







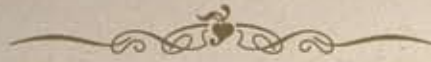
FARM CREDIT OF NEW MEXICO, ACA – 2007 ANNUAL REPORT

*Table of Contents*

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|   |    |
|---|----|
| Message to Stockholders Letter .....                            | 02 |
| Five-year Summary of Selected Consolidated Financial Data ..... | 04 |
| Management's Discussion and Analysis .....                      | 05 |
| Financial Statements .....                                      | 25 |
| Notes .....   | 29 |
| PricewaterhouseCoopers Letter .....                             | 48 |
| Report of Management Letter .....                               | 49 |
| Audit Committee Report Letter .....                             | 50 |
| Disclosures .....   | 51 |
| New Mexico Map with Branch Office Locations .....               | 59 |





FARM CREDIT OF NEW MEXICO, ACA - 2007 Annual Report - Message to stockholders

To Our Stockholders:

On behalf of Management and the Board of Directors, I am pleased to present the 2007 Annual Report on the financial condition of Farm Credit of New Mexico, ACA, including its wholly owned subsidiaries the Production Credit Association of Southern New Mexico and Farm Credit of New Mexico, FLCA. I hope that you will take the time to review the contents of the report and let us know if you have any questions.

As you will see in this report, the Association continued to perform at a very high level. The Association's net earnings continued to be strong and ended the year at over \$22.7 million. This strong earnings performance was due in part to increased growth and increased patronage from USAgBank. Additionally, Farm Credit of New Mexico remains as one of the most efficient Associations in the USAgBank District. These and other issues are explained in the Results of Operations in the Management's Discussion and Analysis of the report. Earnings contribute to the overall capital position of the Association, while building the foundation for continued growth and progress in the future.

During 2007, the Association continued the trend of increasing outstanding loan volume. At year-end, the combined Association staff was responsible for servicing 2,218 loans with an outstanding volume of more than \$1.09 billion. As important, however, was the fact that the delinquency rate stood at .49 percent of the total volume of the portfolio, with combined acceptable and special mention credit quality at 98 percent of the total portfolio.

One of the most important goals of your Board of Directors is to return a portion of the Association's earnings to its members through a cash patronage refund. The Board has established certain financial goals that the Association must achieve in order to pay refunds. The Board of Directors is very pleased to report that the Association achieved its financial goals in 2007, and have declared a 2007 cash patronage refund of \$7.75 million to eligible stockholders. On average, the refund will reduce each eligible member's effective interest rate approximately .75 percent for 2007. We expect to pay these refunds before March 31, 2008.

During 2007, the Association began construction on previously acquired property for the construction and relocation of the combined Headquarters and Albuquerque Branch. This building campaign is the result of continued growth in staffing needs caused by continued growth in customer numbers and loan volume. This facility will position the Association to better serve our customers into the future.

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 is a benefit to agricultural producers and rural economies in New Mexico.

Thank you for your business and your continued support, and thank you for making Farm Credit of New Mexico an important part of the New Mexico economy. It is an honor to serve you.

Sincerely,

Bruce L. McAbee  
Chief Executive Officer



*Board of Directors*

*Top Row: Ben H. Haines Jr., Tyson "Ty" Achen, Tom Drake, Allen W. "Wess" Wells,  
Harold "Sonny" Houghting Jr., Joe Clavel*

*Bottom Row: Kevin Penn, V. Hilaire Barner-Mosduk, Doug Reid, Mack Bell*



*Management Team*

*Brian Lyon, Executive Vice President Chief Financial Officer*

*Bruce McAbee, President Chief Executive Officer*

*Al Porter, Executive Vice President Chief Credit Officer*

FARM CREDIT OF NEW MEXICO, ACA  
 Five-Year Summary of Selected Consolidated Financial Data

(Dollars in thousands)

|   | December 31        |                     |                   |                   |                   |
|---|--------------------|---------------------|-------------------|-------------------|-------------------|
|   | 2007               | 2006                | 2005              | 2004              | 2003              |
| <b>Statement of Condition Data</b>                |                    |                     |                   |                   |                   |
| Loans   | \$1,097,996        | \$ 991,903          | \$ 852,156        | \$ 726,880        | \$ 724,552        |
| Less allowance for loan losses                    | 4,715              | 3,435               | 2,748             | 3,722             | 19,611            |
| Net loans   | 1,093,281          | 988,468             | 849,408           | 723,158           | 704,941           |
| Investment in U.S. AgBank, FCB                    | 31,990             | 30,629              | 20,130            | 17,111            | 16,623            |
| Other assets                                      | 33,304             | 33,728              | 27,619            | 18,554            | 23,775            |
| <b>Total assets</b>                               | <b>\$1,158,575</b> | <b>\$ 1,052,825</b> | <b>\$ 897,157</b> | <b>\$ 758,823</b> | <b>\$ 745,339</b> |
| Obligations with maturities of one year or less   | \$ 25,296          | \$ 22,670           | \$ 21,000         | \$ 10,979         | \$ 7,917          |
| Obligations with maturities longer than one year  | 932,721            | 844,432             | 702,981           | 587,027           | 606,658           |
| <b>Total liabilities</b>                          | <b>958,017</b>     | <b>867,102</b>      | <b>723,981</b>    | <b>598,006</b>    | <b>614,575</b>    |
| Protected borrower stock                          | 27                 | 37                  | 51                | 71                | 81                |
| Patronage stock                                   | 0                  | -                   | 567               | 1,368             | 2,098             |
| Capital stock                                     | 1,445              | 1,647               | 1,940             | 1,964             | 1,964             |
| Unallocated retained earnings                     | 199,148            | 184,152             | 170,815           | 157,566           | 126,711           |
| Accumulated other comprehensive income/(loss)     | (62)               | (113)               | (197)             | (152)             | (90)              |
| <b>Total shareholders' equity</b>                 | <b>200,558</b>     | <b>185,723</b>      | <b>173,176</b>    | <b>160,817</b>    | <b>130,764</b>    |
| <b>Total liabilities and shareholders' equity</b> | <b>\$1,158,575</b> | <b>\$ 1,052,825</b> | <b>\$ 897,157</b> | <b>\$ 758,823</b> | <b>\$ 745,339</b> |

|  | For the Year Ended December 31 |                  |                  |                  |                  |
|--|--------------------------------|------------------|------------------|------------------|------------------|
|  | 2007                           | 2006             | 2005             | 2004             | 2003             |
| <b>Statement of Income Data</b>                                      |                                |                  |                  |                  |                  |
| Net interest income  | \$ 30,033                      | \$ 26,198        | \$ 23,667        | \$ 21,935        | \$ 20,503        |
| Patronage distribution from U.S. AgBank, FCB                         | 5,747                          | 5,117            | 4,176            | 2,899            | 9,226            |
| Provision for loan losses/(Loan loss reversal)                       | 1,280                          | 687              | (1,057)          | (16,721)         | 3,839            |
| Noninterest expense, net   | 11,778                         | 10,853           | 9,531            | 8,924            | 8,396            |
| (Benefit from)/Provision for income taxes                            | (24)                           | (162)            | 120              | 1,776            | (462)            |
| <b>Net income</b>  | <b>\$ 22,746</b>               | <b>\$ 19,937</b> | <b>\$ 19,249</b> | <b>\$ 30,855</b> | <b>\$ 17,956</b> |
| <b>Key Financial Ratios</b>  |                                |                  |                  |                  |                  |
| <b>For the Year</b>  |                                |                  |                  |                  |                  |
| Return on average assets   | 2.08%                          | 2.04%            | 2.32%            | 4.10%            | 2.53%            |
| Return on average shareholders' equity                               | 11.46%                         | 11.11%           | 11.53%           | 21.16%           | 14.70%           |
| Net interest income as a percentage<br>of average earning assets     | 2.90%                          | 2.84%            | 3.00%            | 3.02%            | 2.96%            |
| Net (recoveries)/charge-offs as a percentage<br>of average net loans | -                              | -                | (0.01%)          | (0.12%)          | 0.44%            |
| <b>At Year End</b>   |                                |                  |                  |                  |                  |
| Shareholders' equity as a percentage of total assets                 | 17.31%                         | 17.64%           | 19.30%           | 21.19%           | 17.54%           |
| Debt as a ratio to shareholders' equity                              | 4.78:1                         | 4.67:1           | 4.18:1           | 3.72:1           | 4.70:1           |
| Allowance for loan losses as a percentage of loans                   | 0.43%                          | 0.35%            | 0.32%            | 0.51%            | 2.71%            |
| Permanent capital ratio  | 16.52%                         | 16.11%           | 18.64%           | 18.78%           | 15.61%           |
| Core surplus ratio   | 15.71%                         | 15.95%           | 18.41%           | 18.34%           | 15.13%           |
| Total surplus ratio  | 16.39%                         | 15.94%           | 18.36%           | 18.35%           | 15.16%           |
| <b>Net Income Distribution</b>                                       |                                |                  |                  |                  |                  |
| Cash patronage distribution paid                                     | \$ 6,600                       | \$ 6,000         | \$ -             | \$ -             | \$ -             |
| Cash patronage distribution payable                                  | \$ 7,750                       | \$ 6,600         | \$ 6,000         | \$ -             | \$ -             |
| <b>Other</b>   |                                |                  |                  |                  |                  |
| Loans serviced for U.S. AgBank, FCB                                  | \$ -                           | \$ -             | \$ -             | \$ 60            | \$ 63            |

*(Dollars in thousands, except as noted)*

## INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit of New Mexico, ACA for the year ended December 31, 2007. Comparisons to 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. You should read these comments along with the accompanying financial statements, footnotes and other sections of this report. The accompanying financial statements were prepared under the oversight of the 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 Risk Management
- Capital Resources
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy
- Summary

Our annual and quarterly reports to shareholders are available on our website, [www.farmcreditnm.com](http://www.farmcreditnm.com), or may be obtained free of charge by calling (505) 884-1048 or 1-800-451-5997. Annual reports are available on our website within 75 days after year end and quarterly reports are available on our website within 40 days after the calendar quarter end.

## BUSINESS OVERVIEW

### *Farm Credit System Structure and Mission*

We are one of the more than 90 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 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 to credit-worthy individuals and businesses. The System is the largest agricultural lending organization 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. The 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. We make production and intermediate-term loans for agricultural production or operating purposes and long-term real

estate mortgage loans to farmers, ranchers, rural residents and agribusinesses. Additionally, we provide other related services to our borrowers. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we can provide to our borrowers.

We obtain the funding for our lending and operations from U.S. AgBank, FCB (AgBank). AgBank is a cooperative of which we are a member. AgBank, its related associations, and AgVantis, Inc. (AgVantis) are referred to as the District. We are materially affected by AgBank's financial condition and results of operations. The U.S. AgBank Annual Report to Shareholders, the U.S. AgBank District Annual Report to Shareholders and the AgBank and AgBank District's quarterly reports are available on AgBank's web site, [www.usagbank.com](http://www.usagbank.com), or may be obtained at no charge by calling (505) 884-1048 or 1-800-451-5997. Electronic 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. Our current Services Agreement with AgVantis expires on January 1, 2009. We are a shareholder in AgVantis, along with all other AgVantis customers. In addition, we purchased payroll and other human resources services from AgBank during 2007. Farm Credit Foundations will be providing our payroll and human resource services beginning January 1, 2008.

## ECONOMIC OVERVIEW

The economic conditions in our region varied from 2006. Temperatures were cooler than normal during the spring planting season. Weather conditions for most vegetable and cotton growers were good, although some pecan orchards and onion fields received hail. Precipitation levels were varied across our lending area, with some areas receiving above average amounts of rain and other areas being dry. Surface irrigation water supplies did improve due to the snow pack run-off being better than previous years; however, water levels were down due to high summer temperatures and heavy irrigation.

Milk prices during 2007 improved from a low in January and increased to a high in August. Since August, prices have shown a steady decline. Currently, the dairy industry is affected by the cost of commodities, which in some instances increased up to 50%. The average milk price more than offset the increase in commodity expense and allowed for a profit. The growth in the dairy industry maintained the price for local hay producers. A concern for hay producers is the damage precipitation caused in some areas. Cattle operators experienced good prices; however, rainfall was inconsistent. Pecan producers experienced good yields as 2007 was an "on production" year.

New Mexico real estate held strong in comparison to the rest of the nation, although listings of residential real estate increased and marketing times lengthened. These factors generally indicate a softening in prices. However, current data gathered is not indicating softening prices in New Mexico. Given the current interest rate environment and demand for exports of agricultural products, New Mexico agricultural real estate will most likely remain strong. The cost to construct dairy facilities has increased while resale of existing facilities has slowed in some areas of the state.

## LOAN PORTFOLIO

Total loan volume was \$1,097,996 at December 31, 2007, an increase of \$106,093, or 10.70%, from loans at December 31, 2006 of \$991,903, and \$245,840, or 28.85%, from loans at December 31, 2005 of \$852,156. The increase in loans was due to an active capital market and aggressive marketing efforts. The types of loans outstanding at December 31 are reflected in the following table.

|  | 2007         |         | 2006       |         | 2005       |         |
|--|--------------|---------|------------|---------|------------|---------|
|  | Volume       | Percent | Volume     | Percent | Volume     | Percent |
| Real estate mortgage                           | \$ 704,145   | 64.14%  | \$ 647,810 | 65.31%  | \$ 606,570 | 71.19%  |
| Production and intermediate-term Agribusiness: | 229,025      | 20.86%  | 225,131    | 22.70%  | 178,057    | 20.89%  |
| Loans to cooperatives                          | 6,701        | 0.61%   | 7,419      | 0.75%   | 2,968      | 0.35%   |
| Processing and marketing                       | 125,873      | 11.46%  | 85,636     | 8.63%   | 49,636     | 5.82%   |
| Farm related business                          | 15,072       | 1.37%   | 11,666     | 1.18%   | 6,584      | 0.77%   |
| Communication                                  | 9,250        | 0.84%   | 6,833      | 0.68%   | 3,210      | 0.38%   |
| Rural residential real estate                  | 7,930        | 0.72%   | 7,408      | 0.75%   | 5,131      | 0.60%   |
| Total  | \$ 1,097,996 | 100.00% | \$ 991,903 | 100.00% | \$ 852,156 | 100.00% |

In 2007, real estate mortgage volume increased 8.70% to \$704,145, compared with \$647,810 at year-end 2006, primarily due to our lending support of the growing dairy and cattle industry. These long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 years to 40 years. Real estate mortgage loans are also made to rural homeowners. By law, a real estate mortgage loan must be secured by a first lien and may be made only in amounts up to 85% of the original appraised value of the property, or up to 97% of appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Refer to Note 3 of the Notes to the Financial Statements for more detail.

The production and intermediate-term volume increased 1.73% to \$229,025 compared with 2006 loan volume of \$225,131 primarily due to marketing efforts and the borrowing needs of the customer base. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are typically 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. Processing and marketing volume increased 46.99% to \$125,873 compared with 2006 loan volume of \$85,636. This was primarily due to an active capital market, increases on existing loans, and advances made on existing capital market facilities. Purchased participation interests in loans account for approximately 77% of process and marketing volume, 35% of farm related business volume and all communication volume and loans to cooperatives volume.

### *Loan 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 participations purchased and sold, geographic locations served and commodities financed, as illustrated in the following three tables.

