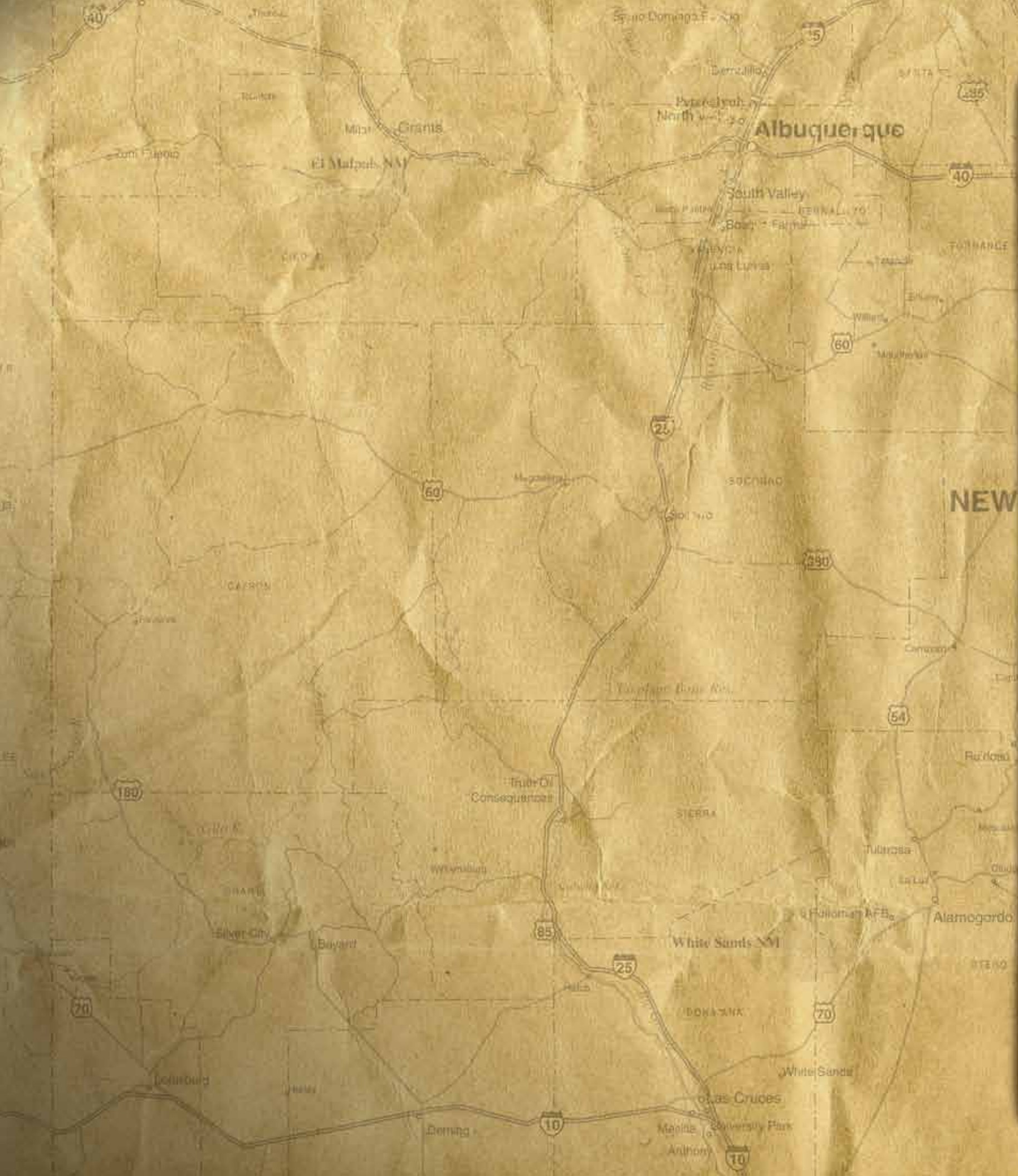


**FARM CREDIT**  
OF NEW MEXICO

2009 ANNUAL REPORT



**2009 ANNUAL REPORT**

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# Farm Credit of New Mexico, ACA 2009 Annual Report - Letter to Shareholders

To Our Stockholders:

On behalf of Management and the Board of Directors, I am pleased to present the 2009 Annual Report on the financial condition of Farm Credit of New Mexico, ACA. I hope that you will take the time to review the contents of the report and contact us if you have any questions.

