

ONLY THOSE THAT COME FROM THE LAND CAN UNDERSTAND A LIFE WORKING TO MAKE SOMETHING FROM WHERE THERE WAS ONCE NOTHING FOR THE PROSPERITY OF THEIR FAMILIES AND COMMUNITY

A N N U A L R E P O R T

2 0 0 6



**FARM CREDIT
OF NEW MEXICO**

ALBUQUERQUE ROSWELL LAS CRUCES TUCUMCARI CLOVIS

FARM CREDIT OF NEW MEXICO

A N N U A L R E P O R T

2 0 0 6



BOARD OF DIRECTORS

Top row left to right: Ben H. Haines Jr., Tyson “Ty” Achen, Tom Drake,
Allen W. “Wess” Wells, Harold “Sonny” Houghtling Jr., Joe Clavel

Bottom row left to right: Kevin Penn, V. Hilaire Barner-Mowduk, Doug Reid, Mack Bell



MANAGEMENT TEAM

Left to right: Brian Lyon, Senior Vice President Chief Financial Officer,
Bruce McAbee, President Chief Executive Officer,
and Al Porter, Executive Vice President Chief Credit Officer.

MESSAGE TO STOCKHOLDERS

To Our Stockholders:

On behalf of Management and the Board of Directors, I am pleased to present the 2006 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 \$19.9 million. This strong earnings performance was due in part to increased growth and increased patronage from USAgBank while reducing the annual average spread on our loans by 21 basis points over the previous year. 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 2006, the Association continued the trend of increasing outstanding loan volume. At year-end, the combined Association staff was responsible for servicing 2,350 loans with an outstanding volume of more than \$991.9 million. As important, however, was the fact that the delinquency rate stood at .03 percent of the total volume of the portfolio, with combined acceptable and special mention credit quality at 99.33 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 2006, and have declared a 2006 cash patronage refund of \$6.6 million to eligible stockholders. On average, the refund will reduce each eligible member's effective interest rate approximately .75 percent for 2006. We expect to pay these refunds before March 31, 2007.

During 2006, the Association completed construction of one new lending office in Clovis and acquired the property for the eventual construction and relocation of the combined Headquarters and Albuquerque Branch. These building campaigns are the result of continued growth in staffing needs caused by continued growth in customer numbers and loan volume. These two facilities 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

FARM CREDIT OF NEW MEXICO, ACA
FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(Dollars in Thousands)

	December 31				
	2006	2005	2004	2003	2002
Balance Sheet Data					
Loans	\$ 991,903	\$ 852,156	\$ 726,880	\$ 724,552	\$ 659,950
Less allowance for loan losses	3,435	2,748	3,722	19,611	18,711
Net loans	988,468	849,408	723,158	704,941	641,239
Investment in U.S. AgBank, FCB	30,629	20,130	17,111	16,623	12,629
Other assets	33,728	27,619	18,554	23,775	20,565
Total assets	\$1,052,825	\$ 897,157	\$ 758,823	\$ 745,339	\$ 674,433
Obligations with maturities of one year or less	\$ 22,670	\$ 21,000	\$ 10,979	\$ 7,917	\$ 4,949
Obligations with maturities longer than one year	844,432	702,981	587,027	606,658	555,935
Total liabilities	867,102	723,981	598,006	614,575	560,884
Protected stock	37	51	71	81	102
Patronage stock	—	567	1,368	2,098	2,792
Capital stock	1,647	1,940	1,964	1,964	1,900
Unallocated retained earnings	184,152	170,815	157,566	126,711	108,755
Other comprehensive income/(loss)	(113)	(197)	(152)	(90)	—
Total shareholders' equity	185,723	173,176	160,817	130,764	113,549
Total liabilities and shareholders' equity	\$1,052,825	\$ 897,157	\$ 758,823	\$ 745,339	\$ 674,433

For the Year Ended December 31

	2006	2005	2004	2003	2002
Statement of Income Data					
Net interest income	\$ 26,198	\$ 23,667	\$ 21,935	\$ 20,503	\$ 17,345
Patronage distribution from U.S. AgBank, FCB	5,117	4,176	2,899	9,226	3,662
Provision for loan losses/ (Loan loss reversal)	687	(1,057)	(16,721)	3,839	1,800
Noninterest expense, net	10,853	9,531	8,924	8,396	6,525
(Benefit from)/Provision for income taxes	(162)	120	1,776	(462)	572
Net income	\$ 19,937	\$ 19,249	\$ 30,855	\$ 17,956	\$ 12,110
Key Financial Ratios					
Return on average assets	2.04%	2.32%	4.10%	2.53%	1.90%
Return on average shareholders' equity	11.11%	11.53%	21.16%	14.70%	11.18%
Net interest income as a percentage of average earning assets	2.84%	3.00%	3.02%	2.96%	2.79%
Net (recoveries)/charge-offs as a percentage of average net loans	—	(0.01%)	(0.12%)	0.44%	—
Shareholders' equity as a percentage of total assets	17.64%	19.30%	21.19%	17.54%	16.84%
Debt as a ratio to shareholders' equity	4.67:1	4.18:1	3.72:1	4.70:1	4.94:1
Allowance for loan losses as a percentage of loans	0.35%	0.32%	0.51%	2.71%	2.84%
Permanent capital ratio	16.11%	18.64%	18.78%	15.61%	15.81%
Core surplus ratio	15.95%	18.41%	18.34%	15.13%	14.89%
Total surplus ratio	15.94%	18.36%	18.35%	15.16%	15.30%
Other					
Net Income Distributions:					
Cash patronage distribution paid	\$ 6,000	\$ —	\$ —	\$ —	\$ —
Cash patronage distribution payable	\$ 6,600	\$ 6,000	\$ —	\$ —	\$ —
Loans serviced for U.S. AgBank, FCB	\$ —	\$ —	\$ 60	\$ 63	\$ 64

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

(Dollars in thousands, except as noted)

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit of New Mexico for the year ended December 31, 2006. Comparisons to prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that 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
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Governance
- Customer Privacy
- Summary

Our annual and quarterly reports to shareholders are available on our website, www.farmcreditnm.com, or may be obtained free of charge by calling (505) 884-1048 or 1-800-451-5997. Annual reports are available approximately 90 days after year end and quarterly reports are available approximately 45 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), which was created by Congress in 1916 and has served agricultural producers for almost 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 sound 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 AgBank Annual Report to Shareholders, the 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, or may be obtained at no charge by calling (505) 884-1048 or 1-800-451-5997. Annual reports are available approximately 90 days after year end and quarterly reports are available approximately 45 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, 2008. We are a shareholder in AgVantis, along with all other AgVantis customers. In addition, we also purchase payroll and other human resources services from AgBank.

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 combined 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.

Valuation methodologies

We apply various valuation methodologies to certain assets and liabilities that often involve a significant degree of judgment. We utilize significant estimates and assumptions to value financial instruments for which an observable liquid market does not exist. Examples of these are the valuation of impaired loans and pension and other postretirement benefit obligations. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, cost of servicing, and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on our results of operations.

Pension Plan

We participate in a defined benefit retirement plan. This plan is non-contributory and benefits are based on salary and years of service. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to Moody's Investors Service Aa long-term corporate bond index, actuarial analyses, and industry norms.

ECONOMIC OVERVIEW

During 2006, economic conditions in our region were unlike 2005. The precipitation level for most of our lending area was above normal, creating weather related problems for many farming operators. Conditions for most vegetable, cotton, and pecan growers were good until August when excess rain and hail storms caused flooding and severely damaged crops. The adverse weather was concentrated mainly in the Las Cruces area. Some pecan operators experienced severe damage, many vegetable crops were totally destroyed, and chili crops wilted. Because of these weather-related problems, some operators may experience severe financial strain.

