$ 2,634**	$ 1,364	$ 964

The following table represents the amounts included in accumulated other comprehensive income/loss for the Pension Restoration Plan at December 31.

	2019	2018	2017
Net actuarial loss	**$ (2,075)**	$ (729)	$ (529)
Prior service costs	**(1)**	(1)	(1)
Total amount recognized in AOCI/(loss)	**$ (2,076)**	$ (730)	$ (530)

An estimated net actuarial loss of $453 for the Pension Restoration Plan will be amortized into income over the next year.

The projected and accumulated benefit obligation for the Pension Restoration Plan at December 31 was:

	2019	2018	2017
Projected benefit obligation	**$ 2,634**	$ 1,364	$ 964
Accumulated benefit obligation	**$ 2,154**	$ 1,130	$ 736

The net periodic pension expense for the Pension Restoration Plan included in the Consolidated Statement of Comprehensive Income is comprised of the following at December 31.

	Pension Benefits		
	2019	2018	2017
Components of net periodic benefit cost/(income)			
Service cost	**$ 95**	$ 85	$ 81
Interest cost	**52**	30	22
Net amortization and deferral	**148**	108	112
Net periodic benefit cost	**$ 295**	$ 223	$ 215

Changes in benefit obligation recognized in accumulated other comprehensive income/(loss) are included in the following table.

	2019	2018	2017
Current year net actuarial loss	**$ (1,494)**	$ (308)	$ (117)
Amortization of net actuarial loss	**148**	108	112
Total recognized in other comprehensive income/(loss)	**$ (1,346)**	$ (200)	$ (5)

Weighted average assumptions used to determine benefit obligation at December 31:

	Pension Benefits		
	2019	2018	2017
Discount rate	**2.59%**	4.06%	3.35%
Rate of compensation increase	**5.40%**	5.00%	5.00%

Beginning in 2019, the rate of compensation increase for the pension benefits was modified to an age-based scale beginning at 5.50%, decreasing ultimately to 3.50%.

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Pension Benefits		
	2019	2018	2017
Discount rate			
Projected benefit obligation	**4.06%**	3.35%	3.51%
Service cost	**4.11%**	3.39%	3.58%
Interest cost	**3.93%**	3.13%	3.04%
Rate of compensation increase	**5.00%**	5.00%	5.00%

The Association expects to contribute $371 to the Pension Restoration Plan in 2020.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

	Pension Restoration Benefits
2020	$ 371
2021	$ 372
2022	$ 25
2023	$ 892
2024	$ 767
2025 – 2029	$ 765

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions to the plan. Employer contributions to the Contribution Plan were $1.1 million in 2019, $1.1 million in 2018 and $927 in 2017.

NOTE 12 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or Other Assets Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board of Directors or employment.

Loan information to related parties for the years ended December 31 is shown below.

	2019	2018	2017
Beginning balance	**$ 44,143**	$ 41,507	$ 26,720
New loans	**60,058**	55,480	56,581
Repayments	**(60,745)**	(52,844)	(46,223)
Reclassifications*	**(21,443)**	–	4,429
Ending balance	**$ 22,013**	$ 44,143	$ 41,507

* Represents loans that were once considered related party, but are no longer considered related party, or loans that were not related party that subsequently became related party loans.

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2019 involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid $2.2 million in 2019, $2.0 million in 2018 and $1.6 million in 2017 to AgVantis for technology services. One Association officer, elected by AgVantis' owners, serves as an AgVantis director. The Association paid $223 in 2019, $269 in 2018, and $194 in 2017 to Foundations for human resource services. The Association paid $25 to CoBank for operational services in 2019 compared with none in 2018 and $46 in 2017.

NOTE 13 – REGULATORY ENFORCEMENT MATTERS

There are no regulatory enforcement actions in effect for the Association.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated 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 by the borrower. At December 31, 2019, $615.1 million of commitments to extend credit and $60 of commercial letters of credit 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 Consolidated Statement of Condition 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 credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2019, $5.4 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates from 2020 to 2021. The maximum potential amount of future payments the Association is required to make under the guarantees is $5.4 million. Payment/performance risk of the standby letters of credit guarantee is assessed using the same internal customer credit ratings that we use to manage credit risk in our loan portfolio.

NOTE 15 – 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. The fair value measurement is not an indication of liquidity. See Note 2 for additional information.