We purchase participation interests in loans from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed in 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. To increase our participations, we are a party to a shared lending operation known as the Agribusiness Finance Group (AFG). The agreement includes our association, Farm Credit Services of the Mountain Plains, ACA, Premier Farm Credit, ACA, and Farm Credit of Southern Colorado, ACA. These associations pool their resources to coordinate and enhance the marketing, originating and

servicing of large, complex commercial and mortgage loans, as well as diversify risk. The volume of participations purchased and sold as of December 31 follows.

|                                  | 2007       | 2006       | 2005      |
|----------------------------------|------------|------------|-----------|
| Participations purchased – AFG   | \$ 79,876  | \$ 69,862  | \$ 39,414 |
| Participations purchased – other | 39,875     | 39,574     | 23,544    |
| Total participations purchased   | \$ 119,751 | \$ 109,436 | \$ 62,958 |
| Participations sold – AFG        | \$ 21,585  | \$ 21,511  | \$ 25,514 |
| Participations sold – other      | 5,675      | 15,733     | 8,971     |
| Total participations sold        | \$ 27,260  | \$ 37,244  | \$ 34,485 |

The geographic distribution of loans by county at December 31 follows.

|            | 2007    | 2006    | 2005    |
|------------|---------|---------|---------|
| Dona Ana   | 19.02%  | 20.94%  | 23.64%  |
| Curry      | 17.65%  | 17.38%  | 16.26%  |
| Chaves     | 12.70%  | 13.82%  | 12.69%  |
| Roosevelt  | 13.24%  | 9.36%   | 7.98%   |
| Other      | 5.05%   | 5.51%   | 6.41%   |
| Santa Fe   | 4.93%   | 4.15%   | 1.71%   |
| Eddy       | 4.40%   | 4.12%   | 4.40%   |
| Luna       | 3.70%   | 3.65%   | 2.49%   |
| Colfax     | 1.55%   | 2.64%   | 2.54%   |
| Lincoln    | 2.82%   | 2.51%   | 2.19%   |
| Sierra     | 2.39%   | 2.47%   | 2.62%   |
| Quay       | 2.12%   | 1.88%   | 2.14%   |
| Union      | 1.93%   | 1.75%   | 2.15%   |
| Bernalillo | 1.30%   | 1.72%   | 1.90%   |
| San Miguel | 1.25%   | 1.68%   | 1.69%   |
| Lea        | 1.40%   | 1.47%   | 3.38%   |
| Torrance   | 1.31%   | 1.44%   | 1.74%   |
| Valencia   | 1.51%   | 1.40%   | 1.52%   |
| Socorro    | 1.08%   | 1.26%   | 1.50%   |
| Grant      | 0.65%   | 0.85%   | 1.05%   |
| Total      | 100.00% | 100.00% | 100.00% |

Roosevelt County's share of the portfolio increased 3.88% from 2006 which is attributable to an increase in the dairy, cattle, and agricultural services portfolios.

We are party to a Territorial Approval Agreement (Agreement) with other associations in the states of Oklahoma, Colorado, and Kansas. 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 a 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 Territorial Approval Agreement with Ag New Mexico Farm Credit Services, ACA (Ag New Mexico). The 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. This agreement may be terminated at the mutual consent of both parties.

Commodity and industry categories are 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 its products; however, generally a large percentage of agricultural operations include more than one commodity. The following table shows the primary agricultural commodities produced by our borrowers as of December 31.

|                    | 2007    | 2006    | 2005    |
|--------------------|---------|---------|---------|
| Dairy              | 30.89%  | 29.76%  | 26.67%  |
| Cattle             | 26.74%  | 14.88%  | 18.23%  |
| Hay Crops          | 8.63%   | 6.36%   | 6.50%   |
| Pecans             | 6.10%   | 4.81%   | 5.33%   |
| Grains             | 3.91%   | 4.05%   | 3.29%   |
| Feed Lots          | 3.89%   | 3.64%   | 3.40%   |
| Vegetables & Chile | 3.32%   | 3.26%   | 4.14%   |
| Ag Services        | 3.31%   | 2.58%   | 3.78%   |
| Cotton             | 2.05%   | 1.87%   | 2.13%   |
| Other              | 11.16%  | 28.79%  | 26.53%  |
| Total              | 100.00% | 100.00% | 100.00% |

In 2007, the non-farm income category was eliminated and re-assigned to the largest agricultural producing commodity of each loan. The majority of the reclassification increased "Cattle". Prior to 2007, non-farm income was assigned to "Other". Repayment ability of our borrowers is closely related to the production and profitability of the commodities they produce. Our loan portfolio contains a concentration of dairy, livestock, hay crops, and pecan producers. 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. While management is committed to maintaining sound credit quality, future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities impacted and the magnitude and duration of the adverse agricultural conditions. At December 31, 2007, large loans to customers with individual commitments of over \$9,052 represented approximately 43% of our loan volume. Within this large loan group, 91 customers with 203 loans totaled approximately \$470 million. 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.

In addition to commodities, 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. Approximately 20% of our loan volume consists of borrowers with income not solely from agricultural sources, a decrease from approximately 21% for 2006 and 2005.

Small loans (less than \$250 thousand) accounted for 11.02% of loan volume at December 31, 2007. Credit risk on small loans, in many instances, is also reduced by non-farm income sources. The table below details the loan principal by dollar size.

| December 31, 2007    |                    |                 |
|----------------------|--------------------|-----------------|
| (Range in thousands) | Amount outstanding | Number of loans |
| \$1 - \$250          | \$ 121,024         | 1,500           |
| \$251 - \$500        | 99,309             | 279             |
| \$501 - \$1,000      | 122,888            | 179             |
| \$1,001 - \$5,000    | 514,969            | 228             |
| \$5,001 - \$25,000   | 239,806            | 32              |
| Total                | \$ 1,097,996       | 2,218           |

Our Board of Directors approved the use of Federal Agricultural Mortgage Corporation (Farmer Mac), to reduce the credit risk of certain long-term real estate loans by entering into agreements that provide long-term standby commitments to purchase the loans in the event of default. The Farmer Mac agreements, which are credit guarantees that remain in place until the loans are paid in full, give us the right to put the loans identified in the agreement to Farmer Mac at par in the event of significant delinquency (under the agreements this is typically four months past due). If the borrower cures the default, we must purchase the loan and the guarantee remains in place. The amount of loans subject to these Farmer Mac credit enhancements was \$95,178 at December 31, 2007, \$74,104 at December 31, 2006 and \$54,146 at December 31, 2005. Farmer Mac long-term standby commitments to purchase agreements are further described in Note 3. Additional credit guarantees of approximately \$8,231 at year-end 2007, \$8,267 at year-end 2006 and \$7,788 at year-end 2005 were outstanding with other guarantors. Fees paid for the Farmer Mac and other guarantees totaled \$387 for 2007, \$304 for 2006 and \$340 for 2005 and are included in other operating expenses. 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](http://www.farmermac.com).

#### *Credit Commitments*

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers and to manage our exposure to interest rate risk. 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 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. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2007.

|                              | Less than<br>1 year | 1 – 3 years | 3 – 5 years | Over 5<br>years | Total      |
|------------------------------|---------------------|-------------|-------------|-----------------|------------|
| Commitments to extend credit | \$ 125,168          | \$ 113,654  | \$ 16,466   | \$ 89,073       | \$ 344,361 |
| Standby letters of credit    | 100                 | 80          | -           | -               | 180        |
| Total commitments            | \$ 125,268          | \$ 113,734  | \$ 16,466   | \$ 89,073       | \$ 344,541 |

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. These credit-related financial instruments have off-balance-sheet credit risk because their contractual amounts are not reflected on the 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 the same credit policies are applied by management. 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 are of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments.

### High Risk Assets

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

|  | 2007   | 2006     | 2005     |
|--|--------|----------|----------|
| Nonaccrual loans:                              |        |          |          |
| Real estate mortgage loans                     | \$ 400 | \$ 3,673 | \$ 2,957 |
| Production and intermediate-term loans         | 39     | 111      | 91       |
| Total nonaccrual loans                         | 439    | 3,784    | 3,048    |
| Total high risk assets                         | \$ 439 | \$ 3,784 | \$ 3,048 |
| High risk assets to total loans                | 0.04%  | 0.38%    | 0.36%    |
| High risk assets to total shareholders' equity | 0.22%  | 2.04%    | 1.76%    |

No loans were classified as 90 days past due still accruing interest or restructured, and there was no other property owned for the years presented.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of principal and/or interest. Nonaccrual volume decreased \$3,345 compared with December 31, 2006 due to the payoff of four loans, pay-down of six loans and one loan returned to accrual status. The following table provides additional information on nonaccrual loans as of December 31.

|   | 2007   | 2006   | 2005   |
|---|--------|--------|--------|
| Nonaccrual loans current as to principal and interest | \$ 439 | \$ 607 | \$ 686 |
| Cash basis nonaccrual loans                           | -      | -      | 132    |

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

### 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 Farm Credit System institutions. Below 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 to substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table shows credit quality of loans including accrued interest classified under the UCS as a percentage of total loans including accrued interest at December 31.

|             | 2007    | 2006    | 2005    |
|-------------|---------|---------|---------|
| Acceptable  | 97.07%  | 98.22%  | 96.37%  |
| OAEM        | 0.93%   | 1.11%   | 2.07%   |
| Substandard | 2.00%   | 0.67%   | 1.56%   |
| Total       | 100.00% | 100.00% | 100.00% |

Note: No loans were classified as Doubtful or Loss for the years presented.

During 2007, overall credit quality declined. Loans classified as “Acceptable” and “OAEM” were 98.00% at December 31, 2007 and 99.33% at December 31, 2006. Credit quality declined primarily due to risk weighting changes on 13 loans. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased but remained at a low level of 0.49% at December 31, 2007, compared with 0.03% at December 31, 2006.

#### *Allowance for Loan Losses*

The allowance for loan losses increased \$1,280 from December 31, 2006, to \$4,715 at December 31, 2007. The primary factors impacting the increase are loan volume growth and additional risk which resulted in an increase of \$712 to the allowance for loan loss.

|  | 2007     | 2006     | 2005     |
|--|----------|----------|----------|
| Balance at beginning of year                   | \$ 3,435 | \$ 2,748 | \$ 3,722 |
| Charge-offs: Real estate mortgage              | -        | -        | 7        |
| Recoveries: Production and intermediate-term   | -        | -        | 90       |
| Net recoveries                                 | -        | -        | (83)     |
| Provision for loan losses/(Loan loss reversal) | 1,280    | 687      | (1,057)  |
| Balance at December 31                         | \$ 4,715 | \$ 3,435 | \$ 2,748 |
| Net recoveries to average net loans            | -        | -        | (0.01%)  |

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

|                                  | 2007     | 2006     | 2005     |
|----------------------------------|----------|----------|----------|
| Real estate mortgage             | \$ 1,739 | \$ 1,562 | \$ 1,437 |
| Production and intermediate-term | 1,727    | 1,564    | 1,207    |
| Agribusiness                     | 1,221    | 282      | 97       |
| Communication                    | 13       | 10       | 1        |
| Rural residential real estate    | 15       | 17       | 6        |
| Total                            | \$ 4,715 | \$ 3,435 | \$ 2,748 |

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators as of December 31 is shown below:

|                               | 2007      | 2006   | 2005   |
|-------------------------------|-----------|--------|--------|
| Allowance as a percentage of: |           |        |        |
| Loans                         | 0.43%     | 0.35%  | 0.32%  |
| Impaired loans                | 1,074.03% | 90.78% | 90.16% |

#### *Young, Beginning and Small Farmers and Ranchers Program*

We are committed to providing sound and dependable credit to young, beginning and small (YBS) farmers and ranchers. Our Young, Beginning, Small Farmers, Ranchers and Harvesters of Aquatic Products Program mission is to make concerted and cooperative efforts to help this group of borrowers enter and be successful in the agricultural industry. YBS farmers and ranchers are defined as:

- 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 our loan portfolio (by number of loans) as of December 31. The USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2002 USDA Agricultural Census, which is the most current data available. The percentage of total loan numbers for Young, Beginning, and Small Mortgage and Commercial borrowers met or exceeded the 2007 goals.

|           | 2007   | 2006   | 2005   | USDA   |
|-----------|--------|--------|--------|--------|
| Young     | 11.82% | 9.79%  | 10.70% | 4.60%  |
| Beginning | 19.42% | 17.03% | 18.25% | 30.90% |
| Small     | 51.37% | 46.19% | 52.14% | 94.60% |

### *Qualitative Goals and Results*

We will offer related services either directly or in coordination with others that are responsive to the needs of YBS. We establish annual marketing goals to increase market share of loans to YBS farmers and ranchers. We developed quantitative targets to monitor our progress. Specific actions taken in 2007 follow.

- Produce and fund the Educational Institute, in coordination with the New Mexico Farm and Livestock Bureau;
- Sponsor the New Mexico Ag Leadership Conference;
- Support Future Farmers of America;
- Support 4-H;
- Support Kids, Kows, and More; and,
- Support other functions related to YBS.

Goals for 2008 include:

- We will 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;
- We will take full advantage of FSA loan guarantees;
- We have underwriting standards implemented to help YBS borrowers' ability to have access to credit;
- We will implement an effective outreach program to attract YBS farmers and ranchers;
- We will have an advertising campaign to help encourage YBS farmers and ranchers to borrow from us;
- We will have an advisory committee comprised of "young", "beginning", and "small" farmers and ranchers to provide views on how our credit and services could best serve the credit and services needs of YBS farmers and ranchers.

For 2007, most goals were exceeded in the YBS loans category. Quantitative goals for credit to YBS farmers and ranchers are based on an understanding of reasonably reliable demographic data for our lending territory. The volume and number categories fell short of the goal for YBS due to the significant amount of loan volume growth in 2007. This affected the total percentage that YBS represented. However, a noteworthy amount of volume for YBS was added in 2007, which allowed us to reach our customer number of borrowers and volume goals for new YBS loans. The new loan volume and loan number goals are in the following table.

|           | 2007 Goals |        | 2007 Results |        | 2008 Goals |        | 2009 Goals |        |
|-----------|------------|--------|--------------|--------|------------|--------|------------|--------|
|           | Volume     | Number | Volume       | Number | Volume     | Number | Volume     | Number |
| Young     | \$ 12,250  | 38     | \$ 12,640    | 38     | \$ 13,000  | 42     | \$ 13,750  | 45     |
| Beginning | 21,000     | 50     | 41,172       | 58     | 22,000     | 55     | 22,750     | 58     |
| Small     | 44,000     | 92     | 13,910       | 81     | 46,000     | 102    | 46,750     | 105    |

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.