The rainy conditions resulted in moisture levels for 2006 that were well above normal for most areas, and although the water storage situation improved, winter moisture for the 2006-2007 season is still considered necessary.

The average milk price for the first ten months of 2006 was substantially lower than the first ten months of 2005. The price reduction was due to the current year's national milk production running 2-3% higher than the previous year. Currently, prices for milk have improved and the futures prices reflect signs of continued improvement. Continued growth in the dairy industry in the state, and in west Texas, has resulted in improved demand for local hay. Alfalfa operators have experienced a per-ton price increase for their good-quality hay. Pecan prices were strong during 2006, and pecan producers experienced good yields, although 2006 was considered an "off-production" year. Despite the extended issues related to previous drought conditions, cow/calf operators have experienced above-average prices. The spring lettuce crop, prior to the rainy conditions, experienced good prices and quality, and the onion crops were good for the most part. Chili yields were good except for those operators experiencing heavy rains and flooding.

Livestock grazing ranches, with predominant agricultural use, continued to increase in value in most areas of the state, with increased real estate values in the 9-12% range. Transactions of recreational ranch properties have increased significantly over the past year. Farm values have remained relatively stable to slightly increasing with the exception of farms in the path of nonagricultural development. The cost to construct dairy facilities increased approximately 25-30% during 2005-2006 causing the resale value of existing facilities to increase.

LOAN PORTFOLIO

Total loan volume was \$991,903 at December 31, 2006, an increase of \$139,747, or 16.4%, from loans at December 31, 2005 of \$852,156, and \$265,023, or 36.5%, from loans at December 31, 2004, of \$726,880. The increase in loans was due to a very active capital market and aggressive marketing efforts. The types of loans outstanding at December 31 are reflected in the following table.

	2006		2005		2004	
	Volume	Percent of Total	Volume	Percent of Total	Volume	Percent of Total
Real estate mortgage	\$ 647,810	65.31%	\$ 606,570	71.19%	\$ 529,309	72.82%
Production and intermediate-term	225,131	22.70%	178,057	20.89%	156,829	21.58%
Agribusiness:						
Loans to cooperatives	7,419	0.75%	2,968	0.35%	2,509	0.35%
Process and marketing	85,636	8.63%	49,636	5.82%	28,300	3.89%
Farm related business	11,666	1.18%	6,584	0.77%	3,493	0.48%
Communication	6,833	0.68%	3,210	0.38%	2,117	0.29%
Rural residential real estate	7,408	0.75%	5,131	0.60%	4,323	0.59%
Total	\$ 991,903	100.00%	\$ 852,156	100.00%	\$ 726,880	100.00%

In 2006, real estate mortgage volume increased primarily due to our lending support of the growing dairy 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 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 26.4% compared with 2005 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 are most often written for a period of time that matches 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 due to additional participation loan interests in the forestry and timber processing and food industries. Approximately 92% of process and marketing, 26% of farm related business and all loans to cooperatives and communication volume is purchased participation interests in loans. Participation interests in loans are discussed in the following Loan Portfolio Diversification section.

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 and our geographic area served. In addition, we sell a portion of certain large loans to other System and non-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.

	2006	2005	2004
Participations purchased – AFG	\$ 69,862	\$ 39,414	\$ 29,185
Participations purchased – other	39,574	23,544	3,755
Total participations purchased	\$ 109,436	\$ 62,958	\$ 32,940
Participations sold – AFG	\$ 21,511	\$ 25,514	\$ 25,400
Participations sold – other	15,733	8,971	1,412
Total participations sold	\$ 37,244	\$ 34,485	\$ 26,812

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.

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

	2006	2005	2004
Dona Ana	20.94%	23.64%	22.01%
Curry	17.38%	16.26%	11.29%
Chaves	13.82%	12.69%	11.08%
Roosevelt	9.36%	7.98%	6.16%
Other	5.51%	6.41%	21.04%
Santa Fe	4.15%	1.71%	1.57%
Eddy	4.12%	4.40%	4.00%
Luna	3.65%	2.49%	2.33%
Colfax	2.64%	2.54%	1.29%
Lincoln	2.51%	2.19%	1.81%
Sierra	2.47%	2.62%	1.97%
Quay	1.88%	2.14%	1.66%
Union	1.75%	2.15%	1.87%
Bernalillo	1.72%	1.90%	2.32%
San Miguel	1.68%	1.69%	1.48%
Lea	1.47%	3.38%	3.35%
Torrance	1.44%	1.74%	1.12%
Valencia	1.40%	1.52%	1.36%
Socorro	1.26%	1.50%	1.14%
Grant	0.85%	1.05%	1.15%
Total	100.00%	100.00%	100.00%

Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. The following table shows the primary agricultural commodities produced by our borrowers as of December 31.

	2006	2005	2004
Dairy	29.76%	26.67%	24.70%
Cattle	14.88%	18.23%	22.04%
Hay Crops	6.36%	6.50%	6.12%
Pecans	4.81%	5.33%	7.87%
Ag Services	4.05%	3.29%	3.02%
Feed Lots	3.64%	3.40%	3.74%
Grains	3.26%	4.14%	3.81%
Vegetables & Chile	2.58%	3.78%	2.72%
Cotton	1.87%	2.13%	2.26%
Non-Farm Income	20.71%	20.81%	18.74%
Other	8.08%	5.72%	4.98%
Total	100.00%	100.00%	100.00%

Dairy continues to increase due to businesses moving into the territory. Cattle decreased during 2006 mainly due to paydowns and payoffs. Repayment ability of our borrowers is closely related to the production and the profitability of the commodities they produce. Our loan portfolio contains a concentration of dairy, livestock, hay crops, and pecan producers. Our loan portfolio consists of 20.7% borrowers with off-farm income, a decrease from 20.8% for 2005, and an increase from 18.7% for 2004. 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, 2006, large loans to customers with individual commitments of over \$7,929 represented approximately 42% of our loan volume. Within this large loan group, 82 customers with 197 loans totaled approximately \$429.9 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.

Small loans (less than \$250 thousand) accounted for 12.3% of loan volume at December 31, 2006. Credit risk on small loans, in many instances, is also reduced by non-farm income sources.

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 \$74,104 at December 31, 2006, \$54,146 at December 31, 2005 and \$68,020 at December 31, 2004. Farmer Mac long-term standby commitments to purchase agreements are further described in Note 2 of the accompanying financial statements. Additional credit guarantees of approximately \$8,267 at year-end 2006, \$7,788 at year-end 2005 and \$8,223 at year-end 2004 were outstanding with other guarantors. Fees paid for

the Farmer Mac and other guarantees totaled \$304 for 2006, \$340 for 2005 and \$292 for 2004 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 the website at www.farmermac.com.

Credit Commitments

The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2006.

	Less than 1 year	1 – 3 years	3 – 5 years	Over 5 years	Total
Commitments to extend credit	\$ 88,840	\$ 64,410	\$ 45,348	\$ 73,808	\$ 272,406
Standby letters of credit	90	5	—	—	95
Total commitments	\$ 88,930	\$ 64,415	\$ 45,348	\$ 73,808	\$ 272,501

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 balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and 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:

	2006	2005	2004
Nonaccrual loans:			
Real estate mortgage loans	\$ 3,673	\$ 2,957	\$ 2,577
Production and intermediate-term loans	111	91	496
Total nonaccrual loans	3,784	3,048	3,073
Total high risk assets	\$ 3,784	\$ 3,048	\$ 3,073
Nonaccrual loans to total loans	0.38%	0.36%	0.42%
High risk assets to total loans	0.38%	0.36%	0.42%
High risk assets to total shareholders' equity	2.04%	1.76%	1.91%

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 increased \$736 compared with December 31, 2005 due to the transfer of loans to nonaccrual status. Two customers comprise approximately 84% of the 12 loans of the total nonaccrual volume at December 31, 2006.