*Financial Highlights*

As you will see in this report, the Association continued to perform at an acceptable level. The Association's net earnings continued to be adequate and ended the year at over \$14.1 million. The Association did see increased stress within the credit portfolio which caused us to increase our funding of our Allowance for Loan Losses and incur specific charge-offs on three loans. These triggering events reduced the overall earnings for 2009 in comparison to the 2008 operating year. These items are explained in more detail within the report. Another item impacting the Association was the reduced interest rate environment within the financial markets which reduced the earnings on the Association's own capital. The good news, due to the lower interest rate environment, was the reduced average interest rate to our shareholders. On the average, shareholders' interest rate was reduced by 1.37 percent in comparison to 2008. Additionally, Farm Credit of New Mexico remains as one of the most efficient Associations in the US AgBank District. These and other issues are explained in the Results of Operations in the Management's Discussion and Analysis of the report. Earnings continue to contribute to the overall capital position of the Association, while building the foundation for continued growth and progress in the future.

*Trends*

During 2009, the Association continued the trend of increasing outstanding loan volume. At year-end, the combined Association staff was responsible for servicing 2,150 loans with an outstanding volume of more than \$1.23 billion. Our delinquency rate stood at .84 percent of the total volume of the portfolio, with combined acceptable and special mention credit quality at 99.85 percent of the total portfolio. The credit quality does show a reduction since year-end 2008 due to the added stress within the loan portfolio.

*Goals*

Three of the most important goals of your Board of Directors are to establish a competitive interest rate program, return a portion of the Association's earnings to its shareholders through a cash patronage refund, and maintain a strong capital position. The Board of Directors is very pleased to report that the Association achieved its financial goals in 2009, and have declared a 2009 cash patronage refund of \$3.055 million to eligible shareholders. On average, the refund will reduce each eligible member's effective interest rate approximately .25 percent for 2009. We expect to pay these refunds before March 31, 2010. The Board recognizes the reduced amount compared to 2008, but with the reduced earnings and lower than normal interest rate environment the reduced patronage was warranted.

*Locations*

The Association maintains full-time lending offices in Albuquerque, Las Cruces, Roswell, Clovis, and Tucuman 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.

Alfred E. Porter, Jr., Chief Executive Officer



LEFT TO RIGHT: STAN FETTIG, SENIOR VICE PRESIDENT CHIEF CREDIT OFFICER  
BRIAN LYON, EXECUTIVE VICE PRESIDENT CHIEF FINANCIAL OFFICER  
JIM WELLES, VICE PRESIDENT CHIEF APPRAISAL OFFICER  
ALFRED 'AL' PORTER JR., PRESIDENT CHIEF EXECUTIVE OFFICER



LEFT TO RIGHT: MIKE MARLEY, BEN H. HAINES JR., MACK BELL, DOUG REID,  
DAVID SALOPEK, V. HILAIRE LOWLUE, ALLEN W. 'WESS' WELLS,  
TOM DRAKE, JOE CLAVEL  
NOT PICTURED: TYSON 'TY' ACHEN