#### *Quantitative Goals and Results*

YBS farmers and ranchers by number in both mortgage and commercial portfolios are listed in the following table and are designed to be representative of demographics in the state.

|           | 2007   |        | 2008   |        | 2009   |        |
|-----------|--------|--------|--------|--------|--------|--------|
|           | FLCA   | PCA    | FLCA   | PCA    | FLCA   | PCA    |
| Young     | 12.00% | 11.00% | 12.00% | 11.00% | 12.00% | 11.00% |
| Beginning | 18.00% | 15.00% | 19.00% | 16.00% | 20.00% | 16.00% |
| Small     | 50.00% | 46.00% | 51.00% | 48.00% | 53.00% | 48.00% |

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

|           | 2007   |        | 2008   |        | 2009   |        |
|-----------|--------|--------|--------|--------|--------|--------|
|           | Volume | Number | Volume | Number | Volume | Number |
| Young     | 28.38% | 20.86% | 29.80% | 21.90% | 31.29% | 22.99% |
| Beginning | 50.43% | 39.57% | 52.95% | 41.55% | 55.60% | 43.63% |
| Small     | 65.52% | 83.42% | 68.80% | 87.59% | 72.24% | 91.97% |

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

|           | 2007      |        | 2008      |        | 2009       |        |
|-----------|-----------|--------|-----------|--------|------------|--------|
|           | Volume    | Number | Volume    | Number | Volume     | Number |
| Young     | \$ 17,500 |        | \$ 19,000 |        | \$ 120,000 |        |
| Beginning | 30,000    |        | 33,000    |        | 34,000     |        |
| Small     | 22,500    |        | 24,000    |        | 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 utilize our Growing Futures Loan Program. This program was implemented in the first quarter of 2005 and was designed to better service the YBS farmers and ranchers. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training, and insurance services for YBS farmers and ranchers.

Our Educational Institute is designed to help young farmers and ranchers in New Mexico become more efficient producers of agricultural commodities. The annual two-day training session provides participants with knowledge and instruction to help them prosper in the agricultural industry. We cover all expenses including lodging, meals, and speakers and encourage young producers to enroll in the event.

The \$250 scholarship endowment established at New Mexico State University (NMSU) will provide \$2 annual scholarships for several NMSU undergraduate students. The scholarships are for the children or grandchildren of our members, and the first scholarship was awarded during the fall semester of 2006.

## 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 (including unfunded loan commitments and 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 developed and utilized to determine an applicant's operational, financial, and management resources available for repaying debt within the terms of the note or 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 – including use of the loan funds, terms, restrictions, etc.

Processes are established for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds and subsequent loan servicing actions.

By regulation, we cannot have loan commitments to one borrower for more than 25% of our permanent capital. Lending delegations from AgBank further limit loan commitments to one borrower to 15% of permanent capital. Within these limits, we have set our own lending limits to manage loan concentration. Lending limits are established for individual loan size, commodity, special lending programs, and geographic concentrations. We have adopted an individual loan size maximum of 15% of permanent capital 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 of the credit staff member. Larger and more complex loans 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 lending. Production and intermediate-term lending, accounts for most of the remaining volume and is typically secured. Collateral evaluations are made within 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 and certain appraisals must be performed by individuals with a state certification or license.

We implemented a two-dimensional risk rating process in 2004. With this process, each retail loan is assigned a probability of default rating (1-14 scale) indicating the likelihood of a borrower defaulting in the next twelve months and a collateral rating which is based on an estimate of the anticipated loss on each loan, should the borrower default in the next 12 months. This process is also utilized in loan and portfolio management processes which include allowance for loan losses estimates. The process provides more risk granularity, particularly related to acceptable loans, than classifications under the UCS.

## RESULTS OF OPERATIONS

### Earnings Summary

In 2007, we recorded net income of \$22,746, compared with \$19,937 in 2006, and \$19,249 in 2005. The increase in net income in 2007, compared to 2006, was primarily due to increased net interest income and patronage from AgBank partially offset by an increase in noninterest expense. The following table presents the changes in the significant components of net income from the previous year.

|                                      | 2007 vs. 2006 | 2006 vs. 2005 |
|--------------------------------------|---------------|---------------|
| Net income, prior year               | \$ 19,937     | \$ 19,249     |
| Increase/(Decrease) from changes in: |               |               |
| Interest income                      | 10,488        | 21,079        |
| Interest expense                     | (6,653)       | (18,548)      |
| Net interest income                  | 3,835         | 2,531         |
| Provision for loan losses            | (593)         | (1,744)       |
| Noninterest income                   | 1,416         | 1,497         |
| Noninterest expense                  | (1,711)       | (1,878)       |
| Provision for income taxes           | (138)         | 282           |
| Total increase in net income         | 2,809         | 688           |
| Net income, current year             | \$ 22,746     | \$ 19,937     |

### Net Interest Income

Net interest income for 2007 was \$30,033 compared with \$26,198 for 2006 and \$23,667 for 2005. The table below provides an analysis of the individual components of the change in net interest income during 2007 and 2006.

|   | 2007 vs. 2006 | 2006 vs. 2005 |
|---|---------------|---------------|
| Net interest income, prior year                             | \$ 26,198     | \$ 23,667     |
| Increase/(Decrease) in net interest income from changes in: |               |               |
| Interest rates earned                                       | 1,679         | 10,266        |
| Interest rates paid   | (1,161)       | (10,880)      |
| Volume of accruing assets/interest bearing liabilities      | 2,856         | 3,111         |
| Interest income on nonaccrual loans                         | 461           | 34            |
| Increase in net interest income                             | 3,835         | 2,531         |
| Net interest income, current year                           | \$ 30,033     | \$ 26,198     |

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

|                      | Year Ended December 31 |       |       |
|----------------------|------------------------|-------|-------|
|                      | 2007                   | 2006  | 2005  |
| Net interest margin  | 2.90%                  | 2.84% | 3.00% |
| Interest rate on:    |                        |       |       |
| Average loan volume  | 7.47%                  | 7.30% | 5.93% |
| Average debt         | 5.24%                  | 5.01% | 3.43% |
| Interest rate spread | 2.23%                  | 2.29% | 2.50% |

At December 31, 2007, net interest margin increased over December 31, 2006, due to higher earnings on our own funds. Average loan rates increased 17 basis point and average debt costs increased 23 basis points from the same period one year ago, causing a 6 basis point decrease in interest rate spread. The decrease in the interest rate spread is attributable to a trend for larger high quality loans that require decreased spreads to meet the competition and fluctuations in our cost of funds.

### Provision for Loan Losses/ (Loan Loss Reversals)

The allowance for loan losses is increased through a provision for loan losses and decreased through loan loss reversals. We make a determination based on regular reviews of the loan portfolio, whether an increase or decrease in our allowance for loan losses is necessary based on our assessment of the probable losses in our loan portfolio. We recorded a provision for loan loss of \$1,280 for the year ended December 31, 2007, compared with \$687 in 2006 and a loan loss reversal of \$1,057 in 2005. The provision for loan losses recorded during 2007 was primarily due to the growth in our loan portfolio and additional risk.

### Noninterest Income

For the year ended December 31, 2007, we recorded noninterest income of \$7,832, compared with \$6,416 in 2006 and \$4,919 in 2005. Patronage distributions from AgBank are our primary source of noninterest income. Beginning January 1, 2007, all AgBank patronage distributions were paid in cash. The components of the patronage from AgBank are reflected in the following table for each of the three years ended December 31.

|                             | Year Ended December 31 |          |          |
|-----------------------------|------------------------|----------|----------|
|                             | 2007                   | 2006     | 2005     |
| Cash patronage              | \$ 5,747               | \$ 4,611 | \$ 3,687 |
| Stock patronage             | -                      | 506      | 489      |
| Total patronage from AgBank | \$ 5,747               | \$ 5,117 | \$ 4,176 |

Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees in 2007 were \$659, an increase of \$23, from 2006, primarily due to fee income from participation loans.

### Noninterest Expense

Noninterest expense for the year ended December 31, 2007, increased \$1,711, or 14.08%, to \$13,863 compared with 2006. Significant components of noninterest expense for each of the three years ended December 31 are compared in the following table.

|   | Year Ended December 31 |           |           | Percent of Change |           |
|---|------------------------|-----------|-----------|-------------------|-----------|
|   | 2007                   | 2006      | 2005      | 2007/2006         | 2006/2005 |
| Salaries & employee benefits                        | \$ 7,787               | \$ 6,663  | \$ 5,625  | 16.87%            | 18.45%    |
| Occupancy & equipment                               | 730                    | 491       | 467       | 48.68%            | 5.14%     |
| Purchased services from AgVantis                    | 483                    | 489       | 422       | (1.23%)           | 15.88%    |
| Purchased services from AgBank                      | 151                    | 181       | 135       | (16.57%)          | 34.07%    |
| Supervisory & examination costs                     | 326                    | 298       | 284       | 9.40%             | 4.93%     |
| Other   | 2,848                  | 2,647     | 2,779     | 7.59%             | (4.75%)   |
| Total operating expense                             | 12,325                 | 10,769    | 9,712     | 14.45%            | 10.88%    |
| Farm Credit Insurance Fund premium                  | 1,538                  | 1,383     | 389       | 11.21%            | 255.53%   |
| Financial Assistance Corporation<br>debt assessment | -                      | -         | 174       | -                 | (100.00%) |
| Gains on other property owned, net                  | -                      | -         | (1)       | -                 | 100.00%   |
| Total noninterest expense                           | \$ 13,863              | \$ 12,152 | \$ 10,274 | 14.08%            | 18.28%    |

For the year ended December 31, 2007, operating expense increased \$1,556, or 14.45%, compared to the year ended December 31, 2006, primarily due to increased expenditures for salaries and benefits due to normal merit increases and additional staff to support our loan growth. This was partially offset by an amendment to our pension and postretirement plan which resulted in immediate recognition of \$100 recorded as a decrease to salaries and employee benefit expense in 2007. Refer to Note 10 for more information. Occupancy and equipment expense increased due to additional expenses associated with the new building

in Clovis and the leaseback after the sale of the Albuquerque building. Farm Credit Insurance Fund premium increased \$155 to \$1,538 due to an increase in loan volume. Premium rates were 15 basis points in 2007 and 2006 as compared to 5 basis points in 2005. The debt to the Financial Assistance Corporation matured in June 2005. Note 11 of the Notes to Financial Statements provides more details related to the Financial Assistance Corporation.

#### *Benefit from income taxes/ Provision for income taxes*

Benefit from income taxes for 2007 was \$24 at December 31, 2007, compared with \$162 in 2006 and a provision for income taxes of \$120 in 2005. The decrease was primarily due to the carry forward of the net operating loss in the taxable entity. 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 9 of the Notes to Financial Statements for details.

### **LIQUIDITY RISK MANAGEMENT**

Liquidity is necessary to appropriately meet our financial obligations. Obligations that require liquidity include paying our note with AgBank, funding loans and other commitments, and funding operations in a cost-effective manner. Our liquidity policy is intended to manage cash balances in order to maximize debt reduction and to liquidate non-earning assets. Our continued liquidity is directly dependent upon the System's ability to sell debt securities at competitive rates and our maintaining a sound financial position and borrowing relationship with AgBank. Our direct loan with AgBank, cash on hand and loan repayments provide adequate liquidity to fund our on-going operations and other commitments. We anticipate liquidity levels will be adequate to meet our obligations.

#### *Funding Sources*

Our primary source of liquidity is the ability to obtain funds for operations through a borrowing relationship with AgBank. Our note payable to AgBank is collateralized by a pledge to AgBank 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). The GFA is subject to renewal at its expiration date of April 30, 2008 in accordance with normal business practices. The annual average principal balances of the note payable to AgBank were \$864,964 in 2007, \$767,385 in 2006 and \$625,290 in 2005.

We plan to continue to fund lending operations through the utilization of our borrowing relationship with AgBank, retained earnings from current and prior years and from borrower stock investment. AgBank's primary source of funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Bank Funding Corporation. These funds are available through various AgBank loan products, provided our loan with AgBank is in good standing under the GFA.

#### *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 AgBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

#### *Interest Rate Risk*

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with AgBank which allows for loans to be match-funded with AgBank. Borrowings from AgBank match the pricing, maturity, and option

characteristics of our loans to borrowers. AgBank manages interest rate risk through the direct loan pricing and their asset/liability management processes. Although AgBank 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 funds with AgBank at a fixed rate as a part of AgBank's Earnings Stabilization Management Program (ESMP). This enables us to stabilize earnings without significantly increasing our overall interest rate risk position.

For ESMP purposes, the weighted average remaining term of our net worth in total is limited to a maximum of 2.5 years. Our ESMP commitment balance and the average interest rate as of December 31, 2007 in the various maturities are reflected below:

|                            | <b>Balance</b>   | <b>Average Rate</b> |
|----------------------------|------------------|---------------------|
| Maturing in 1 year or less | \$ 44,900        | 4.40%               |
| Maturing in 1 to 3 years   | 16,500           | 4.80%               |
| Maturing in over 3 years   | 4,000            | 5.56%               |
| <b>Total</b>               | <b>\$ 65,400</b> | <b>4.57%</b>        |

## 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 increased capital through net income earned and retained. Shareholders' equity at December 31, 2007 totaled \$200,558, compared with \$185,723 at December 31, 2006 and \$173,176 at December 31, 2005. Capital includes stock purchased by our borrowers and retained earnings accumulated through net income, less patronage distributed to borrowers. Our capital position is reflected in the following ratio comparisons.

|   | <b>2007</b>   | 2006   | 2005   |
|---|---------------|--------|--------|
| Debt to shareholders' equity                | <b>4.78:1</b> | 4.67:1 | 4.18:1 |
| Shareholders' equity as a percent of loans  | <b>18.27%</b> | 18.72% | 20.32% |
| Shareholders' equity as a percent of assets | <b>17.31%</b> | 17.64% | 19.30% |

Debt to shareholders' equity increased and shareholders' equity as a percent of loans and of total assets decreased from 2006 to 2007 primarily due to the increase in loan volume and stable earnings during 2007.

### *Retained Earnings*

Our retained earnings increased \$14,996 to \$199,148 at December 31, 2007 from \$184,152 at December 31, 2006. The increase was a result of net income of \$22,746, partially offset by \$7,750 of declared patronage distributions.

### *Patronage Program*

Our Board of Directors has adopted a Patronage Program that allows us to distribute our available net earnings to our shareholders and provides for the application of net earnings in the manner described in our Bylaws. This includes the setting aside of funds to increase surplus to meet capital adequacy standards established by Regulations, to increase surplus to meet our capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves. Patronage distributions are based on each eligible loan's proportionate share of the Association's average outstanding loan balance during the year.

The goal of the patronage program is to reduce a member's effective interest rate on average, approximately 75 basis points by paying cash patronage. In a special Board Meeting in December 2007, the Board adopted an Accrual Resolution establishing the amount of the 2007 cash patronage at \$7,750 to be paid in cash on or before March 31, 2008. The remainder of the 2007 patronage-sourced net earnings shall be attributed on a patronage basis as nonqualified written notices of allocation. The Board has no plans to pay or revolve the nonqualified amounts.

### *Stock*

Our total stock decreased \$212 to \$1,472 at December 31, 2007, from \$1,684 at December 31, 2006.

Effective August 1, 2006, we implemented a borrower level stock program policy. The new Borrower Level Stock policy combines the customer's loans to determine the stock requirement of 2% or one thousand dollars, whichever is less. Previously, the stock requirement had been 2% or one thousand dollars, whichever is less for each loan(s). Multi-loan customers choosing to convert their stock to the new Borrower Level Stock Program will receive a refund for stock eligible to be retired. Stock retirements, in most cases, will lower the effective interest rate on borrower loans. During 2007, loan level stock of \$304 was transferred to borrower level stock as a result of this program.