The following table provides additional information on nonaccrual loans as of December 31.

	2006	2005	2004
Nonaccrual loans current as to principal and interest	\$ 607	\$ 686	\$ 1,745
Cash basis nonaccrual loans	\$ —	\$ 132	\$ 143

Nonaccrual volume is anticipated to decrease in the future through the foreclosure and liquidation of one customer who represents approximately 62% of the total nonaccrual volume.

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.

	2006	2005	2004
Acceptable	98.22%	96.37%	92.52%
OAEM	1.11%	2.07%	5.48%
Substandard	0.67%	1.56%	2.00%
Total	100.00%	100.00%	100.00%

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

During 2006, overall credit quality improved. Loans classified as “Acceptable” and “OAEM” as a percentage of total loans and accrued interest receivable were 99.33% at December 31, 2006 and 98.44% at December 31, 2005. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased and remained at a low level of 0.03% at December 31, 2006, compared with 0.04% at December 31, 2005.

Allowance for Loan Losses

The allowance for loan losses increased \$687 from December 31, 2005, to \$3,435 at December 31, 2006. The primary factor impacting the increase in allowance is due to loan volume growth of \$139,747, or 16.4% for the year.

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

	2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent
Real estate mortgage	\$ 1,562	45.48%	\$ 1,437	52.29%	\$ 1,394	37.45%
Production and intermediate-term	1,564	45.53%	1,207	43.92%	2,292	61.58%
Agribusiness	282	8.21%	97	3.53%	29	0.78%
Communication	10	0.29%	1	0.04%	2	0.05%
Rural residential real estate	17	0.49%	6	0.22%	5	0.14%
Total	\$ 3,435	100.00%	\$ 2,748	100.00%	\$ 3,722	100.00%

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:

	2006	2005	2004
Allowance as a percentage of:			
Loans	0.35%	0.32%	0.51%
Impaired loans	90.78%	90.16%	121.12%
Nonaccrual loans	90.78%	90.16%	121.12%

The financial positions of our borrowers have generally strengthened during the past decade as net cash income in agriculture was very favorable during this period, in part, due to direct federal government payments and steady increases in land values. With borrowers’ strengthened financial positions and the continued emphasis on sound underwriting standards, the credit quality of our loan portfolio has remained strong, although these levels of credit quality are not likely sustainable in the future due to less favorable economic conditions.

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 or rancher who was age 35 or younger as of the date the loan was originally made.
- Beginning Farmer: A farmer or rancher who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small Farmer: A farmer or rancher 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, 2006. 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 FLCA and PCA, Beginning FLCA, and Small FLCA and PCA fell short of the goals. This was primarily due to our adding a significant amount of loan volume in 2006. This affected the total percentage of YBS represented, however a noteworthy amount of volume for YBS was added in 2006.

	2006	2005	2004	USDA
Young	9.79%	10.70%	11.89%	4.60%
Beginning	17.03%	18.25%	20.51%	30.90%
Small	46.19%	52.14%	56.90%	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 2006 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 4H;
- Support Kids, Kows, and More; and
- Support other functions related to YBS.

We take full advantage of opportunities for coordinating credit and services offered with other System institutions in our territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers.

- We allocate 10% of risk funds to YBS borrowers;
- We take full advantage of FSA loan guarantees; and
- We have underwriting standards implemented to help YBS borrowers have access to credit.

We implemented an effective outreach program to attract YBS farmers and ranchers.

- We have an advertising campaign to help encourage YBS farmers and ranchers to borrow from us, and
- We implemented an advisory committee comprised of YBS farmers and ranchers to provide views on how our credit and services could best serve their needs. Committee members were appointed and the first meeting was held in August 2006.

For 2006, goals were exceeded in the Young, Beginning, and Small 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 Young, Beginning, and Small due to the significant amount of loan volume growth in 2006. The new loan volume and loan number goals are in the following table.

	2006 Goals		2006 Results		2007 Goals		2008 Goals	
	Volume	Number	Volume	Number	Volume	Number	Volume	Number
Young	\$ 11,500	28	\$ 15,760	35	\$12,250	38	\$11,500	28
Beginning	\$ 20,000	36	\$ 37,162	72	\$21,000	44	\$20,000	36
Small	\$ 42,000	80	\$ 64,119	105	\$44,000	92	\$42,000	80

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.

	2006		2007		2008	
	FLCA	PCA	FLCA	PCA	FLCA	PCA
Young	12.0%	11.0%	12.0%	11.0%	12.0%	11.0%
Beginning	21.0%	15.0%	22.0%	16.0%	22.0%	16.0%
Small	54.0%	52.0%	55.0%	53.0%	55.0%	54.0%

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

	2006		2007		2008	
	Number	Volume	Number	Volume	Number	Volume
Young	28.9%	20.9%	29.8%	21.9%	31.3%	23.0%
Beginning	50.4%	39.6%	53.0%	41.6%	55.6%	43.6%
Small	65.5%	83.4%	68.8%	87.6%	72.2%	92.0%

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

	2006	2007	2008
Young	\$ 16,500	\$ 17,500	19,000
Beginning	\$ 28,500	\$ 30,000	33,000
Small	\$ 21,500	\$ 22,500	24,000

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 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 letters of credit and unfunded loan commitments). 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.

One method for managing concentration is through the use of participation programs with other System and non-System institutions. Buying and selling loan volume, within and outside the System, can help reduce concentrations and manage growth and capital positions while allowing for a sharing of credit expertise. Concentrations and credit risk are also managed through the utilization of government guarantee programs and Farmer Mac guarantee programs. We have further diversified concentrations in agricultural production by developing rural residence, part-time farmer and agribusiness portfolios. Rural resident and part-time farmers often derive a significant portion of earnings from nonagricultural sources, thus helping diversify repayment risk to sources other than agricultural production income.

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. Certain appraisals must be performed by individuals with a state certification or license.

We implemented a two-dimensional risk rating process in 2005. 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 Uniform Classification System (UCS). This process also serves as the basis for economic capital modeling.

RESULTS OF OPERATIONS

Earnings Summary

In 2006, we recorded net income of \$19,937, compared with \$19,249 in 2005, and \$30,855 in 2004. The increase in net income in 2006, compared to 2005, was primarily due to increased net interest income and patronage from AgBank. The decrease in net income in 2006 as compared to 2004 was primarily due to the loan loss reversal of \$16,721 recorded in 2004 due to the changed methodology.

The following table presents the changes in the significant components of net income from the previous year.

	2006 vs. 2005	2005 vs. 2004
Net income, prior year	\$ 19,249	\$ 30,855
Changes from prior year		
Increased interest income	21,079	12,855
Increased interest expense	(18,548)	(11,123)
Increased net interest income	2,531	1,732
Increased provision for loan losses	(1,744)	(15,664)
Increased noninterest income	1,497	1,449
Increased noninterest expense	(1,878)	(779)
Increased benefit from income taxes	282	1,656
Total increase/(decrease) in net income	688	(11,606)
Net income, current year	\$ 19,937	\$ 19,249

Net Interest Income

Net interest income for 2006 was \$26,198 compared with \$23,667 for 2005 and \$21,935 for 2004. The table below provides an analysis of the individual components of the change in net interest income during 2006 and 2005.