Assets measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized as follows:

	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets held in nonqualified benefits trusts				
2019	**$ 1,309**	**$ –**	**$ –**	**$ 1,309**
2018	$ 1,291	$ –	$ –	$ 1,291
2017	$ 1,043	$ –	$ –	$ 1,043

The Association has no liabilities measured at fair value on a recurring basis for the periods presented.

Assets measured at fair value on a non-recurring basis at December 31 for each of the fair value hierarchy values are summarized as follows:

	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
2019				
Loans	**$ –**	**$ –**	**$ 13,441**	**$ 13,441**
Other property owned	**$ –**	**$ –**	**$ 9**	**$ 9**
2018				
Loans	$ –	$ –	$ 1,027	$ 1,027
Other property owned	$ –	$ –	$ 59	$ 59
2017				
Loans	$ –	$ –	$ 2,079	$ 2,079
Other property owned	$ –	$ –	$ 662	$ 662

The Association has no liabilities measured at fair value on a non-recurring basis for any of the periods presented.

Valuation Techniques

As more fully discussed in Note 2, 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, 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 presents a brief summary of the valuation techniques used by the Association for assets and liabilities subject to fair value measurement.

Assets Held in Non-Qualified 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.

Loans

For impaired loans measured on a non-recurring basis, 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, 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 only 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 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 16 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2019, 2018, and 2017, follow.

	2019				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 12,583**	**$ 13,034**	**$ 12,605**	**$ 12,508**	**$ 50,730**
(Credit loss reversal)/Provision for credit losses	**(513)**	**1,080**	**615**	**1,318**	**2,500**
Noninterest expense, net	**4,268**	**4,700**	**4,843**	**4,339**	**18,150**
Net income	**$ 8,828**	**$ 7,254**	**$ 7,147**	**$ 6,851**	**$ 30,080**

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 10,992	$ 11,362	$ 11,999	$ 12,282	$ 46,635
(Credit loss reversal)/Provision for credit losses	(419)	(161)	566	2,211	2,197
Noninterest expense, net	3,003	3,662	3,669	5,384	15,718
Net income	$ 8,408	$ 7,861	$ 7,764	$ 4,687	$ 28,720

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 10,825	$ 10,591	$ 10,601	$ 10,570	$ 42,587
(Credit loss reversal)/Provision for credit losses	(849)	(339)	357	1,273	442
Noninterest expense, net	3,566	2,365	3,354	4,674	13,959
Net income	$ 8,108	$ 8,565	$ 6,890	$ 4,623	$ 28,186

NOTE 17 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 9, 2020 which is the date the financial statements were issued, and no material subsequent events were identified.

FARM CREDIT OF NEW MEXICO, ACA

DISCLOSURE INFORMATION REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

(AMOUNTS IN WHOLE DOLLARS)

DESCRIPTION OF BUSINESS

The description of the territory served, persons eligible to borrow, types of lending activities engaged in and 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 financial statements, "Organization and Operations," included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from "Management's Discussion and Analysis" (MD&A) included in this annual report to shareholders.

DESCRIPTION OF PROPERTY

The following table sets forth certain information regarding the properties of the Association:

Location	Description	Form of Ownership
5651 Balloon Fiesta Parkway N.E. Albuquerque, New Mexico	Office Building	Owned
97 Santa Fe Drive, Office #7 Clayton, New Mexico	Office Space	Leased
301 West Llano Estacado Boulevard Clovis, New Mexico	Office Building	Owned
2800 Las Vegas Court Las Cruces, New Mexico	Office Building	Owned
110 W College Blvd Suite E. Roswell, New Mexico	Office Building	Leased
323 South Second Street Tucumcari, New Mexico	Office Building	Owned

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

Information required to be disclosed in this section is incorporated herein by reference from Note 13 to the financial statements, "Regulatory Enforcement Matters," and Note 14 to the financial statements, "Commitments and Contingencies," included in this annual report to shareholders.

DESCRIPTION OF CAPITAL STRUCTURE

Information required to be disclosed in this section is incorporated herein by reference from Note 8 to the financial statements, "Shareholders' Equity," included in this annual report to shareholders.

DESCRIPTION OF LIABILITIES

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 7 to the financial statements, "Note Payable to CoBank," included in this annual report to shareholders.