## FARM CREDIT OF NEW MEXICO, ACA

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2009	2008	2007	2006	2005
<b>Statement of Condition Data</b>					
Loans	\$ 1,233,621	\$ 1,206,936	\$ 1,097,996	\$ 991,903	\$ 852,156
Less allowance for loan losses	12,412	8,244	4,715	3,435	2,748
Net loans	1,221,209	1,198,692	1,093,281	988,468	849,408
Investment in U.S. AgBank, FCB	33,524	31,990	31,990	30,629	20,130
Other property owned	48	-	-	-	-
Other assets	30,492	34,480	33,304	33,728	27,619
<b>Total assets</b>	<b>\$ 1,285,273</b>	<b>\$ 1,265,162</b>	<b>\$ 1,158,575</b>	<b>\$ 1,052,825</b>	<b>\$ 897,157</b>
Obligations with maturities of one year or less	\$ 20,996	\$ 29,032	\$ 25,296	\$ 22,670	\$ 21,000
Obligations with maturities longer than one year	1,045,795	1,028,860	932,721	844,432	702,981
<b>Total liabilities</b>	<b>1,066,791</b>	<b>1,057,892</b>	<b>958,017</b>	<b>867,102</b>	<b>723,981</b>
Protected borrower stock	14	20	27	37	51
Patronage stock	-	-	-	-	567
Capital stock	1,364	1,405	1,445	1,647	1,940
Unallocated retained earnings	217,070	205,978	199,148	184,152	170,815
Accumulated other comprehensive income/(loss)	34	(133)	(62)	(113)	(197)
<b>Total shareholders' equity</b>	<b>218,482</b>	<b>207,270</b>	<b>200,558</b>	<b>185,723</b>	<b>173,176</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,285,273</b>	<b>\$ 1,265,162</b>	<b>\$ 1,158,575</b>	<b>\$ 1,052,825</b>	<b>\$ 897,157</b>

	For the Year Ended December 31				
	2009	2008	2007	2006	2005
<b>Statement of Income Data</b>					
Net interest income	\$ 33,619	\$ 29,601	\$ 30,033	\$ 26,198	\$ 23,667
Patronage distribution from U.S. AgBank, FCB	442	4,817	5,747	5,117	4,176
Provision for loan losses/(Loan loss reversal)	5,675	5,139	1,280	687	(1,057)
Noninterest expense, net	13,963	13,763	11,778	10,853	9,531
Provision for/(Benefit from) income taxes	278	141	(24)	(162)	120
<b>Net income</b>	<b>\$ 14,145</b>	<b>\$ 15,375</b>	<b>\$ 22,746</b>	<b>\$ 19,937</b>	<b>\$ 19,249</b>

### Key Financial Ratios

	For the Year				
	2009	2008	2007	2006	2005
Return on average assets	1.11%	1.29%	2.08%	2.04%	2.32%
Return on average shareholders' equity	6.60%	7.25%	11.46%	11.11%	11.53%
Net interest income as a percentage of average earning assets	2.74%	2.60%	2.90%	2.83%	3.00%
Net charge-offs/(recoveries) as a percentage of average net loans	0.12%	0.14%	-	-	(0.01%)
<b>At Year End</b>					
Shareholders' equity as a percentage of total assets	17.00%	16.38%	17.31%	17.64%	19.30%
Debt as a ratio to shareholders' equity	4.88:1	5.10:1	4.78:1	4.67:1	4.18:1
Allowance for loan losses as a percentage of loans	1.01%	0.68%	0.43%	0.35%	0.32%
Permanent capital ratio	15.24%	16.17%	16.52%	16.11%	18.64%
Total surplus ratio	15.13%	16.05%	16.39%	15.94%	18.36%
Core surplus ratio	15.13%	15.83%	15.71%	15.95%	18.41%
<b>Net Income Distribution</b>					
Cash patronage distribution paid	\$ 8,538	\$ 7,750	\$ 6,600	\$ 6,000	\$ -
Cash patronage distribution payable	\$ 3,053	\$ 8,538	\$ 7,750	\$ 6,600	\$ 6,000

## FARM CREDIT OF NEW MEXICO, ACA

Management's Discussion and Analysis

(Dollars in Thousands, Except as Noted)

### INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit of New Mexico, ACA for the year ended December 31, 2009. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. 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 our Audit Committee. The Management's Discussion and Analysis includes the following sections:

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

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, [www.farmcreditm.com](http://www.farmcreditm.com), or upon request. We are located at 5651 Balloon Fiesta Parkway NE, Albuquerque, New Mexico 87113 or may be contacted by calling (505) 884-1048 or (800) 451-5997.