### *Accumulated Other Comprehensive Income / (Loss) (AOCI)*

Certain employees participate in a nonqualified Defined Benefit Pension Restoration Plan (Plan). During 2007, the AOCI related to the qualified pension plan was transferred to the District combined financial statements with the adoption of SFAS No. 158 at the District level. On December 31, 2007, we adopted SFAS No. 158 as it relates to the Plan which requires recognition of the Plan's unamortized actual gains and losses and prior service costs or credits as a liability with an offsetting adjustment to AOCI.

### *Building Projects*

Dairy industry expansion and increased agricultural business across the state has resulted in our substantial loan growth, requiring increased staffing levels to support lending services to the membership. The Board approved the acquisition of a building site in Albuquerque for a new office facility in 2005. In June 2007, the Board approved the construction of the building on the Albuquerque building site with expected completion in the third quarter of 2008. Construction of this facility will transfer some capital from an earning asset to a non-earning asset. Additionally, the Board determined that it was in our best interest to sell the Albuquerque building to take advantage of current commercial real estate market conditions. The building was sold in August 2007. We entered into a leaseback agreement which will continue until construction is completed on the new facility.

### *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 to consider the following factors in determining optimal capital levels:

- asset quality and the adequacy of the allowance for loan losses to absorb potential losses within the loan portfolio;
- quality and quantity of earnings;
- sufficiency of liquid funds;
- capability of management and the quality of operating policies, procedures, and internal controls;

- 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.

FCA regulations establish minimum capital standards expressed as a ratio of capital to assets, taking into account relative risk factors for all System institutions. In general, the regulations provide for a relative risk weighting of assets and establish a minimum ratio of permanent capital, total surplus and core surplus to risk-weighted assets. Our capital ratios as of December 31 and the FCA minimum requirements follow:

|                         | 2007          | 2006   | 2005   | Regulatory Minimum |
|-------------------------|---------------|--------|--------|--------------------|
| Permanent capital ratio | <b>16.52%</b> | 16.11% | 18.64% | 7.00%              |
| Total surplus ratio     | <b>16.39%</b> | 15.94% | 18.36% | 7.00%              |
| Core surplus ratio      | <b>15.71%</b> | 15.95% | 18.41% | 3.50%              |

Our permanent capital and total surplus ratios increased as compared to year-end 2006 because of a reduction of allocated equities that were previously counted as permanent capital by AgBank. These increases to permanent capital and total surplus were partially offset by the increase in loan volume. The core surplus decrease, when compared to year-end 2006, was primarily due to the increase in loan volume. As of December 31, 2007, we exceeded the regulatory minimum and are expected to do so throughout 2008. However, the minimum ratios established were not meant to be adopted as the optimum capital level, so we have established minimum Board targets in excess of the regulatory minimum. As of December 31, 2007, we have exceeded minimum Board targets of 15.00% for the capital.

During March 2007, AgBank issued preferred stock and reduced our required investment in AgBank from 6.25% to 5.00% effective April 2007. We did not receive a cash redemption for this transaction; however, the excess investment in AgBank was transferred from required investment to excess investment, both of which are included in the investment in AgBank on the Consolidated Statement of Condition.

## REGULATORY MATTERS

As of December 31, 2007, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year. In November 2006, the FCA Board approved a rule that amends existing regulations relating to our disclosure and reporting requirements. The final rule includes revisions that, among other things:

- require Associations with total assets over \$1 billion to include an assessment of their internal control over financial reporting in their annual reports;
- reduce reporting filing deadlines with FCA to 40 and 75 calendar days for our quarterly and annual reports; and,
- revise regulations with respect to auditor independence and rotation, non-audit services and fees paid to the independent auditors.

The filing deadline changes are effective with the year-end 2007 annual report. On July 12, 2007, the FCA Board adopted a proposed rule that would allow System institutions 90 days after the end of the year to prepare and distribute paper copies of their annual reports to shareholders. Each institution would be required to file electronic copies of the reports with FCA and post the report to its website within 75 days. The assessment of internal controls over financial reporting is effective January 1, 2008 with the first disclosure in the 2008 annual report.

## GOVERNANCE

### *Board of Directors*

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

- selects, evaluates and compensates the chief executive officer;
- establishes the strategic plan and approves annual operating plan and budget;
- advises and counsels management on significant issues we face; and,
- oversees the financial reporting process, communications with stockholders, 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 service 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, in some situations, 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 is responsible for assisting the Board in monitoring the integrity of financial statements, compliance with applicable legal and FCA requirements and selecting, directing and reviewing the work of independent auditors. The Audit Committee oversees the preparation of the accompanying financial statements. The Committee is composed of three members appointed by the full Board. During 2007, one meeting and four conference calls were held.

### *Building Committee*

The Building Committee was formed to provide Board input into the design and construction of the new Albuquerque facility. The Committee is composed of two Board members appointed by the full Board. The members meet as needed to consider and review the design and construction of the new facility.

### *Compensation Committee*

The Compensation Committee is responsible for the oversight of employee and director compensation. The Committee is composed of three members appointed by the full Board. The Committee annually reviews and evaluates all aspects of compensation, including benefits programs, and makes recommendations for approval by the full Board.

### *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 have implemented 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, Vice Presidents, and Assistant Vice Presidents,
- open lines of communication between the independent auditors, management, and the Audit Committee,
- “plain English” disclosures,
- officer certification of accuracy and completeness of the financial statements, and
- information disclosure through our website.

### **FORWARD-LOOKING INFORMATION**

This 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-related, 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,
- actions taken by the Federal Reserve System in implementing monetary policy.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our 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. These policies are considered 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 following is a summary of certain critical policies.

#### *Allowance for Loan Losses*

The allowance for loan losses is our best estimate of the amount of probable losses 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. We determine the allowance for loan losses based on a regular evaluation of the loan portfolio. 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 and projected factors, internal risk ratings, regulatory oversight, geographic, industry, and other factors.

Changes in the factors we consider in the evaluation of losses in the loan portfolios 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 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 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.

#### SUMMARY

Our credit and financial performance are excellent due primarily to a loyal and cooperative customer base. The formation of the ACA on January 1, 2001, whereby Farm Credit of New Mexico, FLCA and PCA of Southern New Mexico became wholly owned subsidiaries, established an organizational structure which has increased efficiency and improved customer service. Therefore, continued customer support and referrals of new prospective borrowers is appreciated and encouraged.

FARM CREDIT OF NEW MEXICO, ACA  
*Consolidated Statement of Condition*

(Dollars in thousands)

|  | December 31         |                     |                   |
|--|---------------------|---------------------|-------------------|
|  | 2007                | 2006                | 2005              |
| <b>ASSETS</b>                                      |                     |                     |                   |
| Loans  | \$ 1,097,996        | \$ 991,903          | \$ 852,156        |
| Less allowance for loan losses                     | 4,715               | 3,435               | 2,748             |
| Net loans  | 1,093,281           | 988,468             | 849,408           |
| Cash   | 5,229               | 7,958               | 8,715             |
| Accrued interest receivable                        | 19,136              | 16,497              | 12,921            |
| Investment in U.S. AgBank, FCB                     | 31,990              | 30,629              | 20,130            |
| Premises and equipment, net                        | 7,094               | 6,792               | 3,587             |
| Prepaid benefit expense                            | 860                 | 1,259               | 1,381             |
| Deferred tax asset                                 | 62                  | 47                  | 56                |
| Other assets                                       | 923                 | 1,175               | 959               |
| <b>Total assets</b>                                | <b>\$ 1,158,575</b> | <b>\$ 1,052,825</b> | <b>\$ 897,157</b> |
| <b>LIABILITIES</b>                                 |                     |                     |                   |
| Note payable to U.S. AgBank, FCB                   | \$ 914,893          | \$ 828,490          | \$ 692,188        |
| Advance conditional payments                       | 12,179              | 10,726              | 10,272            |
| Accrued interest payable                           | 17,828              | 15,942              | 10,793            |
| Patronage distributions payable                    | 7,750               | 6,600               | 6,000             |
| Accrued liability benefits                         | 377                 | 666                 | 702               |
| Other liabilities                                  | 4,990               | 4,678               | 4,026             |
| <b>Total liabilities</b>                           | <b>958,017</b>      | <b>867,102</b>      | <b>723,981</b>    |
| <b>Commitments and Contingencies (See Note 14)</b> |                     |                     |                   |
| <b>SHAREHOLDERS' EQUITY</b>                        |                     |                     |                   |
| Protected borrower stock                           | 27                  | 37                  | 51                |
| Patronage stock                                    | -                   | -                   | 567               |
| Capital stock                                      | 1,445               | 1,647               | 1,940             |
| Unallocated retained earnings                      | 199,148             | 184,152             | 170,815           |
| Accumulated other comprehensive income/(loss)      | (62)                | (113)               | (197)             |
| <b>Total shareholders' equity</b>                  | <b>200,558</b>      | <b>185,723</b>      | <b>173,176</b>    |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 1,158,575</b> | <b>\$ 1,052,825</b> | <b>\$ 897,157</b> |

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

FARM CREDIT OF NEW MEXICO, ACA  
*Consolidated Statement of Income*

(Dollars in thousands)

|  | For the Year Ended December 31 |                  |                  |
|--|--------------------------------|------------------|------------------|
|  | 2007                           | 2006             | 2005             |
| <b>INTEREST INCOME</b>   |                                |                  |                  |
| Loans  | \$ 78,034                      | \$ 67,546        | \$ 46,467        |
| <b>Total interest income</b>   | <b>78,034</b>                  | <b>67,546</b>    | <b>46,467</b>    |
| <b>INTEREST EXPENSE</b>  |                                |                  |                  |
| Note payable to U.S. AgBank, FCB   | 47,429                         | 40,933           | 22,609           |
| Other  | 572                            | 415              | 191              |
| <b>Total interest expense</b>  | <b>48,001</b>                  | <b>41,348</b>    | <b>22,800</b>    |
| Net interest income  | 30,033                         | 26,198           | 23,667           |
| Provision for loan losses/(Loan loss reversal)                           | 1,280                          | 687              | (1,057)          |
| Net interest income after provision for loan losses/(loan loss reversal) | 28,753                         | 25,511           | 24,724           |
| <b>NONINTEREST INCOME</b>  |                                |                  |                  |
| Financially related services income                                      | 535                            | 461              | 403              |
| Loan fees  | 659                            | 636              | 248              |
| Patronage distribution from U.S. AgBank, FCB                             | 5,747                          | 5,117            | 4,176            |
| Other noninterest income   | 891                            | 202              | 92               |
| <b>Total noninterest income</b>  | <b>7,832</b>                   | <b>6,416</b>     | <b>4,919</b>     |
| <b>NONINTEREST EXPENSE</b>   |                                |                  |                  |
| Salaries and employee benefits   | 7,787                          | 6,663            | 5,625            |
| Occupancy and equipment  | 730                            | 491              | 467              |
| Purchased services from AgVantis, Inc.                                   | 483                            | 489              | 422              |
| Purchased services from U.S. AgBank, FCB                                 | 151                            | 181              | 135              |
| Farm Credit Insurance Fund premium                                       | 1,538                          | 1,383            | 389              |
| Financial Assistance Corporation debt assessment                         | -                              | -                | 174              |
| Supervisory and examination costs  | 326                            | 298              | 284              |
| Other noninterest expense  | 2,848                          | 2,647            | 2,779            |
| <b>Total noninterest expense</b>   | <b>13,863</b>                  | <b>12,152</b>    | <b>10,274</b>    |
| Income before income taxes   | 22,722                         | 19,775           | 19,369           |
| (Benefit from)/Provision for income taxes                                | (24)                           | (162)            | 120              |
| <b>Net income</b>  | <b>\$ 22,746</b>               | <b>\$ 19,937</b> | <b>\$ 19,249</b> |

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

FARM CREDIT OF NEW MEXICO, ACA  
*Consolidated Statement of Changes in Shareholders' Equity*

(Dollars in thousands)

|  | Protected<br>Borrower<br>Stock | Patronage<br>Stock | Capital<br>Stock | Unallocated<br>Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) | Total<br>Shareholders'<br>Equity |
|--|--------------------------------|--------------------|------------------|-------------------------------------|--|----------------------------------|
| <b>Balance at December 31, 2004</b>        | \$ 71                          | \$ 1,368           | \$ 1,964         | \$157,566                           | \$ (152)   | \$ 160,817                       |
| Comprehensive income                       |                                |                    |                  |                                     |  |                                  |
| Net income                                 |                                |                    |                  | 19,249                              |  |                                  |
| Minimum pension liability adjustment       |                                |                    |                  |                                     | (45)   |                                  |
| Total comprehensive income                 |                                |                    |                  |                                     |  | 19,204                           |
| Stock issued                               | -                              | -                  | 278              |                                     |  | 278                              |
| Stock retired                              | (20)                           | (801)              | (302)            |                                     |  | (1,123)                          |
| Patronage Distributions: Cash              |                                |                    |                  | (6,000)                             |  | (6,000)                          |
| <b>Balance at December 31, 2005</b>        | 51                             | 567                | 1,940            | 170,815                             | (197)  | 173,176                          |
| Comprehensive income                       |                                |                    |                  |                                     |  |                                  |
| Net income                                 |                                |                    |                  | 19,937                              |  |                                  |
| Minimum pension liability adjustment       |                                |                    |                  |                                     | 84   |                                  |
| Total comprehensive income                 |                                |                    |                  |                                     |  | 20,021                           |
| Stock issued                               | -                              | -                  | 237              |                                     |  | 237                              |
| Stock retired                              | (14)                           | (567)              | (530)            |                                     |  | (1,111)                          |
| Patronage Distributions: Cash              |                                |                    |                  | (6,600)                             |  | (6,600)                          |
| <b>Balance at December 31, 2006</b>        | 37                             | -                  | 1,647            | 184,152                             | (113)  | 185,723                          |
| Comprehensive income                       |                                |                    |                  |                                     |  |                                  |
| Net income                                 |                                |                    |                  | 22,746                              |  |                                  |
| Minimum pension liability adjustment       |                                |                    |                  |                                     | (5)  |                                  |
| Total comprehensive income                 |                                |                    |                  |                                     |  | 22,741                           |
| Adjustment to initially apply SFAS No. 158 |                                |                    |                  |                                     | 56   | 56                               |
| Stock converted                            | (2)                            |                    | 2                |                                     |  |                                  |
| Stock issued                               | -                              |                    | 119              |                                     |  | 119                              |
| Stock retired                              | (8)                            |                    | (323)            |                                     |  | (331)                            |
| Patronage Distributions: Cash              |                                |                    |                  | (7,750)                             |  | (7,750)                          |
| <b>Balance at December 31, 2007</b>        | \$ 27                          | \$ -               | \$ 1,445         | \$ 199,148                          | \$ (62)  | \$ 200,558                       |