The description of advance conditional payments is incorporated herein by reference to Note 2 to the financial statements, "Summary of Significant Accounting Policies," included in this annual report to shareholders.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 14 to the financial statements.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2019, required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Consolidated Financial Data," included in this annual report to shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

"Management's Discussion and Analysis," which appears within this annual report to shareholders and is required to be disclosed in this section, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The following represents certain information regarding the directors and senior officers of the Association.

DIRECTORS

Name:	Allen W. "Wess" Wells
Title:	Director, Chairman of the Board, and Audit Committee Member
Term of Office:	Four years, expiring May 2020. First elected in 2002.
Business Experience:	Occupation(s) during the past five years: Owner W&W Ranch - Ranching, Cow/Calf and Yearling Operation; Owner Wells Insurance Agency (retired).
Other Business Interests:	Member of New Mexico Farm and Livestock Bureau, New Mexico Cattle Growers' Association, and National Rifle Association; Board Member of Farm Credit Foundations Plan Sponsor Committee and Gran Quivira Church.

Name:	Tom Drake
Title:	Appointed Director, Board Vice Chairman, and Audit Committee Chairman
Term of Office:	Four years, expiring May 2023. First appointed in 2002.
Business Experience:	Occupation(s) during the past five years: Director of Operations with Glenco, Inc., a structural steel company; Previously served as Vice President of Administration and Government Relations at Clovis Community College, serving as the lead Administrator in legislative affairs and as an extension to the Office of the President in all capacities and as the primary legislative liaison for the College as a registered lobbyist (retired). He has previous commercial banking experience and is a general certified real estate appraiser in New Mexico.

Name:	Danita Agar
Title:	Director, Audit Committee Member
Term of Office:	Four years, expiring May 2021. First elected in 2017.
Business Experience:	Occupation(s) during the past five years: Owner/Operator of Agar Insurance Agency; Cow/Calf Operation.
Other Business Interests:	Board Member of Guadalupe County Tax Protest Board, Guadalupe County Fair Board, and Lodgers Tax Board; Member of New Mexico Cattle Growers Association, and Santa Rosa Rotary Club; Leader of Los Amigos 4-H Club.

Name:	James Duffey
Title:	Director, Compensation Committee Vice Chairman
Term of Office:	Four years, expiring May 2023. First elected in 2015.
Business Experience:	Occupation(s) during the past five years: Owner/Operator Pivot Farm, LLC; Triple J Farms, LLC; J Duffey Land and Livestock, LLC. (Sheep production)
Other Business Interests:	Board Member of Eastern New Mexico State Fair, New Mexico Wool Growers and New Mexico Sheep and Goat Council; Member of New Mexico Farm and Livestock Bureau.

Name:	Jim Hyatt
Title:	Director, Compensation Committee Member, Member of CREED Council
Term of Office:	Four years, expiring May 2023. First elected in 2015.
Business Experience:	Occupation(s) during the past five years: Owner/Operator Hyatt and Hyatt, LLC; Hyatt Feedlot, LLC. (Cattle, wheat, corn and alfalfa)
Other Business Interests:	Member of New Mexico Cattle Growers Association; Board Member of BLM Resource Advisory Board and Southwestern Grazing Association.

Name:	V. Hilaire Mowduk
Title:	Appointed Director, Compensation Committee Chairman
Term of Office:	Four years, expiring May 2020. First appointed in 2006.
Business Experience:	Occupation(s) during the past five years: Currently the Program Manager for USDA-Forest Service-CFO-Budget & Finance. Former Administrative Specialist and Contract Officer for USDA – Farm Service Agency; Former Operations and Finance Manager for the Corrections Corporation of America. Previous banking experience of 17.5 years, including mortgage, retail, commercial and Ag lending functions as well as multiple store and executive management positions.

Name:	Scott Shafer
Title:	Appointed Director, Audit Committee Vice Chairman
Term of Office:	Four years, expiring May 2021. First appointed June 2013.
Business Experience:	Occupation(s) during the past five years: Owner/Operator Shafer Ranches, Inc. (cow/calf ranching operation); Former Wells Fargo banker with 36 years' experience.
Other Business Interests:	Board/Committee Member of Otero County Electric Cooperative, Lincoln County Medical Center, and Trinity United Methodist Church; Advisory Board Member of Corona Range Livestock Research Center.