### BUSINESS OVERVIEW

#### Farm Credit System Structure and Mission

We are one of the more than 90 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

### Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of all counties in the state of New Mexico, with the exception of San Juan County in the far northwest corner of the state. The counties in our territory are listed in Note 1 of the accompanying financial statements. 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 offer credit life insurance, multi-peril crop and crop hail insurance, and provide additional services to borrowers such as fee appraisal services, advance conditional payment accounts and an investment bond program. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we 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 and AgBank District quarterly and annual reports are available free of charge by accessing AgBank's website, [www.usagbank.com](http://www.usagbank.com), or may be obtained at no charge by contacting us at 5651 Balloon Fiesta Parkway NE, Albuquerque, New Mexico 87113 or calling (505) 884-1048 or (800) 451-5997. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. Our current Services Agreement with AgVantis expires on December 31, 2011. We are a shareholder in AgVantis, along with all other AgVantis customers. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

### ECONOMIC OVERVIEW

For many years, agriculture has experienced a sustained period of favorable economic conditions due to strong commodity prices, rising land values, and, to a lesser extent, government support programs. As a result, our financial results were positively impacted. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. High energy and fertilizer costs, higher feed costs, labor costs and availability, water costs and availability, increased market interest rates, adverse weather conditions and commodity price volatility can negatively impact the profitability of agricultural producers. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, our financial performance and credit quality measures would be negatively impacted. In the past year, conditions in general and the agricultural economy have been less favorable with the instability in the global markets and the volatile production costs. Borrowers who are more reliant on off-farm income sources may have been more adversely impacted due to the weakened general economy. Financial adversity for our customers would be reflected in our future credit quality measures and financial performance results.

Economic events created substantial turmoil in the financial sector and uncertainty in the credit markets in 2008 and 2009. During the latter part of 2009, the severe stress in the financial markets began to stabilize. The System's strong capital and liquidity position has enabled us to obtain the funding needed to fund loans to our farmer and rancher customers in response to loan demand.

During 2009, overall economic conditions in our region were satisfactory, but reflect continued stress in certain areas. The slow economy has resulted in reduced cash flows for many operations and profit concerns for some, particularly in the dairy and livestock industries. Spring and early summer moisture was below average throughout most of the state. Ranchers on the east side of the state were dry and had to feed as a result. Moisture conditions improved somewhat during late summer for most of the state.

The dairy industry incurred significant losses over the year due to extremely low milk prices. The industry has responded by implementing several herd retirement programs designed to reduce excess supplies, which is expected to improve market conditions and strengthen milk prices. Grain and silage prices softened in 2009; this along with lower fuel and alfalfa prices will have a favorable impact on the dairy industries operating margins. Cattle operations showed some stress in 2009 due to rainfall running below average in the spring and early summer, higher input costs, and lower cattle prices. Pecan prices have been good for several years resulting in pay downs. This, in turn, has caused a slight decrease in the pecan loan portfolio for 2009.

### LOAN PORTFOLIO

Total loan volume was \$1,233,621 at December 31, 2009, an increase of \$26,685, or 2.21%, from loans at December 31, 2008 of \$1,206,936, and \$135,625, or 12.35%, from loans at December 31, 2007 of \$1,097,996. The increase is due to loan advances and draws on lines of credit, primarily related to dairy customers. The types of loans outstanding at December 31 are reflected in the following table.

Type of Loan	2009		2008		2007	
	Volume	Percent	Volume	Percent	Volume	Percent
Real estate mortgage	\$ 783,277	63.50%	\$ 756,304	62.66%	\$ 704,145	64.14%
Production and intermediate-term Agribusiness:	351,738	28.51%	322,867	26.75%	229,025	20.86%
Cooperatives	2,112	0.17%	3,032	0.25%	6,701	0.61%
Process and marketing	63,897	5.18%	90,313	7.48%	125,873	11.46%
Farm related business	12,265	0.99%	15,441	1.28%	15,072	1.37%
Communication	6,757	0.55%	6,753	0.56%	9,250	0.84%
International	4,625	0.37%	2,843	0.24%	-	-
Rural residential real estate	8,950	0.73%	9,383	0.78%	7,930	0.72%
Total	\$ 1,233,621	100.00%	\$ 1,206,936	100.00%	\$ 1,097,996	100.00%

Real estate mortgage volume increased 3.57% to \$783,277 in 2009, compared with \$756,304 at year-end 2008, primarily due to increased advances in the dairy industry. These long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By law, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property. Agricultural real estate sales were slow in 2009; however market evidence suggests New Mexico real estate has withstood the volatile economic environment. Refer to Note 3 of the Notes to the Consolidated Financial Statements for more detail.