	2006 vs. 2005	2005 vs. 2004
Net interest income, prior year	\$ 23,667	\$ 21,935
Increase/(Decrease) in net interest income due to changes in:		
Interest rates earned and interest credits paid	(614)	(661)
Volume of accruing assets/interest bearing liabilities	3,111	2,063
Interest income on nonaccrual loans	34	330
Increase in net interest income	2,531	1,732
Net interest income, current year	\$ 26,198	\$ 23,667

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

	Year Ended December 31		
	2006	2005	2004
Net interest margin	2.84%	3.00%	3.02%
Interest rate on:			
Average loan volume	7.30%	5.93%	4.58%
Average debt	5.01%	3.43%	1.86%
Interest rate spread	2.29%	2.50%	2.72%

At December 31, 2006, average loan rates increased 137 basis points and average debt costs increased 158 basis points from the same period one year ago, causing a 21 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.

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 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 losses of \$687 for the year ended December 31, 2006, compared with a loan loss reversal of \$1,057 in 2005 and nonrecurring loan loss reversal of \$16,721 in 2004. The provision for loan losses recorded during 2006 was primarily due to the growth in our loan portfolio and additional risk. The loan loss reversal recorded in 2004 was due to the refinement of our allowance for loan losses methodology.

Noninterest Income

For the year ended December 31, 2006, we recorded noninterest income of \$6,416, compared with \$4,919 in 2005 and \$3,470 in 2004. Patronage distributions from AgBank are our primary source of noninterest income. The components of the patronage from AgBank are reflected in the following table.

	Year Ended December 31		
	2006	2005	2004
Cash patronage	\$ 4,611	\$ 3,687	\$ 2,411
Stock patronage	506	489	488
Total patronage from AgBank	\$ 5,117	\$ 4,176	\$ 2,899

Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees in 2006 were \$636, an increase of \$388, from 2005, due to fee income from participation loans. Loan fees in 2006 increased \$568 from 2004 due to an aggressive capital markets program.

Noninterest Expense

Noninterest expense for the year ended December 31, 2006, increased \$1,878, or 18.3%, to \$12,152 compared with 2005. Significant components of noninterest expense are compared in the following table.

Year Ended December 31

	2006	2005	2004	Percent of Change	
				2006/2005	2005/2004
Salaries & employee benefits	\$ 6,663	\$ 5,625	\$ 5,405	18.45%	4.07%
Occupancy & equipment	491	467	484	5.14%	(3.51%)
Purchased services from AgVantis	489	422	354	15.88%	19.21%
Purchased services from AgBank	181	135	114	34.07%	18.42%
Supervisory & examination costs	298	284	275	4.93%	3.27%
Other	2,647	2,779	2,114	(4.75%)	31.46%
Total operating expense	10,769	9,712	8,746	10.88%	11.05%
Farm Credit Insurance Fund premium	1,383	389	366	255.53%	6.28%
Financial Assistance Corporation debt assessment	—	174	383	(100.00%)	(54.57%)
Gains on other property owned, net	—	(1)	—	(100.00%)	—
Total noninterest expense	\$ 12,152	\$ 10,274	\$ 9,495	18.28%	8.20%

For the year ended December 31, 2006, operating expense increased \$1,057, or 10.90%, compared to the year ended December 31, 2005, primarily due to increased expenditures for salaries and benefits due to normal merit increases and additional staff to support our loan growth. Insurance Fund premium increased \$994 to \$1,383 due to an increase in premiums on average accrual loan volume to 15 basis points 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/Provision for Income Taxes

Benefit from income taxes for 2006 was \$162 at December 31, 2006 compared to a provision for income taxes at December 31, 2005 of \$120 primarily due to recording a current net operating loss in the taxable entity.

LIQUIDITY

Liquidity is necessary to meet our financial obligations appropriately. 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 Farm Credit System's ability to sell debt securities at competitive rates and our maintaining a sound financial position and borrowing relationship with U.S. 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 \$760,339 in 2006, \$636,751 in 2005 and \$590,999 in 2004.

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 and 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. The balance of the ESMP commitment and the average interest rate as of December 31, 2006 in the various maturities are reflected in the following table.

	Balance	Average Rate
Maturing in 1 year or less	\$ 31,100	4.23%
Maturing in 1 to 3 years	50,100	4.35%
Maturing in over 3 years	3,000	4.66%
Total	\$ 84,200	4.31%

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 built capital through net income earned and retained. Shareholders' equity at December 31, 2006 totaled \$185,723, compared with \$173,176 at December 31, 2005 and \$160,817 at December 31, 2004. 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.

	2006	2005	2004
Debt to shareholders' equity	4.67:1	4.18:1	3.72:1
Shareholders' equity as a percent of loans	18.72%	20.32%	22.12%
Shareholders' equity as a percent of assets	17.64%	19.30%	21.19%

Debt to shareholders' equity increased and shareholders' equity as a percent of loans and of total assets decreased from 2005 to 2006 primarily due to the increase in loan volume and stable earnings during 2006.

Retained Earnings

Our retained earnings increased \$13,337 to \$184,152 at December 31, 2006 from \$170,815 at December 31, 2005. The increase was a result of net income of \$19,937, offset by \$6,600 of patronage distributions declared.

Other Comprehensive Income/(Loss)

Most of our employees participate in the Eleventh District Defined Benefit Retirement Plan (Eleventh Plan) or the Ninth Defined Benefit Retirement Plan (Ninth Plan). The Eleventh Plan's unfunded portion of pension obligations is recognized as a liability and also recorded as a charge to accumulate other comprehensive losses. Our unfunded portion of the Eleventh Plan decreased to \$113 at December 31, 2006, from \$197 at December 31, 2005. As of December 31, 2006, the Ninth Retirement Plan was fully funded. Employee benefit plans are discussed further in Note 10 of the Notes to Financial Statements.

Patronage Program

The Board, at the December 2005 Board Meeting, adopted a plan and an obligating resolution initiating a patronage program for calendar year 2006. This program 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 business done with us 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 2006, the Board adopted an Accrual Resolution establishing the amount of the 2006 cash patronage at \$6,600 to be paid in cash on or before March 31, 2007. The remainder of the 2006 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 \$874 to \$1,684 at December 31, 2006, from \$2,558 at December 31, 2005. The Board of Directors adopted a resolution in 2000 to retire Class H stock. Class H stock of \$567 was retired in 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. 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 2006, loan level stock of \$207 was transferred to borrower level stock as a result of this program.

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 construction of a new office facility in Clovis which was substantially completed in November 2006. Additionally, the Board has also approved the acquisition of a building site in Albuquerque for a new office facility, with expected completion in the fourth quarter of 2007. Construction of these facilities will transfer some capital from an earning asset to a non-earning asset. However, this has been projected into our Business and Capital plans.

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:

	Regulatory Minimum	2006	2005	2004
Permanent capital	7.00%	16.11%	18.64%	18.78%
Total surplus	7.00%	15.94%	18.36%	18.35%
Core surplus	3.50%	15.95%	18.41%	18.34%

Our capital ratios decreased compared with year-end 2005 primarily due to the increase in loan volume. As of December 31, 2006, we exceeded the regulatory minimum and are expected to do so throughout 2007. 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, 2006, we have exceeded our minimum Board targets of 15.0% for Permanent Capital, Total Surplus, and Core Surplus ratios.