Name:	Martin Sweetser
Title:	Director, Compensation Committee Member
Term of Office:	Four years, expiring May 2022. First elected in 2014.
Business Experience:	Occupation(s) during the past five years: Owner/Operator farming; corn silage, cotton, alfalfa, vegetables, milo, and pecans operation.
Other Business Interests:	Board Member of Pink Bollworm Pest Management and Luna County Pest Management; Committee Member of the First Methodist Church.

Name:	Jonathan Vander Dussen
Title:	Director, Audit Committee Member
Term of Office:	Four years, expiring May 2021. First elected in 2017.
Business Experience:	Occupation(s) during the past five years: Owner/Operator/Partner Legend Dairy, LLC; JJ Housing, LLC; RSJ Equipment, LLC; Bada Bing LLC.
Other Business Interests:	Advisory Board Member of Select Milk Producers Coop; Board Member of National Milk Producers Federation and Northern Agribusiness Acquisitions.

Name:	Michael Marley
Title:	Director, Audit Committee Member, Compensation Committee Member
Term of Office:	Resigned effective December 31, 2019. First elected in 2008.
Business Experience:	Occupation(s) during the past five years: Owner/Operator Corrales Farms, LLC and Marley Farms, LTD (farming; corn silage, barley and alfalfa); Owner/Operator Marley Ranches, LTD (ranching, cattle and sheep); Partner Roswell Wool; .Marley and Whitney Partnership and Marley and Whitney, LTD; Operator Corrales Dairy, LLC and Member/Agenda SAP, LLC.
Other Business Interests:	Advisory Board Member of C2P Holdings, LLC and Berken Energy, LLC; Board Member of Assurance Home Foundation; Director and Treasurer of Gandy Marley, Inc.

The photographs in this report are by **Chris Corrie**.

<u>Senior Officers</u>

Name:	Alan Feit
Title:	President/Chief Executive Officer, November 2018
FCS Employment:	39 years
Business Experience:	Chief Banking Officer at American Ag Credit, ACA March 2014-October 2018; Senior Vice President of Credit at American Ag Credit, ACA 2012-2014; Previous Farm Credit System experience in the functional areas of lending, credit, sales, and management.
Other Business Interests:	AgVantis, Inc. Director effective December 2018.

Name:	Clinton Bower
Title:	Senior Vice President/Chief Business Development Officer, October 2018
FCS Employment:	2 years
Business Experience:	Farm Credit of New Mexico May 2017-current; National Director at CRIF Lending Solutions September 2016-April 2017; VP of Lending at US Eagle FCU January 2013-September 2016; Account Executive/Dealer Trainer at Ally January 2012-January 2013; Prior leadership roles in sales, credit, training and credit risk management.

Name:	Beverly H. Gabaldon
Title:	Senior Vice President/Chief Financial Officer, February 2012
FCS Employment:	35 years
Business Experience:	Vice President/Assistant Treasurer, 2003; Quality Assurance Administrator, 1999; Farm Credit System experience in the functional areas of finance, accounting, human resources, and information technology. Prior experience, Fiscal Officer for Bernallio County Housing Authority.
Other Business Interests:	Farm Credit System Information and Data Workgroup; Board member of National Hispanic Cultural Center; New Mexico Junior Livestock Foundation.

Name:	Kevin Kuper

Title:	Senior Vice President/Chief Credit Officer, February 2014
FCS Employment:	19 years
Business Experience:	Farm Credit of New Mexico CCO February 2014-current; VP/Assistant Chief Credit Officer April 2009-January 2014; Credit Operations; Farm Credit System.

Name:	Troy Lock
Title:	Senior Vice President/Chief Operations Officer, July 2019
FCS Employment:	4 years
Business Experience:	Vice President Lease Operations, CoBank 2016–2019; Vice President of Operations & Client Support, US Bank 2011–2015; Director of Financial Account Servicing, 2006–2011; Midwest District Manager, Wells Fargo 2005; Assistant Vice President of Operations, Wells Fargo 2001–2005.
Other Business Interests:	ELFA Operations and Technology Committee Member 2018-2019.

Name:	Alan E. Pedersen
Title:	General Counsel/Standards of Conduct Officer, September 2016
FCS Employment:	17 years
Business Experience:	Farm Credit of New Mexico General Counsel September 2016-present; Associate General Counsel at Farm Credit Services of America 2011-2016; Farm Credit System; Private Legal Practice; Commercial Banking-Legal.