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

FARM CREDIT OF NEW MEXICO, ACA  
*Consolidated Statement of Cash Flows*

(Dollars in thousands)

|   | For the Year Ended December 31 |           |           |
|---|--------------------------------|-----------|-----------|
|   | 2007                           | 2006      | 2005      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                |           |           |
| Net income  | \$ 22,746                      | \$ 19,937 | \$ 19,249 |
| Adjustments to reconcile net income to net cash provided by/(used in) operating activities: |                                |           |           |
| Depreciation  | 515                            | 372       | 319       |
| Provision for loan losses/(Loan loss reversal)  | 1,280                          | 687       | (1,057)   |
| Patronage stock from U.S. AgBank, FCB   | -                              | (506)     | (489)     |
| Gains on sales of premises and equipment  | (908)                          | (109)     | (64)      |
| Gains on sales of other property owned  | -                              | -         | (1)       |
| Change in assets and liabilities:   |                                |           |           |
| (Increase)/Decrease in deferred tax asset   | (15)                           | 9         | (2)       |
| Increase in accrued interest receivable   | (2,639)                        | (3,576)   | (4,001)   |
| Decrease/(Increase) in prepaid benefit expense  | 399                            | 122       | (365)     |
| Decrease/(Increase) in other assets   | 252                            | (216)     | 166       |
| Increase in accrued interest payable  | 1,886                          | 5,149     | 5,080     |
| (Decrease)/Increase in accrued liability benefits   | (238)                          | 48        | 43        |
| Increase in other liabilities   | 312                            | 652       | 980       |
| Total adjustments   | 844                            | 2,632     | 609       |
| Net cash provided by operating activities   | 23,590                         | 22,569    | 19,858    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                |           |           |
| Increase in loans, net  | (106,093)                      | (139,747) | (125,298) |
| Increase in investment in U.S. AgBank, FCB  | (1,361)                        | (9,993)   | (2,530)   |
| Proceeds/(Expenditures) for premises and equipment, net                                     | 91                             | (3,468)   | (745)     |
| Proceeds from sales of other property owned   | -                              | -         | 106       |
| Net cash used in investing activities   | (107,363)                      | (153,208) | (128,467) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                |           |           |
| Net draw on note payable to U.S. AgBank, FCB  | 86,403                         | 136,302   | 110,874   |
| Increase in advance conditional payments  | 1,453                          | 454       | 2,953     |
| Protected borrower stock retired  | (8)                            | (14)      | (20)      |
| Patronage stock retired   | -                              | (567)     | (801)     |
| Capital stock retired   | (323)                          | (530)     | (302)     |
| Capital stock issued  | 119                            | 237       | 278       |
| Cash patronage distributions paid   | (6,600)                        | (6,000)   | -         |
| Net cash provided by/(used in) financing activities   | 81,044                         | 129,882   | 112,982   |
| Net (decrease)/increase in cash   | (2,729)                        | (757)     | 4,373     |
| Cash at beginning of year   | 7,958                          | 8,715     | 4,342     |
| Cash at end of year   | \$ 5,229                       | \$ 7,958  | \$ 8,715  |

**SUPPLEMENTAL CASH INFORMATION:**

Cash paid/(received) during the year for:

|              |           |           |           |
|--------------|-----------|-----------|-----------|
| Interest     | \$ 46,115 | \$ 36,199 | \$ 17,720 |
| Income taxes | \$ (322)  | \$ 142    | \$ (189)  |

**SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:**

|   |          |          |          |
|---|----------|----------|----------|
| Loans transferred to other property owned               | \$ -     | \$ -     | \$ 105   |
| Protected borrower stock converted to capital stock     | \$ 2     | \$ -     | \$ -     |
| Net recoveries  | \$ -     | \$ -     | \$ (83)  |
| Patronage distributions payable                         | \$ 7,750 | \$ 6,600 | \$ 6,000 |
| Change in other accumulated comprehensive income/(loss) | \$ 51    | \$ 84    | \$ (45)  |

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

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(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, PCA, (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 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). The most recent significant amendment of the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2007, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and more than 90 associations.

U.S. AgBank, FCB (AgBank), its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. AgBank provides the majority of 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 AgBank and certain associations. On December 31, 2007, the District consisted of AgBank, 26 Agricultural Credit Association (ACA) parent companies, which each have two wholly owned subsidiaries, (a FLCA and a PCA), three FLCAs 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 the associations and certain actions by the associations are subject to the prior approval of the FCA and/or AgBank.

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 Systemwide debt obligations, (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 in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums into the Insurance Fund based on its annual average loan principal outstanding until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as two percent of the aggregate insured obligations (Systemwide debt obligations) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines is actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. AgBank passes this premium expense through to the Association based on the Association’s annual average loan volume.

- 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, rural residents and farm-related businesses.

The Association also serves as an intermediary in offering credit life insurance and multi-peril crop and crop hail insurance, and providing additional services to borrowers such as fee appraisal services, advance conditional payment accounts and an investment bond program.

The Association's financial condition may be impacted by factors affecting AgBank. Certain District expenses are allocated to the associations. Disclosure of certain accounting policies related to these costs is included in the District's Annual Report to Shareholders (District's Annual Report). The District's Annual Report is available on its web site, [www.usagbank.com](http://www.usagbank.com); or upon request. Association shareholders will be provided with a copy of the District's Annual Report, which includes the combined financial statements of AgBank and its related associations, and AgVantis. The District's Annual Report discusses the material aspects of the District's financial condition, changes in financial condition, and results of operations. In addition, the District's Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities by the Insurance Corporation.

The lending and financial services offered by AgBank are described in Note 1 of the District's Annual Report.

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these footnotes as applicable. Actual results may differ from these estimates.

The consolidated financial statements include the accounts of Farm Credit of New Mexico, FLCA and Production Credit Association of Southern New Mexico. All significant inter-company transactions have been eliminated in consolidation.

- 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 less unearned income. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

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. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, 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 circumstances indicate that collection of principal and/or interest is in doubt. 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 investment asset balance (if accrued in prior years).

When loans are in nonaccrual status, loan payments are generally applied against the recorded investment in the loan asset. Nonaccrual loans may, at times, be maintained on a cash basis. Generally, cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which the collectibility 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 payments are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified Doubtful or Loss. Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

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.

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 based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

- B. Cash: Cash, as included in the financial statements, represents cash on hand and on deposit at banks.
- C. Investment in AgBank: The Association's investment in AgBank is in the form of Class A Stock. The minimum required investment in AgBank is 5.00 percent of average direct loan volume, net of excess investment. During March 2007, AgBank issued preferred stock and reduced the Association's required investment in AgBank from 6.25 percent to 5.00 percent effective April 2007. The Association did not receive a cash redemption for this transaction; however, the then excess investment in AgBank was transferred from required investment to excess investment, both of which are included in Investment in AgBank on the Consolidated Statement of Condition. The required investment will be adjusted on a quarterly basis to reflect changes in direct loan volume. The required investment may consist of AgBank surplus attributed to the Association, patronage based stock and purchased stock.
- 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. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements are capitalized.
- E. Other Assets and Other Liabilities: Other assets are comprised primarily of accounts receivable, prepaid expenses, and investment in Farm Credit institutions. Significant components of other liabilities primarily include accounts payable.
- F. Advance Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. Amounts received on short- and intermediate-term loans are recorded in the Consolidated Statement of Condition as liabilities and represent borrower payments in excess of the related loan balance or amounts to which the borrower has unrestricted access. A limited amount of funds, reserved for future loan repayments and placed in trust fund accounts, is permitted on long-term loans. These amounts are netted against loans on the Consolidated Statement of Condition. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.
- G. Employee benefit plans: Substantially all employees of the Association participated 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. Detailed financial information for the Pension Plan may be found in the District's Annual Report. The Pension Plan was closed to new participants beginning January 1, 2007, amended and then terminated during 2007 for those participants with benefits only in the Account Balance Provisions of the Pension Plan. The accrued benefits for these participants will be distributed from the Pension Plan and may be transferred to the 401(k) Plan. Substantially all employees also participate in the 401(k) Plan. The Association matches a certain percentage of employee contributions to the 401(k) Plan. The 401(k) Plan costs are expensed monthly as funded.

The Association also participates in the Ninth District Retiree Medical Plan. Postretirement benefits other than pensions are provided to eligible retired employees of the Association. Prior to 2007, substantially all employees could become eligible for these benefits and the anticipated costs of these benefits were accrued during the period of the employee's active service. During 2007, the plan was frozen and amended to only continue benefits for current retirees.

The Association also provides certain health and life insurance benefits to eligible current and retired employees through the Eleventh District Post-retirement plan. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the Association. The anticipated costs of these benefits are accrued during the period of the employee's active service.

- H. **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 tax. 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 is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts reflected in the financial statements and tax bases of assets and liabilities. In addition, a valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that 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 provided by the Association on pre-1993 patronage distributions received from AgBank when management's intent is 1) to permanently invest these and other undistributed earnings in AgBank, thereby indefinitely postponing their conversion to cash, or 2) to pass through any distribution related to pre-1993 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 AgBank'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 AgBank's post-1992

unallocated earnings. AgBank currently has no plans to distribute unallocated AgBank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

- I. Patronage Distribution from AgBank: Patronage distributions are made by AgBank the month following quarter-end. The Association records patronage distributions from AgBank upon receipt of the distribution.
- J. 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 but are excluded from net income. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.
- K. Recently Issued Accounting Pronouncements: On September 30, 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through other comprehensive income. The Standard further requires the determination of the fair value of plan assets at year-end and recognition of actuarial gains and losses, prior service costs or credits, and transition assets and obligations as a component of accumulated other comprehensive income for the fiscal year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Association uses a measurement date of September 30. The requirement to measure the funded status as of the fiscal year-end is effective for the Association for fiscal years ending after December 15, 2008.

In September 2006, the FASB also issued Statement of Financial Accounting Standards No. 157 – Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As a result, there is now a common definition of fair value to be used throughout generally accepted accounting principles. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. This Statement clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure. In measuring fair value for a financial statement item, the Statement sets forth a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The highest priority is given to quoted prices in active markets and the lowest priority to unobservable inputs. Additional disclosure requirements will be required for the lowest priority level. The Statement became effective January 1, 2008. The Association is still assessing the impact on our financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 – Fair Value Option for Financial Assets and Financial Liabilities. The Standard permits entities to choose on an instrument-by-instrument basis, at specified election dates, to measure financial assets and liabilities and certain other items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected must be reported in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. This Standard became effective January 1, 2008. The Association has not made any elections under the fair value option; thus there is no impact of the adoption of the Standard.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

|                                  | December 31         |                   |                   |
|----------------------------------|---------------------|-------------------|-------------------|
|                                  | 2007                | 2006              | 2005              |
| Real estate mortgage             | \$ 704,145          | \$ 647,810        | \$ 606,570        |
| Production and intermediate-term | 229,025             | 225,131           | 178,057           |
| Agribusiness:                    |                     |                   |                   |
| Loans to cooperatives            | 6,701               | 7,419             | 2,968             |
| Process and marketing            | 125,873             | 85,636            | 49,636            |
| Farm related business            | 15,072              | 11,666            | 6,584             |
| Communication                    | 9,250               | 6,833             | 3,210             |
| Rural residential real estate    | 7,930               | 7,408             | 5,131             |
| <b>Total</b>                     | <b>\$ 1,097,996</b> | <b>\$ 991,903</b> | <b>\$ 852,156</b> |

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

| Commodity          | December 31         |                |                   |                |                   |                |
|--------------------|---------------------|----------------|-------------------|----------------|-------------------|----------------|
|                    | 2007                |                | 2006              |                | 2005              |                |
|                    | Amount              | Percent        | Amount            | Percent        | Amount            | Percent        |
| Dairy              | \$ 339,171          | 30.89%         | \$ 295,190        | 29.76%         | \$ 227,271        | 26.67%         |
| Cattle             | 293,604             | 26.74%         | 147,595           | 14.88%         | 155,348           | 18.23%         |
| Hay crops          | 94,757              | 8.63%          | 63,085            | 6.36%          | 55,390            | 6.50%          |
| Pecans             | 66,978              | 6.10%          | 47,711            | 4.81%          | 45,420            | 5.33%          |
| Grains             | 42,932              | 3.91%          | 40,172            | 4.05%          | 28,036            | 3.29%          |
| Feed Lots          | 42,712              | 3.89%          | 36,105            | 3.64%          | 28,973            | 3.40%          |
| Vegetables & Chile | 36,453              | 3.32%          | 32,336            | 3.26%          | 35,279            | 4.14%          |
| Ag Services        | 36,344              | 3.31%          | 25,591            | 2.58%          | 32,211            | 3.78%          |
| Cotton             | 22,509              | 2.05%          | 18,549            | 1.87%          | 18,151            | 2.13%          |
| Other              | 122,536             | 11.16%         | 285,569           | 28.79%         | 226,077           | 26.53%         |
| <b>Total</b>       | <b>\$ 1,097,996</b> | <b>100.00%</b> | <b>\$ 991,903</b> | <b>100.00%</b> | <b>\$ 852,156</b> | <b>100.00%</b> |

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 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.

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 |          |          |
|--------------------------------------|-------------|----------|----------|
|                                      | 2007        | 2006     | 2005     |
| Nonaccrual:                          |             |          |          |
| Current as to principal and interest | \$ 439      | \$ 607   | \$ 686   |
| Past due                             | -           | 3,177    | 2,362    |
| Total nonaccrual                     | \$ 439      | \$ 3,784 | \$ 3,048 |

There were 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 at December 31, 2007.

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 and average impaired loans.

|  | Year Ended December 31 |          |          |
|--|------------------------|----------|----------|
|  | 2007                   | 2006     | 2005     |
| Interest income recognized on nonaccrual loans | \$ 461                 | \$ 34    | \$ 330   |
| Interest income on impaired accrual loans      | 8                      | 23       | 55       |
| Interest income recognized on impaired loans   | \$ 469                 | \$ 57    | \$ 385   |
| Average impaired loans                         | \$ 2,023               | \$ 3,570 | \$ 2,799 |

No impaired loans had a related allowance for the years presented.

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 |        |         |
|--|------------------------|--------|---------|
|  | 2007                   | 2006   | 2005    |
| Interest income which would have been recognized under the original loan terms | \$ 254                 | \$ 414 | \$ 312  |
| Less: interest income recognized   | 461                    | 34     | 330     |
| Interest income (not recognized)/recognized                                    | \$ (207)               | \$ 380 | \$ (18) |

A summary of the changes in the allowance for loan losses follows.

|  | 2007     | 2006     | 2005     |
|--|----------|----------|----------|
| Balance at beginning of year                   | \$ 3,435 | \$ 2,748 | \$ 3,722 |
| Charge-offs: Real estate mortgage              | -        | -        | 7        |
| Recoveries: Production and intermediate-term   | -        | -        | 90       |
| Net recoveries                                 | -        | -        | (83)     |
| Provision for loan losses/(Loan loss reversal) | 1,280    | 687      | (1,057)  |
| Balance at December 31                         | \$ 4,715 | \$ 3,435 | \$ 2,748 |
| Net recoveries to average net loans            | -        | -        | (0.01%)  |

A breakdown of the allowance for loan losses follows.

|                                  | 2007     |         | 2006     |         | 2005     |         |
|----------------------------------|----------|---------|----------|---------|----------|---------|
|                                  | Amount   | Percent | Amount   | Percent | Amount   | Percent |
| Real estate mortgage             | \$ 1,739 | 36.87%  | \$ 1,562 | 45.48%  | \$ 1,437 | 52.29%  |
| Production and intermediate-term | 1,727    | 36.63%  | 1,564    | 45.53%  | 1,207    | 43.92%  |
| Agribusiness                     | 1,221    | 25.90%  | 282      | 8.21%   | 97       | 3.53%   |
| Communication                    | 13       | 0.28%   | 10       | 0.29%   | 1        | 0.04%   |
| Rural residential real estate    | 15       | 0.32%   | 17       | 0.49%   | 6        | 0.22%   |
| Total                            | \$ 4,715 | 100.00% | \$ 3,435 | 100.00% | \$ 2,748 | 100.00% |

To mitigate the risk of loan losses, the Association entered into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac) during 2004. The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under long-term standby commitments was \$95,178 at December 31, 2007, \$74,104 at December 31, 2006 and \$54,146 at December 31, 2005. Fees paid to Farmer Mac for such commitments totaled \$387 during 2007, \$304 during 2006 and \$340 during 2005. These amounts are classified as noninterest expense.