GOVERNANCE

Board Oversight & Director Independence

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.

All directors must exercise sound judgment in deciding matters. All our directors are independent from the perspective that none of our management or staff serve 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 (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. During 2006, three meetings and three conference calls were held.

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,
- 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.

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 BALANCE SHEET
(Dollars in Thousands)

	December 31		
	2006	2005	2004
ASSETS			
Loans	\$ 991,903	\$ 852,156	\$ 726,880
Less allowance for loan losses	3,435	2,748	3,722
Net loans	988,468	849,408	723,158
Cash	7,958	8,715	4,342
Accrued interest receivable	16,497	12,921	8,920
Investment in U.S. AgBank, FCB	30,629	20,130	17,111
Premises and equipment, net	6,792	3,587	3,097
Pension asset	1,259	1,381	1,016
Deferred tax asset	47	56	54
Other assets	1,175	959	1,125
Total assets	\$1,052,825	\$ 897,157	\$ 758,823
LIABILITIES			
Note payable to U.S. AgBank, FCB	\$ 828,490	\$ 692,188	\$ 581,314
Advance conditional payments	10,726	10,272	7,319
Accrued interest payable	15,942	10,793	5,713
Patronage distributions payable	6,600	6,000	—
Postretirement benefits	426	406	386
Pension liability	240	296	228
Other liabilities	4,678	4,026	3,046
Total liabilities	867,102	723,981	598,006
Commitments and Contingencies (See Note 14)			
SHAREHOLDERS' EQUITY			
Protected borrower stock	37	51	71
Patronage stock	—	567	1,368
Capital stock	1,647	1,940	1,964
Unallocated retained earnings	184,152	170,815	157,566
Other comprehensive income/(loss)	(113)	(197)	(152)
Total shareholders' equity	185,723	173,176	160,817
Total liabilities and shareholders' equity	\$1,052,825	\$ 897,157	\$ 758,823

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		
	2006	2005	2004
INTEREST INCOME			
Loans	\$ 67,546	\$ 46,467	\$ 33,612
Total interest income	67,546	46,467	33,612
INTEREST EXPENSE			
Note payable to U.S. AgBank, FCB	40,933	22,609	11,613
Other	415	191	64
Total interest expense	41,348	22,800	11,677
Net interest income	26,198	23,667	21,935
Provision for loan losses/(Loan loss reversal)	687	(1,057)	(16,721)
Net interest income after provision for loan losses/ (loan loss reversal)	25,511	24,724	38,656
NONINTEREST INCOME			
Financially related services income	461	403	370
Loan fees	636	248	68
Patronage distribution from U.S. AgBank, FCB	5,117	4,176	2,899
Other noninterest income	202	92	133
Total noninterest income	6,416	4,919	3,470
NONINTEREST EXPENSE			
Salaries and employee benefits	6,663	5,625	5,405
Occupancy and equipment	491	467	484
Purchased services from AgVantis, Inc.	489	422	354
Purchased services from U.S. AgBank, FCB	181	135	114
Farm Credit Insurance Fund premium	1,383	389	366
Financial Assistance Corporation debt assessment	—	174	383
Supervisory and examination costs	298	284	275
Other noninterest expense	2,647	2,779	2,114
Total noninterest expense	12,152	10,274	9,495
Income before income taxes	19,775	19,369	32,631
(Benefit from)/Provision for income taxes	(162)	120	1,776
Net income	\$ 19,937	\$ 19,249	\$ 30,855

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 Borrower Stock	Patronage Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/Loss Net of Tax	Total Shareholders' Equity
Balance at December 31, 2003	\$ 81	\$ 2,098	\$ 1,964	\$ 126,711	\$ (90)	\$ 130,764
Net income				30,855		30,855
Minimum pension liability					(62)	(62)
Stock issued	—	—	295			295
Stock retired	(10)	(730)	(295)			(1,035)
Balance at December 31, 2004	71	1,368	1,964	157,566	(152)	160,817
Net income				19,249		19,249
Minimum pension liability					(45)	(45)
Stock issued	—	—	278			278
Stock retired	(20)	(801)	(302)			(1,123)
Patronage distributions: Cash				(6,000)		(6,000)
Balance at December 31, 2005	51	567	1,940	170,815	(197)	173,176
Net income				19,937		19,937
Minimum pension liability					84	84
Stock issued	—	—	237			237
Stock retired	(14)	(567)	(530)			(1,111)
Patronage Distributions: Cash				(6,600)		(6,600)
Balance at December 31, 2006	\$ 37	\$ —	\$ 1,647	\$184,152	\$ (113)	\$185,723

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

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 19,937	\$ 19,249	\$ 30,855
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	372	319	346
Provision for loan losses/(Loan loss reversal)	687	(1,057)	(16,721)
Patronage stock from U.S. AgBank, FCB	(506)	(489)	(488)
Gains on sales of premises and equipment	(109)	(64)	(52)
Gains on sales of other property owned	—	(1)	—
Decrease/(Increase) in deferred tax asset	9	(2)	1,380
Change in assets and liabilities:			
(Increase)/Decrease in accrued interest receivable	(3,576)	(4,001)	189
Decrease/(Increase) in pension asset	122	(365)	(150)
(Increase)/Decrease in other assets	(216)	166	857
Increase in advance conditional payments	454	2,953	2,687
Increase/(Decrease) in accrued interest payable	5,149	5,080	(262)
Increase in postretirement benefits	20	20	22
Decrease in pension liability	28	23	95
Increase in other liabilities	652	980	196
Total adjustments	3,086	3,562	(11,901)
Net cash provided by operating activities	23,023	22,811	18,954
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	(139,747)	(125,298)	(1,496)
Increase in investment in U.S. AgBank, FCB	(9,993)	(2,530)	—
Purchases of premises and equipment	(3,822)	(816)	(191)
Proceeds from sales of premises and equipment	354	71	56
Proceeds from sales of other property owned	—	106	—
Net cash used in investing activities	(153,208)	(128,467)	(1,631)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on/(Net repayment) note payable to U.S. AgBank, FCB	136,302	110,874	(19,369)
Protected borrower stock retired	(14)	(20)	(10)
Patronage stock retired	(567)	(801)	(730)
Capital stock retired	(530)	(302)	(295)
Capital stock issued	237	278	295
Cash patronage distributions paid	(6,000)	—	—
Net cash provided by/(used in) financing activities	129,428	110,029	(20,109)
Net (decrease)/increase in cash	(757)	4,373	(2,786)
Cash at beginning of year	8,715	4,342	7,128
Cash at end of year	\$ 7,958	\$ 8,715	\$ 4,342
SUPPLEMENTAL CASH INFORMATION:			
Cash paid/(received) during the year for:			
Interest	\$ 36,199	\$ 17,720	\$ 11,939
Income taxes	\$ 142	\$ (189)	\$ (335)
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Loans transferred to other property owned	\$ —	\$ 105	\$ —
Net recoveries	\$ —	\$ (83)	\$ (832)
Patronage distributions payable	\$ 6,600	\$ 6,000	\$ —
Change in other comprehensive income/(loss)	\$ 84	\$ (45)	\$ (62)

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

NOTES TO FINANCIAL STATEMENTS
(Dollars in Thousands, Except as Noted)

NOTE 1 — ORGANIZATION AND OPERATIONS

- A. Organization: Farm Credit of New Mexico, ACA and its subsidiaries, Farm Credit of New Mexico, FLCA (Federal Land Credit Association (FLCA)) and Production Credit Association of Southern New Mexico, (Production Credit Association (PCA)), (collectively called “the Association”) are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in all the counties except San Juan 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, 2006, 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 funding to all 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, 2006, 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. The AgBank District Annual Report to Shareholders (District's Annual Report) is available on its web site, 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. Certain amounts in prior years' financial statements have been reclassified to conform to current financial statement presentation.