Name:	Dennis Fike
Title:	Senior Vice President/Chief Service Officer, September 2014; Retired effective June 30, 2019
FCS Employment:	35 years
Business Experience:	Farm Credit of New Mexico CSO September 2014-June 2019; Senior Vice President of Risk Management at Frontier Farm Credit March 2011-August 2014; Previous Farm Credit System experience in the functional areas of loan operations, credit, appraisal and related services.
Other Business Interests:	Past Chairman of the Farm Credit System Review, Audit, and Appraisal Workgroup

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors of the Association were compensated for services on a per diem basis at the rate of $1,000 per month for attendance at board meetings; $600 per day for planning meetings and trainings; $600 a day for Farm Credit system meetings and conferences; and $250 for conference calls. In addition, Audit Committee members were reimbursed $600 per meeting and Compensation Committee members were reimbursed $450 per meeting. Mileage was reimbursed at the rate of $0.58 per mile while on official business.

Additional information for each director is provided below.

Name	Number of Days Served at Board Meetings	Number of Days Served in Other Official Activities	Board Meetings and Other Official Duties	Audit Committee	Compensation Committee	Total Compensation Paid During 2019
Allen W. Wells	9.0	25.0	$ 29,291	$ 3,000	$ 2,050	$ 34,341
Tom Drake	9.0	11.5	20,518	9,150	–	29,668
Danita Agar	9.0	20.0	22,365	3,000	–	25,365
James W. Duffey	9.0	13.0	18,585	–	2,050	20,635
Jim T. Hyatt	9.0	18.0	21,693	–	2,050	23,743
V. Hilaire Mowduk	9.0	9.0	15,703	–	3,300	19,003
Scott Shafer	8.0	20.0	21,300	3,000	–	24,300
Martin Sweetser	9.0	15.0	19,724	–	2,050	21,774
Jonathan Vander Dussen	9.0	13.5	20,882	2,400	–	23,282
Mike Marley	9.0	28.5	24,725	3,000	2,050	29,775
Total			$ 214,786	$ 23,550	$ 13,550	$ 251,886

Directors and senior officers are reimbursed for travel, subsistence and other expenses related to Association business according to Association policy. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to directors for travel, subsistence and other related expenses were $31,079 in 2019, $29,957 in 2018 and $23,754 in 2017. There was no non-cash compensation paid to directors during 2019.

Information on the Chief Executive Officer (CEO), senior officers and other highly compensated individuals is provided below.

President and CEO	Year	Salary	Incentive	Change in Pension	Deferred/ Perquisite	Other	Total
Alan L. Feit	2019	$ 352,500	$ 160,291	$ 1,019,601	$ 57,753	$ 150,000	$ 1,740,145
Alan L. Feit(2)	2018	$ 62,500	–	$ 419,959	$ 4,197	–	$ 486,656
Alfred E. Porter, Jr.(1)	2018	$ 389,614	$ 115,000	$ 1,226,810	$ 90,515	–	$ 1,821,939
Alfred E. Porter, Jr.	2017	$ 370,207	$ 113,921	$ 291,401	$ 31,903	–	$ 807,432

(1) Information included is for January 1, 2018 – December 31, 2018
(2) Information included is for November 1, 2018 – December 31, 2018

Aggregate Number of Senior Officers/Highly Compensated Individuals (excluding CEO)	Year	Salary	Incentive	Change in Pension	Deferred/ Perquisite	Other	Total
9	2019	$ 1,527,936	$ 381,241	$ 1,314,241	$ 280,184	$ 154,404	$ 3,658,006
7	2018	$ 1,360,090	$ 511,208	$ 133,401	$ 208,277	–	$ 2,212,976
8	2017	$ 1,465,446	$ 455,508	$ 783,365	$ 176,147	–	$ 2,880,466

Disclosure of information on the total compensation paid during the last fiscal year to any senior officer, or to any other officer included in the aggregate, is available to shareholders upon request.

In the preceding table, Deferred/Perquisite includes employer match on defined contribution plans available to all employees, group term life insurance, autos, LTD payback, Healthy Returns incentive payments in 2017 and taxable reimbursement. The change in value of the pension is defined as the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior period. Other includes a severance and relocation bonus.

In addition to base salary, officers in the aggregate can earn additional compensation under an incentive plan which is tied to overall business performance and the individual's performance rating. The officers which are considered to be in the control group are on an incentive plan which is based on a fiscal year and is designed to motivate employees to exceed financial and credit quality performance targets approved by the Board. These targets typically include credit quality, credit administration, loan volume, nonaccrual loan volume, cost of operations, return on assets and other key ratios. Incentive percentages are determined and approved by the Board of Directors.