#### NOTE 4 – INVESTMENT IN AGBANK

The Association's investment in AgBank may consist of AgBank surplus attributed to the Association, patronage based stock and purchased stock. The Association's stock investment in AgBank is in the form of Class A Stock. The Association is required to maintain an investment in AgBank equal to 5.00 percent of average direct loan volume, net of excess investment. During March 2007, AgBank issued preferred stock and reduced the Association's required investment in AgBank from 6.25 percent to 5.00 percent effective April 2007. The Association did not receive a cash redemption for this transaction; however, the then excess investment in AgBank was transferred from required investment to excess investment, both of which are included in Investment in AgBank on the Consolidated Statement of Condition. The investment in AgBank will be adjusted on a quarterly basis to reflect changes in direct loan volume, attributed surplus and stock investment balances. If needed to meet capital adequacy requirements, AgBank may require the Association to purchase at-risk stock subject to a limit of one percent of the Association's average Direct Loan Volume in a twelve month period.

#### NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

|                                      | December 31 |          |          |
|--------------------------------------|-------------|----------|----------|
|                                      | 2007        | 2006     | 2005     |
| Land                                 | \$ 470      | \$ 618   | \$ 460   |
| Buildings and leasehold improvements | 3,835       | 2,565    | 2,787    |
| Furniture, equipment and automobiles | 2,664       | 2,195    | 1,987    |
| Construction in progress             | 2,339       | 3,573    | 343      |
|                                      | 9,308       | 8,951    | 5,577    |
| Less: accumulated depreciation       | 2,214       | 2,159    | 1,990    |
| Total                                | \$ 7,094    | \$ 6,792 | \$ 3,587 |

## NOTE 6 – NOTE PAYABLE TO AGBANK

The Association's indebtedness to AgBank 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) which provides for a \$1,000 million line of credit. The GFA and promissory note are subject to periodic renewals in the normal course of business. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2007. Substantially all borrower loans are match-funded with AgBank. Payments and disbursements are made on the note payable to AgBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by AgBank based on the terms and conditions of the borrowing. The weighted average interest rate was 5.24 percent for the year ended December 31, 2007. The line of credit expires on April 30, 2008, however, the Association expects renewal of the line of credit. Upon expiration of the line of credit, undisbursed amounts available under the line of credit expire. So long as the Association is not in material default under the GFA, AgBank will continue to make advances (that do not exceed the amount payable under the promissory note) for undisbursed outstanding commitments on borrower loans which are not in default. The note payable to AgBank will continue until it has been fully discharged.

The Association has the opportunity to commit funds with AgBank in the Earnings Stabilization Management Program at a fixed rate for a specified timeframe. Participants in the program receive a fixed rate credit on the committed funds balance classified as a reduction of interest expense. These committed funds, which are netted against the note payable to AgBank, as of December 31, follow.

|                 | 2007      | 2006      | 2005       |
|-----------------|-----------|-----------|------------|
| Committed funds | \$ 65,400 | \$ 84,200 | \$ 120,500 |
| Average rates   | 4.57%     | 4.31%     | 4.03%      |

Under the Farm Credit Act, the Association is obligated to borrow only from AgBank, unless AgBank gives approval to borrow elsewhere. AgBank, 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, 2007, the Association's notes payable are within the specified limitations.

## NOTE 7 – SHAREHOLDERS' EQUITY

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

### A. Protected Borrower Stock

Protection of certain borrower 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 that which was outstanding as of January 6, 1988, or was issued or allocated prior to October 6, 1988. If an association is unable to retire protected stock at par value or stated value, the amounts required to retire this stock would be obtained from the Insurance Fund.

### B. Capital Stock and Participation Certificates

In accordance with the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.0 percent of the amount of the loan to 10.0 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. On August

1, 2006, a Borrower Level Stock program was implemented which changed the stock requirement from the lesser of one thousand dollars or 2.00 percent of the loan amount to the lesser of one thousand dollars or 2.00 percent of the borrower's combined loan volume.

The borrower acquires ownership of the stock or participation certificates at the time the loan is made, but usually does not make a cash investment; the aggregate par value is added to the principal amount of the related loan obligation. The Association retains a first lien on the stock owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan cannot automatically result in retirement of the corresponding stock.

#### C. Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet this requirement can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. The FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of risk-adjusted assets of 7.00 percent and of core surplus (generally unallocated surplus) as a percentage of risk-adjusted assets of 3.50 percent. At December 31, 2007, the Association's permanent capital was 16.52 percent, core surplus was 15.71 percent and total surplus ratio was 16.39 percent.

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. 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 indicates the number of shares outstanding at December 31, 2007. Unless otherwise indicated all classes of stock have a par value of \$5.00.

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, 267,495 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, 21,543 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, par value of one thousand dollars) – Issued to AgBank 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 AgBank) - Issued only to AgBank in consideration of financial assistance to the Association from AgBank. Retirement is at the sole discretion of the Board of Directors.

Class F Common Stock (Voting, protected, 4,648 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, 657 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 Board of Directors adopted a resolution during 2000 to retire Class H stock. Class H stock of \$567 was retired during 2006.

#### 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 \$6,600 during 2007 and \$6,000 during 2006. The Association declared a \$7,750 cash patronage during 2007 to be distributed during 2008.

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.

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 10, accumulated other comprehensive income/(loss) results from a minimum pension liability adjustment of \$5 and an adjustment directly to accumulated other comprehensive income to adopt SFAS No. 158 of \$56 for the year ended December 31, 2007. In prior years, \$84 for the year ended December 31, 2006, and \$45 for the year ended December 31, 2005 was recorded as a result of the funded status of the underlying plan. There were no other items affecting comprehensive income or loss.

NOTE 8 – PATRONAGE DISTRIBUTION FROM AGBANK

The patronage distribution from AgBank follows.

|                             | Year Ended December 31 |          |          |
|-----------------------------|------------------------|----------|----------|
|                             | 2007                   | 2006     | 2005     |
| Cash patronage              | \$ 5,747               | \$ 4,611 | \$ 3,687 |
| Stock allocation            | -                      | 506      | 489      |
| Total patronage from AgBank | \$ 5,747               | \$ 5,117 | \$ 4,176 |

NOTE 9 – INCOME TAXES

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

|   | Year Ended December 31 |          |        |
|---|------------------------|----------|--------|
|   | 2007                   | 2006     | 2005   |
| Current:  |                        |          |        |
| Federal   | \$ (30)                | \$ (184) | \$ 106 |
| State   | 21                     | 13       | 16     |
| Deferred:                                       |                        |          |        |
| Federal   | (10)                   | (27)     | 32     |
| State   | (5)                    | 36       | (34)   |
| Total (benefit from)/provision for income taxes | \$ (24)                | \$ (162) | \$ 120 |

The (benefit from)/provision for 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 |          |          |
|---|------------------------|----------|----------|
|   | 2007                   | 2006     | 2005     |
| Federal tax at statutory rate               | \$ 7,726               | \$ 6,724 | \$ 6,585 |
| State tax, net of federal benefit           | 10                     | 32       | (11)     |
| Effect of nontaxable entity                 | (7,872)                | (7,341)  | (6,307)  |
| AgBank stock patronage dividend             | -                      | (186)    | (166)    |
| Reduction in deferred tax asset – Patronage | (449)                  | (612)    | 23       |
| Increase in valuation allowance             | 236                    | 724      | -        |
| Other                                       | 325                    | 497      | (4)      |
| (Benefit from)/Provision for income taxes   | \$ (24)                | \$ (162) | \$ 120   |

Deferred tax assets and liabilities result from the following.

|  | December 31 |         |        |
|--|-------------|---------|--------|
|  | 2007        | 2006    | 2005   |
| Allowance for loan losses              | \$ 1,120    | \$ 689  | \$ 482 |
| Nonaccrual loan interest               | 7           | 80      | 39     |
| State NOL carryover                    | 94          | 148     | 33     |
| Federal NOL carryover                  | 162         | 698     | -      |
| Gross deferred tax assets              | 1,383       | 1,615   | 554    |
| Deferred tax asset valuation allowance | (1,241)     | (1,487) | (416)  |
| Depreciation                           | (73)        | (74)    | (75)   |
| Sale of fixed assets                   | (7)         | (7)     | (7)    |
| Gross deferred tax liability           | (80)        | (81)    | (82)   |
| Net deferred tax asset                 | \$ 62       | \$ 47   | \$ 56  |

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. The Association recorded a valuation allowance of \$1,241 during 2007, \$1,487 during 2006 and \$416 during 2005. The Association will continue to evaluate the likely realization of these deferred tax assets and adjust the valuation allowance accordingly.

The Association adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the implementation, the Association had no uncertain tax positions to be recognized upon adoption of FIN 48 during the first quarter of 2007 or during 2007. The tax years that remain open for federal and major state income tax jurisdictions are 2004 and forward.

#### NOTE 10 – EMPLOYEE BENEFIT PLANS

The employees of the Association may participate in one of two District defined benefit pension plans (Ninth Pension Plan and Eleventh Pension Plan). The Pension Plans are noncontributory and cover a significant number of employees. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. As a participant in the District's defined benefit plans, the Association funded \$60 for 2007, \$299 for 2006 and \$705 for 2005, through its note payable to AgBank. Pension Plan expenses included in salaries and employee benefits expense were \$461 for 2007, \$450 for 2006, and \$376 for 2005. As of January 1, 2007, the Ninth Pension Plan was closed to new participants. During 2007, it was amended and then terminated for those participants with benefits only in the Account Balance provisions of the Pension Plan. The termination resulted in immediate expense recognition of \$83 by the Association for its proportional share which is included in the above Pension Plan expenses. Additional financial information for both Pension Plans may be found in the District's Annual Report.

As of December 31, 2007 the Eleventh Pension Plan's minimum liability and accumulated other comprehensive income were transferred to the District combined financial statements because of the implementation of SFAS No. 158 at the District level. At December 31, 2006 and 2005, the Association recognized a minimum pension liability in the amount of \$113 and \$197, respectively. The offsetting impact was recorded to accumulated other comprehensive loss in the Consolidated Statement of Condition. As a result, there was no income statement impact.

Postretirement benefits other than pensions are provided through the District's 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 \$139 and expense of \$46 for 2006 and \$44 for 2005. Prior to 2007, only employees who were hired before 2004 could become eligible for employer subsidies under the Retiree Medical Plan. As of September 30, 2007, the Retiree Medical Plan was amended to only continue employer

subsidized benefits for current retirees. Accrued balances as of September 30 for eligible employees were converted to present value and transferred to the Pension Plan as an additional pension benefit. This amendment and termination of benefits resulted in the immediate recognition of income of \$183 by the Association for its proportional share which is included in the above postretirement benefits expense. Additional financial information for this plan may be found in the District's Annual Report.

The Association participates in a District-wide non-qualified defined benefit Pension Restoration Plan that is unfunded. The purpose of the Pension Restoration Plan is to supplement a participant's benefits under the District's other retirement plans to the extent that such benefits are reduced by the limitations imposed by the Internal Revenue Code. 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 \$15 for 2007, \$26 for 2006 and \$33 for 2005.

On December 31, 2007, the Association adopted SFAS No. 158 with regard to the Pension Restoration Plan, which requires the recognition of a plan's over-funded or under-funded status as an asset or liability with an offsetting adjustment to accumulated other comprehensive income/(loss). As the Pension Restoration Plan is unfunded and therefore does not hold assets, it will always be shown in an under-funded status as a liability. SFAS No. 158 requires the recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income/(loss). These amounts will be subsequently recognized as components of net periodic benefit costs. Further, actuarial gains and losses that arise in subsequent periods that are not initially recognized as a component of net periodic benefit cost will be recognized as a component of accumulated other comprehensive income/(loss). Those amounts will subsequently be recognized as a component of net periodic benefit cost as they are amortized during future periods.

The incremental effects of adopting the provisions of SFAS No. 158 on the Consolidated Statement of Condition at December 31, 2007 are presented in the following table. The adoption of SFAS No. 158 had no effect on the Consolidated Statement of Income for the year ended December 31, 2007.

|   | <b>Before Application<br/>of SFAS No. 158</b> | <b>Adjustments</b> | <b>After Application of<br/>SFAS No. 158</b> |
|---|---|--------------------|--|
| Other assets                                  | \$ 16   | \$ (16)            | \$ -   |
| Other liabilities                             | \$ 187  | \$ 40              | \$ 227                                       |
| Accumulated other comprehensive income/(loss) | \$ (6)  | \$ (56)            | \$ (62)                                      |

The estimated net actuarial loss of \$6 and prior service cost of \$4 for the Pension Restoration Plan that will be amortized into income during 2008.

SFAS No. 158 also requires that the funded status of a plan be measured as of the date of the year-end for fiscal years ending after December 15, 2008. The current measurement date of September 30 will be changed to December 31 beginning in 2008.

The funding status and the amounts recognized in the Consolidated Statement of Condition for the Association's Pension Restoration Plan at December 31 follow:

|  | <b>2007</b> |
|--|-------------|
| <b>Benefit obligation at the beginning of the period</b>                         | \$ 197      |
| Service cost   | 1           |
| Interest cost  | 12          |
| Actuarial loss   | 92          |
| Benefits paid  | (75)        |
| Benefit obligation at the end of the period                                      | \$ 227      |
| <b>Change in plan assets</b>   |             |
| Company contributions  | 75          |
| Benefits paid  | (75)        |
| Fair value of plan assets at the end of the period                               | \$ -        |
| Funded status at September 30  | \$ (227)    |
| Fourth quarter employer contributions  | -           |
| Net amount recognized – December 31  | \$ (227)    |
| <b>Amounts recognized in the Consolidated Statement of Condition consist of:</b> |             |
| Liabilities  | \$ 227      |
| Net amount recognized  | \$ 227      |

The following represent the amounts included in accumulated other comprehensive income (pre-tax) at December 31, 2007:

|                                | <b>Pension Restoration Plan</b> |
|--------------------------------|---------------------------------|
| Net actuarial loss             | \$ 46                           |
| Prior service costs            | 16                              |
| Total amount recognized in OCI | \$ 62                           |

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

|                                | <b>2007</b> |
|--------------------------------|-------------|
| Projected benefit obligation   | \$ 277      |
| Accumulated benefit obligation | 187         |

The net periodic pension expense for the defined benefit pension restoration plan included in the Consolidated Statement of Income is comprised of the following at December 31.

|   | <b>2007</b> |
|---|-------------|
| Components of net periodic benefit cost |             |
| Service cost                            | \$ 1        |
| Interest cost                           | 12          |
| Net amortization and deferral           | 2           |
| Net periodic benefit cost               | \$ 15       |

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

|                               | <b>2007</b> |
|-------------------------------|-------------|
| Discount rate                 | 6.35%       |
| Rate of compensation increase | 5.00%       |

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

|                               | <b>2007</b> |
|-------------------------------|-------------|
| Discount rate                 | 6.00%       |
| Rate of compensation increase | 5.00%       |

*Estimated Future Benefit Payments*

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

|             | <b>Pension Restoration Benefits</b> |
|-------------|-------------------------------------|
| 2008        | \$ 173                              |
| 2009        | \$ 25                               |
| 2010        | \$ 433                              |
| 2011        | \$ 4                                |
| 2012        | \$ 95                               |
| 2013 – 2017 | \$ 47                               |

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan (Contribution Plan). The Association matches a certain percentage of employee contributions to the plan. Employer contributions to this plan were \$301 for 2007, \$213 for 2006, and \$181 for 2005.