The production and intermediate-term volume increased 8.94% to \$351,738 in 2009, compared with 2008 loan volume of \$322,867, primarily due to borrowing needs of the customer base. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years.

International volume increased 62.68% to \$4,625 in 2009 due to a purchased interest in an agribusiness loan with sales outside of the United States. The processing and marketing volume decreased 29.25% to \$63,897 in 2009, due to payoffs in the capital market sector and as a result of the decline in the economy, companies have elected to reduce their financial position. Purchased participation interest in loans accounts for 72.22% of processing and marketing volume and all cooperative and communication volume.

#### 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 entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System entities to reduce risk and comply with lending limits we have established. 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. Along with these associations, we pool our resources to coordinate and enhance the

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

	2009	2008	2007
Participations purchased – AFG	\$ 66,308	\$ 85,029	\$ 79,876
Participations purchased – other	\$ 25,526	30,559	39,875
<b>Total participations purchased</b>	<b>\$ 91,834</b>	<b>\$ 115,588</b>	<b>\$ 119,751</b>
Participations sold – AFG	\$ -	\$ 2,175	\$ 21,585
Participations sold – other	\$ 91,545	57,964	5,675
<b>Total participations sold</b>	<b>\$ 91,545</b>	<b>\$ 60,139</b>	<b>\$ 27,260</b>

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

	2009	2008	2007
Curry	23.19%	18.59%	17.65%
Dona Ana	20.49%	21.66%	19.02%
Roosevelt	12.31%	13.40%	13.24%
Chaves	9.96%	10.59%	12.70%
Other	5.20%	4.85%	5.05%
Santa Fe	4.37%	4.71%	4.93%
Eddy	3.73%	4.61%	4.40%
Sierra	2.64%	1.99%	2.39%
Lincoln	2.63%	2.63%	2.82%
Luna	2.14%	3.49%	3.70%
Torrance	1.89%	1.51%	1.31%
Quay	1.84%	2.09%	2.12%
Union	1.71%	1.86%	1.93%
Bernalillo	1.69%	1.77%	1.30%
San Miguel	1.56%	1.68%	1.25%
Valencia	1.30%	1.23%	1.51%
Socorro	1.02%	0.89%	1.08%
Colfax	.92%	0.65%	1.55%
Lea	.78%	1.07%	1.40%
Grant	.63%	0.73%	0.65%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Curry County's share of the portfolio increased 4.60% from 2008 which is attributable to an increase in the dairy portfolio.

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

SIC Category	December 31		
	2009	2008	2007
Dairy	37.52%	34.55%	30.89%
Cattle	20.10%	21.49%	26.74%
Hay crops	9.02%	8.59%	8.63%
Pecans	7.16%	7.48%	6.10%
Grains	3.90%	3.87%	3.91%
Feed lots	3.85%	3.81%	3.89%
Ag services	3.25%	3.50%	3.31%
Vegetables & Chile	2.64%	2.67%	3.32%
Cotton	1.45%	1.56%	2.05%
Other	11.11%	12.48%	11.16%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Repayment ability of our borrowers is closely related to the production and profitability of the commodities they produce. Our loan portfolio contains a concentration of dairy, livestock, hay crops, and pecan producers. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by industry economics. While management is committed to maintaining sound credit quality, future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities impacted and the magnitude and duration of the adverse agricultural conditions to our borrowers. As of December 31, 2009, large loans to customers with individual commitments of over \$9.9 million represented approximately 39.80% of our loan volume. Within this large loan group, 93 customers with 185 loans totaled \$490.9 million. The loss of any of these loans or the failure to perform would adversely affect the portfolio and our future operating results.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy.