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.

Loan origination fees and direct loan origination costs are capitalized and the resulting net fee or cost is amortized over an average loan life as an adjustment to yield by the Association.

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.

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 6.25 percent of average direct loan volume, net of excess investment. 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 and in prior periods, Financial Assistance Corporation liabilities.
- 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 Balance Sheet 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 Balance Sheet. 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 may participate in the Ninth District Defined Benefit Retirement Plan (Plan). The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes. Benefits are based on salary and years of service. Additional financial information for the Plan may be found in the U.S. AgBank District's Annual Report. The employees of the Association are also eligible to participate in the Ninth District thrift/deferred compensation plan (Thrift Plan); the Association matches a certain percentage of employee contributions. Thrift Plan costs are expensed monthly as funded.

The Association also participates in the Eleventh District defined benefit and defined contribution retirement plans. This defined benefit plan is a non-contributory plan. The "Projected Unit Credit" actuarial method is used for financial reporting purposes and the "Entry Age Normal Cost" actuarial method is used for funding purposes. Benefits are based on employee salaries and years of service. The defined benefit plan was closed to new participants beginning January 1, 1998. As a result of the unfunded status of the underlying plan, the Association may record a minimum liability, an intangible asset relating to unrecognized prior service cost and other comprehensive income/(loss).

The Association participates in the Ninth District Retiree Medical Plan with other Ninth District employers. Postretirement benefits other than pensions are provided to eligible retired employees of the Association. Benefits provided are determined on a graduated scale, based on years of service. Substantially all employees may become eligible for these 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 employees' 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. The ACA, which is the holding company, 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. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries have been eliminated in consolidation.

The Association is generally subject to Federal and certain other income taxes. 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 based on the actuarially determined fair market value of the pension plan asset.
- K. Recently Issued Accounting Pronouncements: In June 2006, the Financial Accounting Standards Board (FASB) released Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation is effective for fiscal years beginning after December 15, 2006. The impact of adoption of this Interpretation is not expected to have material impact on the Association's financial position or results of operations.

On September 30, 2006, the 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 comprehensive income. The Association will be required to implement the Standard for the 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 fiscal years ending after December 15, 2008. The Association is currently evaluating the impact of implementing this Standard. It is anticipated that the impact from the implementation of this Standard will have no impact on the income statement and, based on the current funded status of the defined benefit plans, is not expected to have a material or significant impact on the balance sheet.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
	2006	2005	2004
Real estate mortgage	\$ 647,810	\$ 606,570	\$ 529,309
Production and intermediate-term	225,131	178,057	156,829
Agribusiness:			
Loans to cooperatives	7,419	2,968	2,509
Process and marketing	85,636	49,636	28,300
Farm related business	11,666	6,584	3,493
Communication	6,833	3,210	2,117
Rural residential real estate	7,408	5,131	4,323
Total	\$ 991,903	\$ 852,156	\$ 726,880

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					
	2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent
Dairy	\$ 295,190	29.76%	\$ 227,271	26.67%	\$ 179,540	24.70%
Cattle	147,595	14.88%	155,348	18.23%	160,204	22.04%
Hay crops	63,085	6.36%	55,390	6.50%	57,205	7.87%
Pecans	47,711	4.81%	45,420	5.33%	44,485	6.12%
Ag Services	40,172	4.05%	28,036	3.29%	19,771	2.72%
Feed Lots	36,105	3.64%	28,973	3.40%	21,952	3.02%
Grains	32,336	3.26%	35,279	4.14%	27,694	3.81%
Vegetables & Chile	25,591	2.58%	32,211	3.78%	27,185	3.74%
Cotton	18,549	1.87%	18,151	2.13%	16,428	2.26%
Non-Farm Income	205,423	20.71%	177,334	20.81%	136,217	18.74%
Other	80,146	8.08%	48,743	5.72%	36,199	4.98%
Total	\$ 991,903	100.00%	\$ 852,156	100.00%	\$ 726,880	100.00%

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		
	2006	2005	2004
Nonaccrual:			
Current as to principal and interest	\$ 607	\$ 686	\$ 1,745
Past due	3,177	2,362	1,328
Total nonaccrual	\$ 3,784	\$ 3,048	\$ 3,073

There were no loans classified as accruing restructured or accruing 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, 2006.

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		
	2006	2005	2004
Interest income recognized on nonaccrual loans	\$ 34	\$ 330	\$ 215
Interest income on impaired accrual loans	23	55	22
Interest income recognized on impaired loans	\$ 57	\$ 385	\$ 237
Average impaired loans	\$ 3,570	\$ 2,799	\$ 5,075

The following table presents information concerning impaired loans.

	December 31		
	2006	2005	2004
Impaired loans with related allowance	\$ —	\$ —	\$ 392
Impaired loans with no related allowance	3,784	3,048	2,681
Total impaired loans	\$ 3,784	\$ 3,048	\$ 3,073
Allowance on impaired loans	\$ —	\$ —	\$ 392

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		
	2006	2005	2004
Interest income which would have been recognized under the original loan terms	\$ 414	\$ 312	\$ 402
Less: interest income recognized	34	330	215
Interest income not recognized/(recognized)	\$ 380	\$ (18)	\$ 187

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

	Year Ended December 31		
	2006	2005	2004
Balance at beginning of year	\$ 2,748	\$ 3,722	\$ 19,611
Charge-offs:			
Real estate mortgage	—	7	—
Recoveries:			
Production and intermediate-term	—	90	819
Energy	—	—	13
Total recoveries	—	90	832
Net recoveries	—	83	832
Provision for loan losses/(Loan loss reversal)	687	(1,057)	—
Nonrecurring loan loss reversal	—	—	(16,721)
Balance at end of year	\$ 3,435	\$ 2,748	\$ 3,722
Ratio of net recoveries to average net loans outstanding during the period	—	(0.01%)	(0.12%)

The nonrecurring loan loss reversal in 2004 resulted from the refinement of the Association's allowance for loan losses methodology.

A breakdown of the allowance for loan losses follows.

	2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent
Real estate mortgage	\$ 1,562	45.48%	\$ 1,437	52.29%	\$ 1,394	37.45%
Production and intermediate-term	1,564	45.53%	1,207	43.92%	2,292	61.58%
Agribusiness	282	8.21%	97	3.53%	29	0.78%
Communication	10	0.29%	1	0.04%	2	0.05%
Rural residential real estate	17	0.49%	6	0.22%	5	0.14%
Total	\$ 3,435	100.00%	\$ 2,748	100.00%	\$ 3,722	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. No loans have been sold to Farmer Mac. The balance of loans under long-term standby commitments was \$74,104 at December 31, 2006, \$54,146 at December 31, 2005 and \$68,020 at December 31, 2004. Fees paid to Farmer Mac for such commitments totaled \$304 during 2006, \$340 during 2005 and \$292 during 2004. 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 6.25 percent of average direct loan volume, net of excess investment. 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		
	2006	2005	2004
Land	\$ 618	\$ 460	\$ 460
Buildings and leasehold improvements	2,565	2,787	2,778
Furniture, equipment and automobiles	2,195	1,987	1,634
Construction in progress	3,573	343	—
	8,951	5,577	4,872
Less: accumulated depreciation	2,159	1,990	1,775
Total	\$ 6,792	\$ 3,587	\$ 3,097

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 \$900 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, 2006. 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 5.01 percent for the year ended December 31, 2006. The line of credit expires on April 30, 2007, 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.