**NOTE 11 – INTRA-SYSTEM FINANCIAL ASSISTANCE**

The Farm Credit Act provided for capital assistance to System institutions experiencing severe financial stress through the issuance, prior to October 1, 1992, by the Financial Assistance Corporation of U.S. Treasury-guaranteed 15-year bonds, of which \$1.261 billion in principal amount was originally issued. The last remaining Financial Assistance Corporation bonds matured and were repaid on June 10, 2005.

Pursuant to the Farm Credit Act, the U.S. Treasury paid \$440 million, on behalf of the System, in interest costs on \$844 million of the Financial Assistance Corporation bonds issued for purposes other than funding Capital Preservation Agreement accruals. The Banks had irrevocably set aside funds, including interest earned, that totaled the \$440 million needed to repay the interest advanced by the U.S. Treasury. On June 10, 2005, the Banks repaid the U.S. Treasury the interest advanced. The Farm Credit Administration Board cancelled the Financial Assistance Corporation's charter as of December 31, 2006.

**NOTE 12 – RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Association may enter 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 schedule 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 or employment.

Loan information to related parties at December 31 is shown below.

|                | 2007      | 2006      | 2005      |
|----------------|-----------|-----------|-----------|
| New loans      | \$ 33,731 | \$ 37,969 | \$ 24,669 |
| Repayments     | \$ 36,843 | \$ 31,488 | \$ 21,874 |
| Ending balance | \$ 28,433 | \$ 30,890 | \$ 24,409 |

In the opinion of management, none of these loans outstanding at December 31, 2007 involved more than a normal risk of collectibility. The Association also has business relationships with certain other System entities. The Association paid \$483 to AgVantis for technology services and \$151 to AgBank for operational services during 2007.

#### 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.

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 commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2007, \$344,361 of commitments to extend credit and \$180 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.

There are no actions pending against the Association in which claims for monetary damages are asserted.

#### NOTE 15 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2007, 2006 and 2005. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Quoted market prices are generally not available for certain financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments follows.

|                                 | <b>December 31</b> |               |                    |               |                    |               |
|---------------------------------|--------------------|---------------|--------------------|---------------|--------------------|---------------|
|                                 | 2007               |               | 2006               |               | 2005               |               |
|                                 | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount | Fair<br>Value |
| Financial assets:               |                    |               |                    |               |                    |               |
| Loans and notes receivable, net | \$ 1,093,281       | \$ 1,096,796  | \$ 988,468         | \$ 985,596    | \$ 849,408         | \$ 846,262    |
| Cash                            | \$ 5,229           | \$ 5,229      | \$ 7,958           | \$ 7,958      | \$ 8,715           | \$ 8,715      |
| Financial liabilities:          |                    |               |                    |               |                    |               |
| Notes payable to AgBank         | \$ 914,893         | \$ 918,400    | \$ 828,490         | \$ 827,978    | \$ 692,188         | \$ 691,699    |
| Advance conditional payments    | \$ 12,179          | \$ 12,179     | \$ 10,726          | \$ 10,726     | \$ 10,272          | \$ 10,272     |

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate the value follows.

- A. Loans and notes receivable: Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Since the discount rates are based on the Association's loan rates as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

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

Fair value of loans in a nonaccrual status is estimated as described above, with appropriately higher interest rates, which reflect the uncertainty of continued cash flows.

- B. Cash: The carrying value is a reasonable estimate of fair value.
- C. Notes payable to AgBank: The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets), which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current interest rate that would be charged for borrowings. For purposes of this estimate, it is assumed the cash flow on the notes payable is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable.
- D. Advance conditional payments: The carrying value is a reasonable estimate of fair value.

NOTE 16 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2007, 2006 and 2005, follow.

|  | 2007            |                 |                 |                 |                  |
|--|-----------------|-----------------|-----------------|-----------------|------------------|
|  | First           | Second          | Third           | Fourth          | Total            |
| Net interest income                            | \$ 7,095        | \$ 7,748        | \$ 7,616        | \$ 7,574        | \$ 30,033        |
| Provision for loan losses/(Loan loss reversal) | 179             | (41)            | 257             | 885             | 1,280            |
| Noninterest expense, net                       | 1,178           | 1,705           | 707             | 2,417           | 6,007            |
| <b>Net income</b>                              | <b>\$ 5,738</b> | <b>\$ 6,084</b> | <b>\$ 6,652</b> | <b>\$ 4,272</b> | <b>\$ 22,746</b> |

|  | 2006            |                 |                 |                 |                  |
|--|-----------------|-----------------|-----------------|-----------------|------------------|
|  | First           | Second          | Third           | Fourth          | Total            |
| Net interest income                            | \$ 6,166        | \$ 6,339        | \$ 6,675        | \$ 7,018        | \$ 26,198        |
| (Loan loss reversal)/Provision for loan losses | (1)             | 108             | 260             | 320             | 687              |
| Noninterest expense, net                       | 802             | 828             | 1,236           | 2,708           | 5,574            |
| <b>Net income</b>                              | <b>\$ 5,365</b> | <b>\$ 5,403</b> | <b>\$ 5,179</b> | <b>\$ 3,990</b> | <b>\$ 19,937</b> |

|  | 2005            |                 |                 |                 |                  |
|--|-----------------|-----------------|-----------------|-----------------|------------------|
|  | First           | Second          | Third           | Fourth          | Total            |
| Net interest income                            | \$ 5,656        | \$ 6,085        | \$ 5,946        | \$ 5,980        | \$ 23,667        |
| (Loan loss reversal)/Provision for loan losses | (864)           | (264)           | 181             | (110)           | (1,057)          |
| Noninterest expense, net                       | 620             | 941             | 975             | 2,939           | 5,475            |
| <b>Net income</b>                              | <b>\$ 5,900</b> | <b>\$ 5,408</b> | <b>\$ 4,790</b> | <b>\$ 3,151</b> | <b>\$ 19,249</b> |

**Report of Independent Auditors**

To the Board of Directors and Shareholders of  
Farm Credit of New Mexico, ACA:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders' equity, and of cash flows present fairly, in all material respects, the financial position of Farm Credit of New Mexico, ACA and subsidiaries (the Association) at December 31, 2007, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



February 28, 2008

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

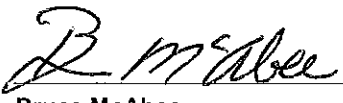
To meet the responsibility for reliable financial information, management depends on the Association's accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, FCCServices, Inc. audit staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. Additionally, the Accounting & Consulting Group, LLP, performs Sarbanes Oxley Section 404 testing of key controls. The financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, who also conduct a review of internal controls to the extent necessary to comply with generally accepted auditing standards. 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.

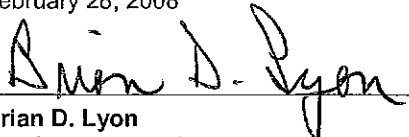
The undersigned certify the Farm Credit of New Mexico, ACA Annual Report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge.

  
\_\_\_\_\_  
**Kevin Penn**  
Chairman of the Board

February 28, 2008

  
\_\_\_\_\_  
**Bruce McAbee**  
President and Chief Executive Officer

February 28, 2008

  
\_\_\_\_\_  
**Brian D. Lyon**  
Chief Financial Officer

February 28, 2008

The Audit Committee (Committee) is comprised of three Directors of the Farm Credit of New Mexico, ACA (the Association) Board of Directors. In 2007, one Committee meeting and four conference calls 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 2007.

The fees paid for professional services rendered for the Association by its independent auditor, PwC, during 2007 were \$35,361 for audit services, and \$5,300 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, 2007 (the "Audited Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance). 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 Audited Financial Statements in the Association's Annual Report to Stockholders for the year ended December 31, 2007.



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Tom Drake, Chairman of the Audit Committee

Audit Committee Members

Tyson Achen  
Harold Houghtaling, Jr.

(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 |
|--|-----------------|-------------------|
| 3121 Carlisle Blvd., N.E.<br>Albuquerque, New Mexico   | Office Building | Leased*           |
| Balloon Fiesta Parkway N.E.<br>Albuquerque, New Mexico | Land            | Owned             |
| 721 South First Street<br>Clayton, New Mexico          | Office Building | Owned             |
| 301 Llano Estacado<br>Clovis, New Mexico               | Office Building | Owned             |
| 2800 Las Vegas Court<br>Las Cruces, New Mexico         | Office Building | Owned             |
| 2730 Wilshire Blvd.<br>Roswell, New Mexico             | Office Building | Owned             |
| 323 South Second<br>Tucumcari, New Mexico              | Office Building | Owned             |

\* Office building was sold on August 10, 2007 and leased back.

#### 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 7 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 6 to the financial statements, “Note Payable to AgBank,” 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,” to the financial statements, included in this annual report to shareholders.

The description of contingent liabilities and Intra-System financial assistance rights and obligations, required to be disclosed in this section is incorporated herein by reference from Note 11 to the financial statements, “Intra-System Financial Assistance,” and Note 14 included in this annual report to shareholders.

## SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2007, 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.

## FARM CREDIT OF NEW MEXICO, ACA

### Directors

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*The following represents certain information regarding the directors of the Association.*

*Name:* Joe Clavel

*Title:* Chairman

*Term of Office:* Three years, expiring 2007. First elected in 1995.

*Business Experience:* Cow-calf operation; President, Harding County Farm Bureau. Former director of FLBA of Tucumcari. Director of New Mexico Cattle Growers' Association; Director of New Mexico Beef Council.



*Name:* Kevin Penn

*Title:* Vice Chairman

*Term of Office:* Three years, expiring 2007. First elected in 2001.

*Business Experience:* Farming; Produces crops of cotton, chile, watermelons, lettuce, pumpkins, wheat, and pecan tress on 900 acres. Current President of Membres Valley Produce Board.



*Name:* Tyson "Ty" Achen

*Title:* Member

*Term of Office:* Three years, expiring 2008. First elected in 2002.

*Business Experience:* Farming; 400 acres of pecans. Served 33 years with Farm Credit of which he was CEO for 24 years for the PCA. Outstanding Alumnus award from New Mexico State University and served in various community organizations.



*Name:* Mack Bell

*Title:* Member

*Term of Office:* Three years, expiring 2008. First elected in 2002.

*Business Experience:* Ranching and farming; cow/calf operation and produces wheat pasture, grain, and improved grass. Member of New Mexico Cattle Growers' Association and served in many community organizations.



*Name:* Tom Drake

*Title:* Appointed Director

*Term of Office:* Three years, expiring 2010. First appointed in 2002.

*Business Experience:* Assistant to the President for Business and Government Relations at Clovis Community College. Serves as the lead Administrator in legislative affairs for the Clovis Community College. Functions 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. Mr. Drake has previous commercial banking experience and is a general certified real estate appraiser in New Mexico.



*Name:* Ben Haines

*Title:* Appointed Director

*Term of Office:* Three years, expiring 2009. First appointed in 2006.

*Business Experience:* Retired Chairman and CEO of Wells Fargo of Southern NM and former CEO of First Security Bank of Southern NM and First National Bank of Dona Ana County prior to their mergers. Commercial banking experience, including regulatory oversight, merger and acquisition activities, and extensive Board experience. Member of several professional organizations: President of the New Mexico Bankers Association, Chairman of Western School of Banking Directors Symposium, and a two-term member of the El Paso Board of Federal Reserve Bank-Dallas.



*Name:* Harold Houghtaling, Jr.

*Title:* Member

*Term of Office:* Three years, expiring 2007. First appointed in 1986.

*Business Experience:* Farming; 1,000 acres of alfalfa and corn silage. President of HN Farms, LLC and Nelson Farms, Inc.



*Name:* V. Hilaire Mowduk

*Title:* Appointed Director

*Term of Office:* Three years, expiring 2009. First appointed in 2006.

*Business Experience:* Operations and Finance Manager for the Corrections Corporation of America; 17 years of banking experience including mortgage, retail, commercial and Ag lending functions; and multiple store and executive management. Hilaire is Past President and Current Member of the Estancia Rotary Club and a Member of the American Correctional Association.



*Name:* W. Douglas Reid

*Title:* Member

*Term of Office:* Three years, expiring 2010. First appointed in 2001.

*Business Experience:* Runs 600 head of steers and takes 300-400 head per year through the feedlot. Produces crops of milo and wheat; partner in a 2,500 cow dairy at Black, Texas. Mr. Reid previously served on the Curry County ASCS County Committee and the Board of Directors of PCA of Eastern New Mexico.



*Name:* Allen W. "Wess" Wells

*Title:* Member

*Term of Office:* Three years, expiring 2008. First elected in 2003.

*Business Experience:* Farming and ranching; cow/calf and yearling operation and owner of Wells Insurance Agency. Current member of New Mexico Cattle Growers' Association and serves in many community organizations.



The photographs in this report are by Kyle Zimmerman Photography.

FARM CREDIT OF NEW MEXICO, ACA

*Senior Officers*

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

*Name:* Bruce L. McAbee

*Title:* President and Chief Executive Officer

*FCS Employment:* 31 years

*Business Experience:* Business and Finance Management - Credit Operations, Farm Credit System

*Name:* Brian D. Lyon

*Title:* Executive Vice President Finance/Chief Financial Officer

*FCS Employment:* 35 years

*Business Experience:* Certified Computer Professional, Business and Finance Management - Credit Operations,  
Farm Credit System

*Name:* Alfred E. Porter, Jr.