All employees are covered by the incentive plan where the percentage of salary earned calculation is equal at all position levels. Incentives are disclosed in the year earned.

Retirement Plan Overview – The CEO and certain Senior Officers participate in two defined benefit retirement plans: (a) the Ninth Farm Credit District Pension Plan (Pension Plan), which is a qualified defined benefit plan and (b) the Former Ninth and Eleventh District Employers Pension Restoration Plan, which is a nonqualified retirement plan. Additionally, substantially all employees participate in the 401(k) Plan, which has an employer matching contribution. Certain eligible employees participate in the Farm Credit Foundations Nonqualified Deferred Compensation Plan, which allows individuals to defer compensation and which restores the benefits limited in the 401(k) Plan by restrictions in the Internal Revenue Code. Information on pension benefits attributable to the CEO, senior officers and other highly compensated individuals follows.

As of December 31, 2019 President and CEO	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Alan L. Feit	Pension Plan	39	$ 3,540,561	$ –
	Pension Restoration Plan		$ 1,609,359	$ –

Aggregate Number of Senior Officers/ Highly Compensated Individuals	Plan	Average Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
2	Pension Plan	36	$ 4,749,980	$ –
	Pension Restoration Plan		$ 19,466	$ –

For the Pension Plan and the Pension Restoration Plan, the average years of service represents an average for the aggregate senior officers and highly compensated employee group.

Pension Plan – In general, the Pension Plan is a qualified plan and provides participants with a 50% joint-and-survivor annuity benefit at normal retirement that is equal to 1.50% of average monthly compensation during the 60 consecutive months in which an individual receives his highest compensation (High 60) multiplied by his years of benefit service, plus 0.25% of the amount by which the High 60 exceeds covered compensation multiplied by years of benefit service. The benefit is actuarially adjusted if the individual chooses a different form of distribution than a 50% joint-and-survivor annuity, such as a lump sum distribution. The pension valuation was determined using a blended approach assuming half of the benefits would be paid as a lump sum and half as an annuity at the participants earliest unreduced retirement age. The Pension Plan pays benefits up to the applicable limits under the Internal Revenue Code.

Pension Restoration Plan – The Pension Restoration Plan is unfunded and not qualified for tax purposes. Benefits payable under this plan are equal to the excess of the amount that would be payable under the terms of the Pension Plan disregarding the limitations imposed under Internal Revenue Code Sections 401(a)(17) and 415, over the pension actually payable under the Pension Plan. The plan also restores any benefits attributable to non-qualified deferred compensation excluded from the benefit determined under the Pension Plan. The non-qualified pension restoration valuation was determined using an assumption that benefits would be paid as a lump sum at the participants earliest unreduced retirement age.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

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 financial statements, "Related Party Transactions," included in this annual report to shareholders.

INVOLVEMENT OF SENIOR OFFICERS AND DIRECTORS IN CERTAIN LEGAL PROCEEDINGS

There were no matters which came to the attention of management or the Board of Directors regarding involvement of senior officers or current directors in specified legal proceedings which are required to be disclosed in this section.

BORROWER PRIVACY STATEMENT

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. The Association does not sell or trade customers' personal information to marketing companies or information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting the Association.

UNINCORPORATED BUSINESS ENTITIES

The Association is the sole owner of an unincorporated business entity, FCNM Holdings, LLC, a limited liability company. This company is used for the purpose of acquiring and managing other property owned at the conclusion of certain settlement agreements. The Association is also the sole owner of the unincorporated business entity Farm Credit Solutions, LLC, a limited liability company. This company is used to offer information technology products and services.

RELATIONSHIP WITH COBANK, ACB (COBANK)

The Association is materially affected by CoBank's financial condition and results of operations.

The Association's statutory obligation to borrow from CoBank is discussed in Note 7 to the financial statements. Financial assistance agreements between the Association and CoBank are discussed in Note 8 to the financial statements. Association requirement to invest in CoBank and CoBank's ability to access capital of the Association is discussed in Note 4 to the financial statements, "Investment in CoBank," included in this annual report to shareholders. CoBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section – Liquidity.

CoBank is required to distribute its Annual Report to shareholders of the Association if the bank experiences a significant event that has a material effect on the Association as defined by FCA regulations.