	2006	2005	2004
Committed funds	\$ 84,200	\$ 120,500	\$ 73,200
Average rates	4.31%	4.03%	3.25%

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, 2006, 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, 2006, the Association's permanent capital was 16.11 percent, core surplus was 15.95 percent and total surplus ratio was 15.94 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, 2006. 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, 306,137 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, 23,348 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, 6,429 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, 992 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 \$6,000 during 2006. The Association declared a \$6,600 cash patronage during 2006 to be distributed during 2007.

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. Other Comprehensive Income/(Loss)

The Association reports other comprehensive income/(loss) in its Statement of Changes in Shareholders' Equity. As more fully described in Note 10, other comprehensive loss results from a minimum pension liability adjustment of \$84 for the year ended December 31, 2006, \$45 for the year ended December 31, 2005 and \$62 for the year ended December 31, 2004 as a result of the funded status of the underlying plan. There were no other items affecting other comprehensive income or loss.

NOTE 8 — PATRONAGE DISTRIBUTION FROM AGBANK

The patronage distribution from AgBank follows.

	Year Ended December 31		
	2006	2005	2004
Cash patronage	\$ 4,611	\$ 3,687	\$ 2,411
Stock allocation	506	489	488
Total patronage from AgBank	\$ 5,117	\$ 4,176	\$ 2,899

NOTE 9 — INCOME TAXES

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

	Year Ended December 31		
	2006	2005	2004
Current:			
Federal	\$ (184)	\$ 106	\$ 396
State	13	16	—
Deferred:			
Federal	(27)	32	1,152
State	36	(34)	228
Total (benefit from)/provision for income taxes	\$ (162)	\$ 120	\$ 1,776

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		
	2006	2005	2004
Federal tax at statutory rate	\$ 6,724	\$ 6,585	\$ 11,095
State tax, net of federal benefit	32	(11)	150
Effect of nontaxable entity	(7,341)	(6,307)	(10,043)
AgBank stock patronage dividend	(186)	(166)	(166)
Reduction in deferred tax asset – Patronage	(612)	23	1,187
Increase in valuation allowance	724	—	—
Other	497	(4)	(447)
(Benefit from)/Provision for income taxes	\$ (162)	\$ 120	\$ 1,776

Deferred tax assets and liabilities result from the following.

	December 31		
	2006	2005	2004
Allowance for loan losses	\$ 689	\$ 482	\$ 860
Nonaccrual loan interest	80	39	5
Organizational costs	—	—	1
State NOL carryover	148	33	4
Federal NOL carryover	698	—	—
Gross deferred tax assets	1,615	554	870
Deferred tax asset valuation allowance	(1,487)	(416)	(733)
Depreciation	(74)	(75)	(76)
Sale of fixed assets	(7)	(7)	(7)
Gross deferred tax liability	(81)	(82)	(83)
Net deferred tax asset	\$ 47	\$ 56	\$ 54

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 \$1,487 during 2006, and \$416 during 2005 and \$733 during 2004. The Association will continue to evaluate the likely realization of these deferred tax assets and adjust the valuation allowance accordingly.

NOTE 10 — EMPLOYEE BENEFIT PLANS

The Association participates in the Ninth District Defined Benefit Retirement Plan (Ninth Plan). The assets, liabilities, and costs of the Ninth Plan are not segregated by participating entities, but are allocated among participating entities. Pension plan costs are a combination of service costs specific to the participating entities and other costs allocated annually, based on pro-rata ownership in the Ninth Plan. Benefits are based on salary and years of service. The Ninth Retirement includes certain non-qualified plans.

In 2003, the Association also began participating in the Eleventh District Defined Benefit Retirement Plan (Eleventh Plan). The assets, liabilities and costs of the Eleventh Plan are not segregated by participating entities, but are allocated among the participating entities. Pension costs (or credits if applicable) are a combination of service costs specific to the participating entities and other costs allocated annually, based on prior year annual ownership percentage in the Eleventh Plan. At December 31, 2006, 2005 and 2004 the Accumulated Benefit Obligation (ABO) of the Eleventh Plan exceeded the fair value of Eleventh Plan assets. In accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pensions," the recognition of a minimum liability in the amount of the difference between the ABO and fair value of plan assets is required. Additional financial information for the Ninth Plan and Eleventh Plan may be found in the District's Annual Report.

The Association's allocated amount of minimum liability is included in pension liability. In conjunction with the minimum liability, the Association records other comprehensive loss, and an intangible asset, which is included in other assets. The amounts recorded as of December 31 follow.

	2006	2005	2004
Minimum pension liability	\$ 113	\$ 197	\$ 164
Other comprehensive income/(loss)	\$ (113)	\$ (197)	\$ (152)
Intangible asset	\$ —	\$ —	\$ 12

The Association funded \$260 for 2006, \$680 for 2005 and \$431 for 2004, through its note payable to AgBank for the Retirement Plans. Plan expenses included in salaries and employee benefits were \$410 for 2006, \$316 for 2005 and \$281 for 2004.

The Association participates in the Ninth District Retiree Medical Plan with other District employers. Postretirement benefits other than pensions are provided to retirees of the Association. Benefits provided are determined on a graduated scale, based on years of service. Postretirement benefits other than pensions (primarily health care benefits) included in salaries and employee benefits were \$46 for 2006, \$44 for 2005 and \$43 for 2004.

The Association also participates in the Ninth District Thrift Plan. Thrift Plan contributions are recognized by each participating entity. Association contributions charged to expense were \$213 for 2006, \$181 for 2005 and \$164 for 2004.

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 Financial Assistance Corporation was dissolved effective 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 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.

Total loans to such persons at December 31, 2006, amounted to \$30,890. During 2006, \$37,969 of new loans were made and repayments totaled \$31,488. In the opinion of management, none of these loans outstanding at December 31, 2006, involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid \$489 to AgVantis for technology services and \$181 to AgBank for operational services during 2006.

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, 2006, \$272,406 of commitments to extend credit and \$95 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 Balance Sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

With regard to contingent liabilities, 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, 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.

	December 31			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Loans and notes receivable	\$ 991,903	\$ 985,596	\$ 852,156	\$ 846,262
Allowance for loan losses	\$ (3,435)	\$ —	\$ (2,748)	\$ —
Loans and notes receivable, net	\$ 988,468	\$ 985,596	\$ 849,408	\$ 846,262
Cash	\$ 7,958	\$ 7,958	\$ 8,715	\$ 8,715
Financial liabilities:				
Notes payable to AgBank	\$ 828,490	\$ 827,978	\$ 692,188	\$ 691,699
Advance conditional payments	\$ 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, 2006, 2005 and 2004, follow.

	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
Net income	\$ 5,365	\$ 5,403	\$ 5,179	\$ 3,990	\$ 19,937

	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
Net income	\$ 5,900	\$ 5,408	\$ 4,790	\$ 3,151	\$ 19,249

	2004				
	First	Second	Third	Fourth	Total
Net interest income	\$ 5,486	\$ 5,344	\$ 5,496	\$ 5,609	\$ 21,935
Loan loss reversal	—	—	—	(16,721)	(16,721)
Noninterest expense, net	993	1,321	1,503	3,984	7,801
Net income	\$ 4,493	\$ 4,023	\$ 3,993	\$ 18,346	\$ 30,855

REPORT OF INDEPENDENT AUDITORS



PricewaterhouseCoopers LLP
Two Warren Place
6120 South Yale Avenue, Suite 1850
Tulsa OK 74136
Telephone (918) 524 1200
Facsimile (918) 524 1300

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, 2006, 2005 and 2004, and the results of their operations and their 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.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

February 28, 2007

REPORT OF MANAGEMENT


REPORT OF MANAGEMENT

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, an outside firm performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. 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 Board of Directors has overall responsibility for the Association's system of internal control and financial reporting. The Board 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 Board.