*Title:* Executive Vice President Credit/Chief Credit Officer

*FCS Employment:* 28 years

*Business Experience:* Credit Operations, Farm Credit System

*Name:* Gregory M. Carrasco

*Title:* Vice President/Branch Manager

*FCS Employment:* 23 years

*Business Experience:* Credit Operations, Farm Credit System

*Name:* Cary Crist

*Title:* Vice President/Branch Manager

*FCS Employment:* 15 years

*Business Experience:* Credit Operations, Farm Credit System

*Name:* Dwain Nunez

*Title:* Vice President/Branch Manager

*FCS Employment:* 18 years

*Business Experience:* Credit Operations, Farm Credit System

*Name:* G. L. Straley

*Title:* Vice President/Branch Manager

*FCS Employment:* 28 years

*Business Experience:* Credit Operations, Farm Credit System

## COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors of the Association were compensated for services on a per diem basis at the rate of \$500 per day, and mileage at the rate of \$0.485 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 | Building Committee | Total Compensation Paid During 2007 |
|-------------------------|---|--|--|-----------------|------------------------|--------------------|-------------------------------------|
| Joe Clavel              | 14.0                                    | 6.5  | \$ 10,250                                | \$ -            | \$ -                   | \$ -               | \$ 10,250                           |
| Kevin Penn              | 16.0                                    | 23.0   | 19,500                                   | -               | -                      | -                  | 19,500                              |
| Tyson "Ty" Achen        | 15.0                                    | 18.5   | 16,000                                   | 750             | -                      | -                  | 16,750                              |
| Mack Bell               | 17.0                                    | 26.0   | 19,500                                   | -               | -                      | 2,000              | 21,500                              |
| Tom Drake               | 15.0                                    | 10.7   | 11,250                                   | 1,250           | 350                    | -                  | 12,850                              |
| Ben Haines              | 16.0                                    | 21.9   | 18,750                                   | -               | 200                    | -                  | 18,950                              |
| Harold Houghtaling, Jr. | 15.5                                    | 13.1   | 13,750                                   | 550             | -                      | -                  | 14,300                              |
| V. Hilaire Mowduk       | 15.5                                    | 19.0   | 17,250                                   | -               | -                      | -                  | 17,250                              |
| W. Douglas Reid         | 17.0                                    | 26.0   | 21,500                                   | -               | -                      | -                  | 21,500                              |
| * Allen W. "Wess" Wells | 16.5                                    | 20.4   | 16,000                                   | -               | 450                    | 2,000              | 18,450                              |
| Total                   |   |  | \$ 163,750                               | \$ 2,550        | \$ 1,000               | \$ 4,000           | \$ 171,300                          |

\* In addition to the above stated compensation, Allen W. "Wess" Wells received \$4,800 in compensation from the Farm Credit Foundations Plan Sponsor Committee for serving six days as a committee member in 2007.

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 \$126,207 in 2007, \$107,213 in 2006 and \$115,580 in 2005. Non-cash compensation paid to directors as a group during 2007 was less than \$1,500.

Required senior officer compensation information is included in the Association's Annual Meeting Information Statement (AMIS) mailed to all shareholders. The AMIS is available for public inspection at the Association office. Disclosure of information on the total compensation paid during the last fiscal year to any senior officer, or to any other officer included, is available and will be disclosed to shareholders upon request.

## 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.

## RELATIONSHIP WITH U.S. AGBANK, FCB (AGBANK)

The Association's statutory obligation to borrow from AgBank is discussed in Note 6. Financial assistance agreements between the Association and AgBank are discussed in Note 7. Association requirement to invest in AgBank and AgBank's ability to

access capital of the Association is discussed in Note 4 to the financial statements, "Investment in AgBank." AgBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section – Liquidity.

AgBank is required to distribute its Annual Report to shareholders of the Association if a "significant event," as defined by FCA regulations occurs.

#### RELATIONSHIP WITH INDEPENDENT AUDITORS

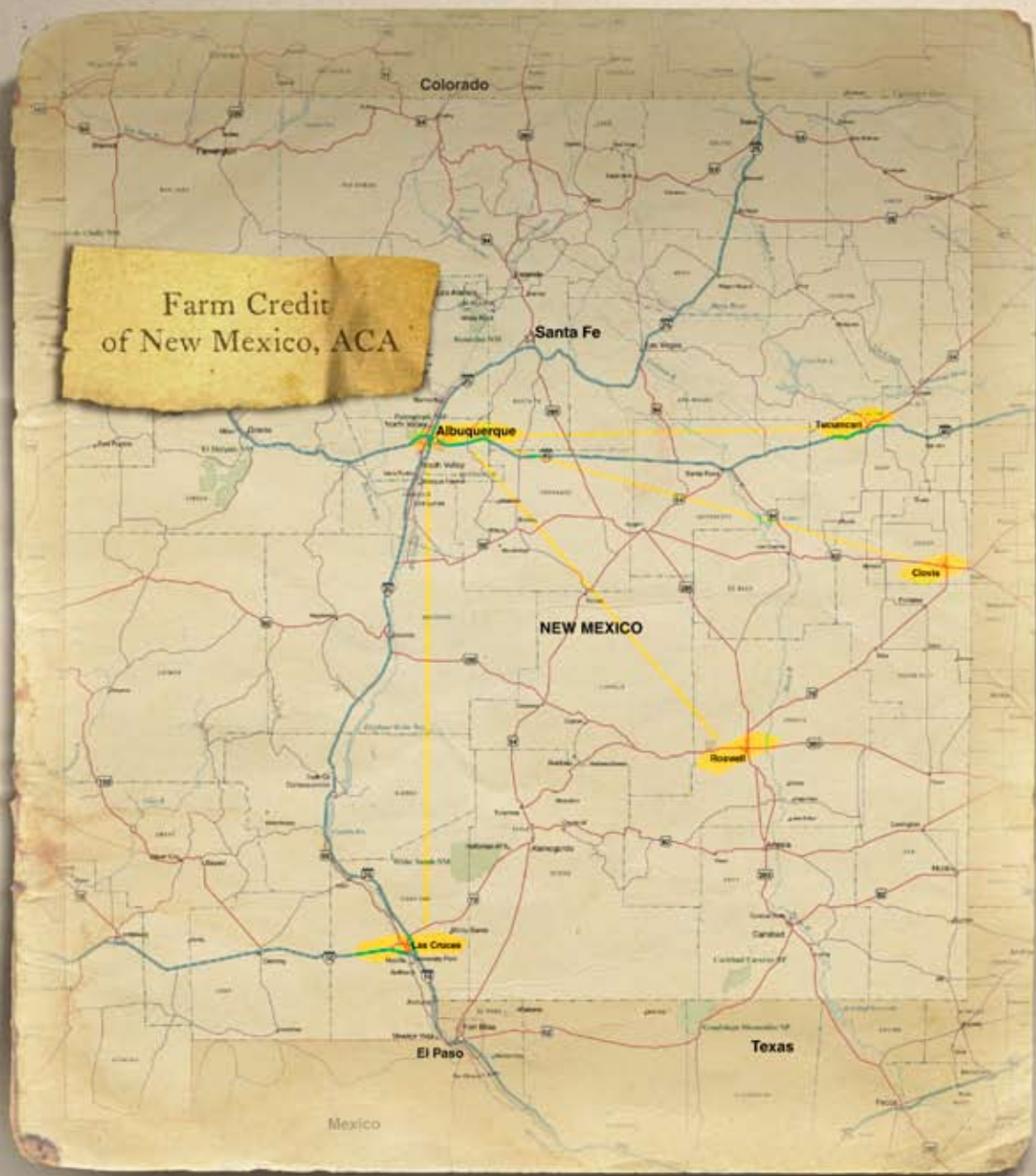
There were no changes in independent auditors since the prior annual report to shareholders and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

#### FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 28, 2008, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

#### AGBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of AgBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with AgBank's 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 year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 3121 Carlisle Blvd., N.E., Albuquerque, New Mexico 87110-1685, or may be contacted by calling (505) 884-1048 or 1-800-451-5997.



Farm Credit  
of New Mexico, ACA

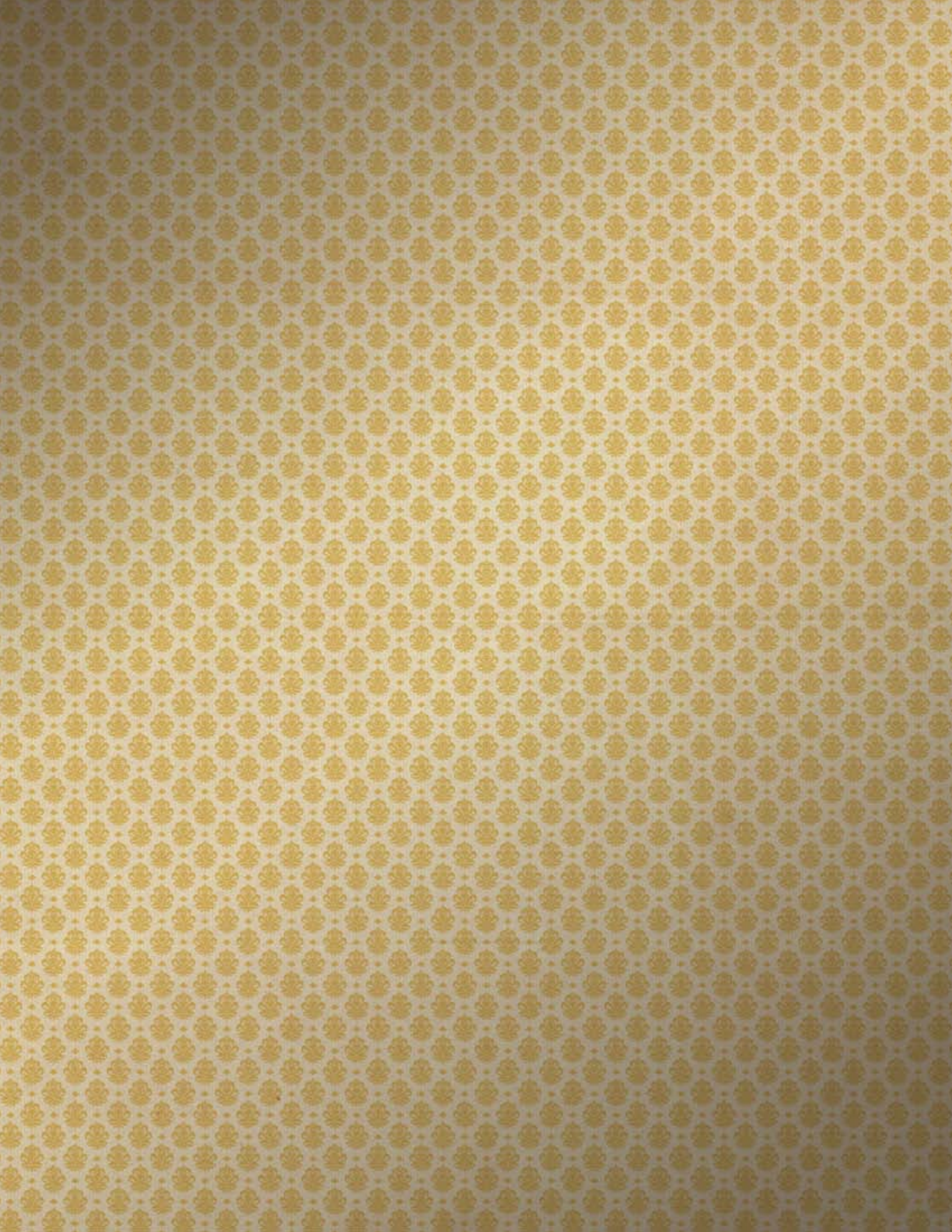
**ALBUQUERQUE**  
3121 Carlisle Blvd. NE  
Post Office Box 36120  
Albuquerque, NM 87176  
800-451-5997  
505-884-1048  
505-883-9564 Fax

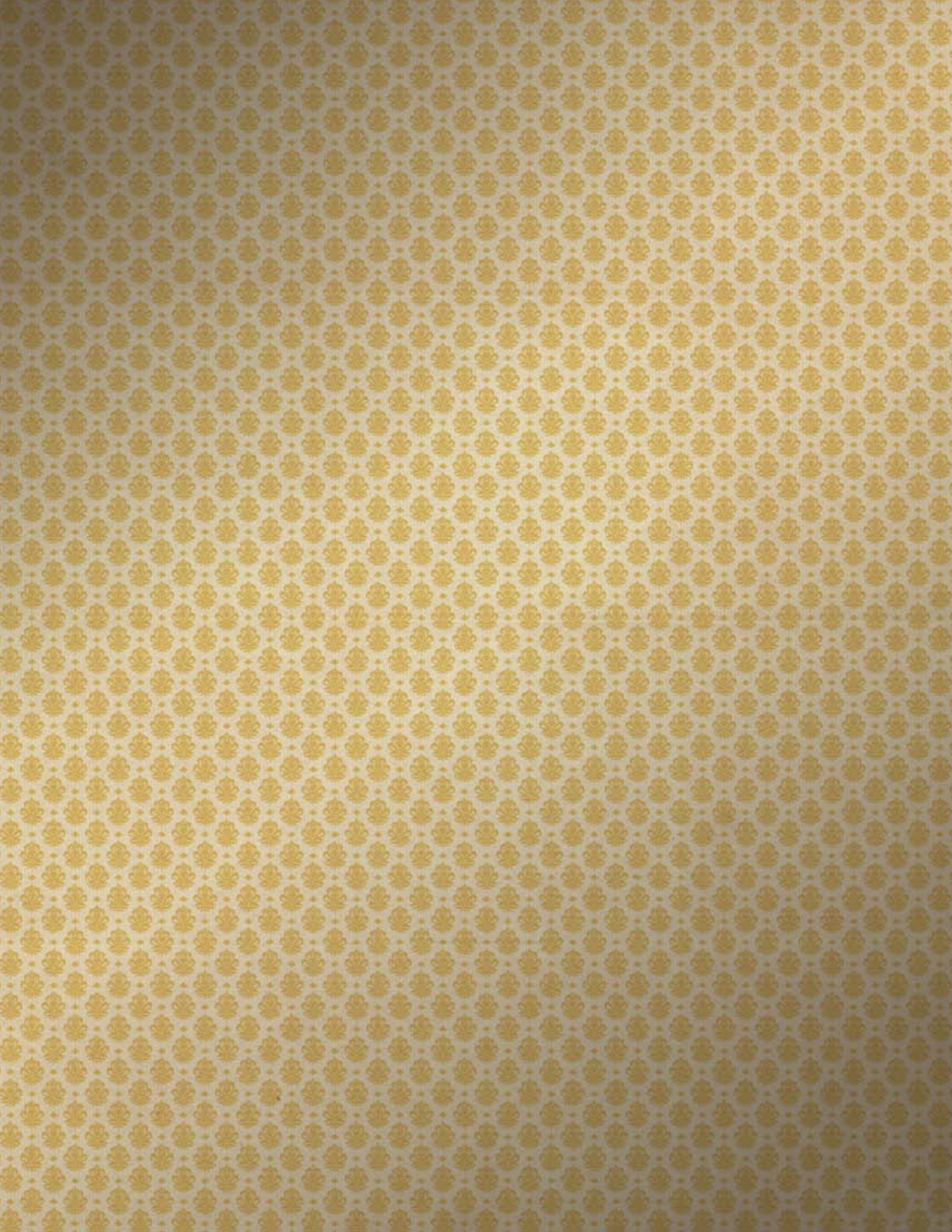
**LAS CRUCES**  
2800 Las Vegas Court  
Post Office Box 15039  
Las Cruces, NM 88004  
800-755-6432  
575-528-7100  
575-524-0748 Fax

**TUCUMCARI**  
323 South 2nd Street  
Post Office Box 1285  
Tucumcari, NM 88401  
800-824-6403  
575-461-3020  
575-461-4655 Fax

**ROSWELL**  
2730 Wilshire Blvd.  
Post Office Box 1537  
Roswell, NM 88202  
800-451-5974  
575-622-6870  
575-622-8969 Fax

**CLOVIS**  
301 W. Llano Estacado  
Post Office Box 1238  
Clovis, NM 88101  
800-451-5977  
575-763-5565  
575-763-5566 Fax







**FARM CREDIT  
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