Small loans (less than \$250 thousand) accounted for 9.20% of loan volume at December 31, 2009. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The table below details loan principal by dollar size at December 31.

(Range in thousands)	2009		2008		2007	
	Amount outstanding	Number of loans	Amount outstanding	Number of loans	Amount outstanding	Number of loans
\$1 - \$250	\$ 113,442	1,418	\$ 115,751	1,463	\$ 121,024	1,500
\$251 - \$500	94,967	264	100,312	275	99,309	279
\$501 - \$1,000	131,229	189	124,433	179	122,888	179
\$1,001 - \$5,000	533,274	233	548,283	244	514,969	228
\$5,001 - \$25,000	360,709	46	318,157	41	239,806	32
<b>Total</b>	<b>\$ 1,233,621</b>	<b>2,150</b>	<b>\$ 1,206,936</b>	<b>2,202</b>	<b>\$ 1,097,996</b>	<b>2,218</b>

Through Federal Agricultural Mortgage Corporation (Farmer Mac), we have reduced the credit risk of certain long-term real estate loans by entering into agreements that provide long-term standby commitments by Farmer Mac to purchase the loans in the event of default. The amount of loans subject to these Farmer Mac credit enhancements was \$132,236 at December 31, 2009, \$139,603 at December 31, 2008 and \$95,178 at December 31, 2007. Under the Farmer Mac long-term standby commitment to purchase agreements, we continue to hold the loans in our portfolio, and we pay guarantee fees to Farmer Mac for the right to put a loan designated in the agreement to Farmer Mac at par in the event the loan becomes significantly delinquent (typically four months past due.) If the borrower cures the default, we must repurchase the loan from Farmer Mac and the guarantee remains in place. Farmer Mac long-term standby commitments to purchase agreements are further described in Note 3. Fees paid for the Farmer Mac guarantees totaled \$624 for 2009, \$502 for 2008 and \$387 for 2007 and are included in noninterest expense. Other than the contractual obligations arising from these business transactions with Farmer Mac, Farmer Mac is not liable for any debt or obligation of ours and we are not liable for any debt or obligation of Farmer Mac. For more information on Farmer Mac, refer to their website at [www.farmermac.com](http://www.farmermac.com).

Credit guarantees with government agencies of approximately \$6,800 at year-end 2009, \$8,821 at year-end 2008 and \$8,231 at year-end 2007 were outstanding.

#### Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers and to manage our exposure to interest rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2009.

	Less than 1 year	1 – 3 years	3 – 5 years	Over 5 years	Total
Commitments to extend credit	\$ 103,008	\$ 81,252	\$ 21,687	\$ 100,997	\$ 306,944
Standby letters of credit	-	1,251	-	-	1,251
Total commitments	\$ 103,008	\$ 82,503	\$ 21,687	\$ 100,997	\$ 308,195

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 contractual amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments.

#### High Risk Assets

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

	2009	2008	2007
Nonaccrual loans:			
Real estate mortgage	\$ 1,997	\$ 218	\$ 400
Production and intermediate-term	4,026	3,610	39
Agribusiness	4,921	4,390	-
Rural residential real estate	221	-	-
Total nonaccrual loans	11,165	8,218	439
Accruing restructured loans:			
Rural residential real estate	148	-	-
Accruing loans 90 days past due:			
Real estate mortgage	49	738	-
Production and intermediate-term	131	-	-
Total accruing loans 90 days past due	180	738	439
Total impaired loans	11,493	8,956	439
Other property owned	48	-	-
Total high risk assets	\$ 11,541	\$ 8,956	\$ 439
Nonaccrual loans to total loans	0.91%	0.68%	0.04%
Impaired loans to total loans	0.93%	0.74%	0.04%
High risk assets to total loans	0.94%	0.74%	0.04%
High risk assets to total shareholders' equity	5.28%	4.32%	0.22%

Total high risk assets increased \$2,585, or 28.86%, to \$11,541 at December 31, 2009 compared with year-end 2008.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume increased \$2,947, or 35.86%, compared with December 31, 2008. The majority of the increase is primarily due to transfers of \$17.1 million into nonaccrual with the majority of this volume related to the cattle industry. This was partially offset by repayments and payoffs, the transfer to accrual status of a large poultry producer of \$2.6 million and charge-offs of \$1.5 million primarily in the dairy and building construction industries. During 2008, one large poultry processor filed for bankruptcy protection during the fourth quarter and was transferred into nonaccrual. During December 2009, the processor emerged from bankruptcy and was reinstated to accrual status. Three customers comprise 87.72% of total nonaccrual volume. The following table provides additional information on nonaccrual loans as of December 31, 2009.