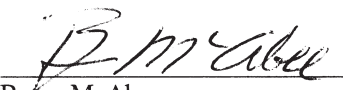
The undersigned certify the Farm Credit of New Mexico, ACA Annual Report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge.



Joe Clavel
Chairman of the Board

3/14/07

Date



Bruce McAbee
President and Chief Executive Officer

3/14/07

Date

AUDIT COMMITTEE REPORT

AUDIT COMMITTEE REPORT

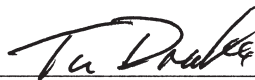
The Audit Committee (Committee) is comprised of three Directors of the Farm Credit of New Mexico, ACA (the Association) Board of Directors. In 2006, three Committee meetings and three conference calls were held. The Committee oversees the scope of the Association's internal audit program, the independence 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 2006.

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, 2006 (the "Audited Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communication with Audit Committees). Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

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

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, 2006.



Tom Drake, Chairman of the Audit Committee

Audit Committee Members

Tyson Achen
Harold Houghtaling, Jr.

**DISCLOSURE INFORMATION REQUIRED BY
FARM CREDIT ADMINISTRATION REGULATIONS**
(Amounts in Whole Dollars)

DESCRIPTION OF BUSINESS

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

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations" 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. Albuquerque, New Mexico	Office Building	Owned
Balloon Fiesta Parkway NE Albuquerque, New Mexico	Land	Owned
721 South First Street Clayton, New Mexico	Office Building	Owned
2420 Ashford Street Clovis, New Mexico	Office Building	Owned*
301 Llano Estacado Clovis, New Mexico	Office Building	Owned
2800 Las Vegas Court Las Cruces, New Mexico	Office Building	Owned
2730 Wilshire Blvd. Roswell, New Mexico	Office Building	Owned
323 South Second Tucumcari, New Mexico	Office Building	Owned

* Office building was sold on November 22, 2006

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, Intra-System financial assistance rights and obligations, and responsibility for repayment of obligations issued by the Farm Credit System Financial Assistance Corporation, 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, 2006 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 OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

DIRECTORS AND SENIOR OFFICERS

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

Directors

Name: 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. Member of New Mexico Cattle Growers' Association.



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, onions, pumpkins, and wheat 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; 300 acres of pecans and alfalfa and partners in growing lettuce. 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.



Directors

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.

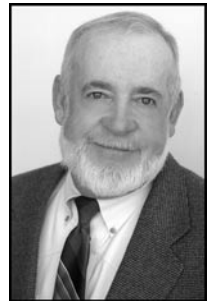


Name: Harold Houghtaling, Jr.

Title: Member

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

Business Experience: Farming; 1,000 acres of cotton, 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 2006. 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 Commission 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.



Senior Officers

Name: Bruce L. McAbee

Title: President and Chief Executive Officer

FCS Employment: 29 years

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

Name: Brian D. Lyon

Title: Senior Vice President Finance/Chief Financial Officer

FCS Employment: 33 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: 26 years

Business Experience: Credit Operations, Farm Credit System

Name: Gregory M. Carrasco

Title: Vice President/Branch Manager

FCS Employment: 21 years

Business Experience: Credit Operations, Farm Credit System

Name: Cary Crist

Title: Vice President/Branch Manager

FCS Employment: 13 years

Business Experience: Credit Operations, Farm Credit System

Name: Dwain Nunez

Title: Vice President/Branch Manager

FCS Employment: 16 years

Business Experience: Credit Operations, Farm Credit System

Name: G. L. Straley

Title: Vice President/Branch Manager

FCS Employment: 26 years

Business Experience: Credit Operations, Farm Credit System

The photographs in this report are by Kyle Zimmerman Photography.

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 \$0.445 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	Total Compensation Paid During 2006
Joe Clavel	21.5	8.0	\$ 14,750
Kevin Penn	20.0	8.0	14,000
Tyson "Ty" Achen	18.5	12.1	15,300
Mack Bell	21.5	14.0	17,750
Tom Drake	19.0	6.9	12,950
Ben Haines	13.5	12.5	13,000
Harold Houghtaling, Jr.	20.0	6.3	13,150
V. Hilaire Mowduk	13.5	12.5	13,000
Allen W. "Wess" Wells	21.5	14.0	17,750
W. Douglas Reid	22.0	9.0	15,500
Total Compensation			\$ 147,150

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 \$107,213 in 2006, \$115,580 in 2005 and \$98,407 in 2004.

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 PUBLIC AUDITORS

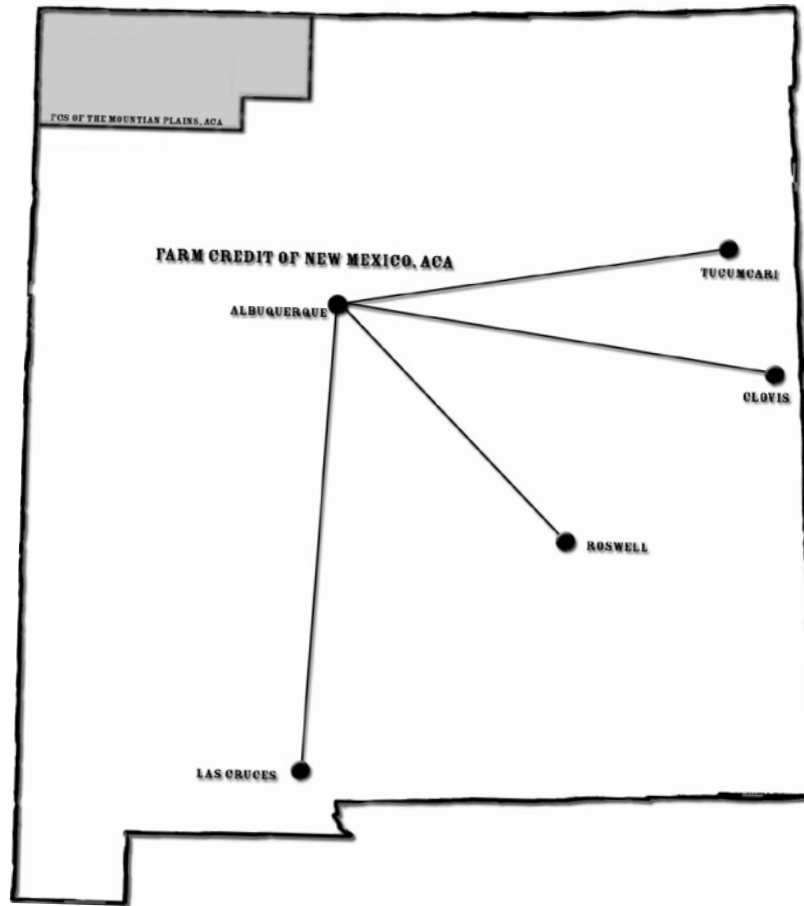
There were no changes in independent public auditors since the prior annual report to shareholders and there were no material disagreements with our independent public auditors on any matter of accounting principles or financial statement disclosure during this period.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 28, 2007, 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 45 days after the calendar quarter end and annual reports are available approximately 90 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.



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