RELATIONSHIP WITH INDEPENDENT AUDITORS

There were no changes in independent auditors since the prior annual report to shareholders and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

FINANCIAL STATEMENTS

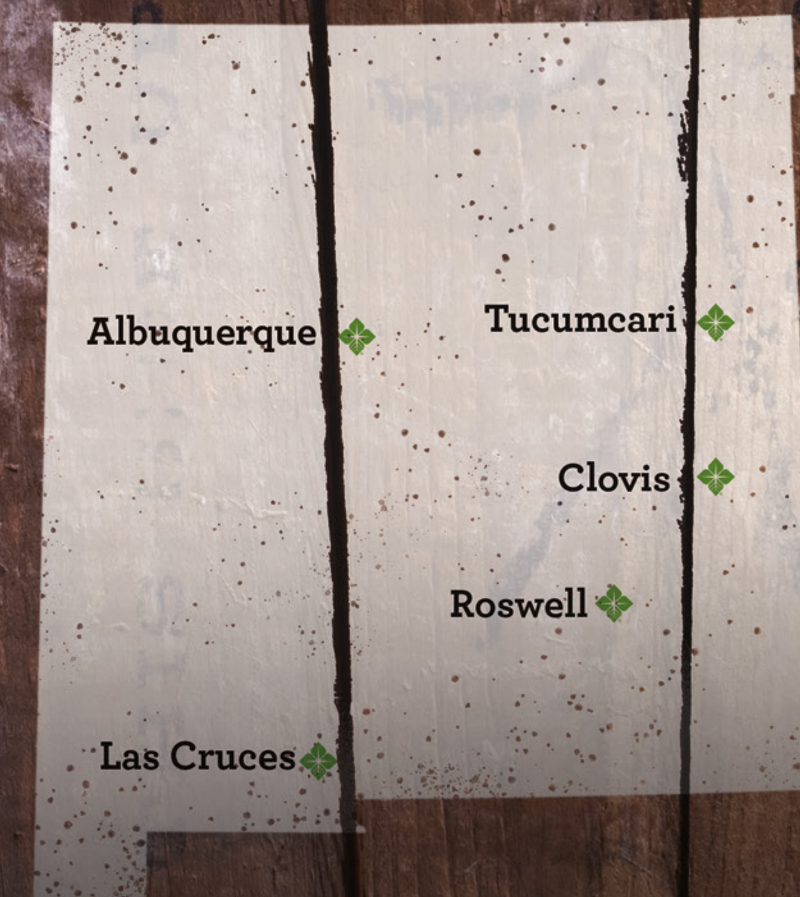
The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 9, 2020, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2019 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 5651 Balloon Fiesta Parkway, N.E., Albuquerque, New Mexico 87113, or may be contacted by calling (505) 884-1048 or (800) 451-5997. The reports may also be obtained free of charge by visiting CoBank's website at www.cobank.com.

I'VE DONE MY JOB AS A PARENT WHEN I SEE MY FATHER IN MY SON'S EYES.

NEW MEXICO LOCATIONS



TUCUMCARI

323 South 2nd Street
P.O. Box 1285, Tucumcari, NM 88401

TOLL FREE
800-824-6403

LOCAL
575-461-3020

FAX
575-461-4655

ALBUQUERQUE

5651 Balloon Fiesta Parkway NE
P.O. Box 94330, Albuquerque, NM 87199

TOLL FREE
800-451-5997

LOCAL
505-884-1048

FAX
505-883-9564

ROSWELL

110 W College Blvd Ste E,
P.O. Box 1537 Roswell, NM 88202

TOLL FREE
800-451-5974

LOCAL
575-622-6870

FAX
575-622-8969

CLOVIS

301 West Llano Estacado Boulevard
P.O. Box 518, Clovis, NM 88102

TOLL FREE
800-451-5977

LOCAL
575-763-5565

FAX
575-763-5566

AGRIBUSINESS

5651 Balloon Fiesta Parkway NE
P.O. Box 94330, Albuquerque, NM 87199

TOLL FREE
800-451-5997

LOCAL
505-884-1048

FAX
505-883-9564

LAS CRUCES

2800 Las Vegas Court
P.O. Box 15039, Las Cruces, NM 88004

TOLL FREE
800-755-6432

LOCAL
575-528-7100

FAX
575-524-0748


TIMES MAY CHANGE.
MY WORK ETHIC NEVER WILL.