	2009	2008	2007
Nonaccrual loans current as to principal and interest	\$ 4,391	\$ 8,218	\$ 439
Restructured nonaccrual loans	\$ 4,336	\$ 4,390	\$ -

For the years presented, we had no cash basis nonaccrual loans.

The restructured loans include only the year-end balances of loans and related accrued interest on which monetary concessions have been granted to borrowers and that are in accrual status. Restructured loans do not include loans on which extensions or other non-monetary concessions have been granted, or restructured loans on which monetary concessions have been granted but which remain in nonaccrual status. Restructured accrual volume was \$148 at December 31, 2009. We had no restructured accrual volume at December 31, 2008 and 2007. During the final quarter of 2009, a variable rate rural residential real estate loan was restructured.

Accruing loans 90 days past due decreased \$558, or 75.61%, to \$180 at December 31, 2009 compared with year-end 2008. One account was 90 days past due at year-end 2008. The subject loan was paid off in 2009 from the sale of the underlying collateral. On December 31, 2009 two loans, both of which held guarantees from Farm Service Agency, were 90 days past due and in accrual status.

We had other property owned of \$48 at December 31, 2009. The other owned property is 147 acres of unimproved land that was acquired through deed in lieu of foreclosure during the third quarter. We had no other property owned at December 31, 2008 and 2007.

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

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

	2009	2008	2007
Acceptable	88.17%	94.62%	97.07%
OAEM	5.66%	1.76%	0.93%
Substandard	6.17%	3.62%	2.00%
Total	100.00%	100.00%	100.00%

Note: No loan was classified as Doubtful or Loss for the three years presented.

Recent economic conditions have created challenges for some borrowers and our credit quality has declined. Loans classified as “Acceptable” and “OAEM” were 93.83% at December 31, 2009 and 96.38% at December 31, 2008. With our borrowers’ generally strong financial positions and the continued emphasis on sound underwriting standards, the credit quality of our loan portfolio remains acceptable. Credit quality declined primarily due to 23 additional loans being downgraded to “Substandard” when compared to 2008. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased and remained at a low level of 0.12% at December 31, 2009, compared with 1.18% at December 31, 2008.

#### Allowance for Loan Losses

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

	2009	2008	2007
Balance at beginning of year	\$ 8,244	\$ 4,715	\$ 3,435
Charge-offs:			
Production and intermediate-term	725	-	-
Agribusiness	766	1,610	-
Rural residential real estate	16	-	-
Total charge-offs	1,507	1,610	-
Provision for loan losses	5,675	5,139	1,280
Balance at December 31	\$ 12,412	\$ 8,244	\$ 4,715
Net charge-offs to average net loans	0.12%	0.14%	-

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

	2009	2008	2007
Real estate mortgage	\$ 3,065	\$ 2,373	\$ 1,739
Production and intermediate-term	8,450	5,259	1,727
Agribusiness	852	581	1,221
Communication	13	13	13
Rural residential real estate	32	18	15
Total	\$ 12,412	\$ 8,244	\$ 4,715

The allowance for loan losses increased \$4,168 from December 31, 2008, to \$12,412 at December 31, 2009. The overall risk in our portfolio is increasing due to loan volume growth, deteriorating economic conditions, commodity market volatility, earnings performance and general market instability. The increase in allowance for loan losses was primarily due to general stress in the dairy, livestock, poultry and building materials industries, an increase in loan volume and additional risk. Charge-offs of \$1,507 related primarily to the dairy and building construction industries were recorded during 2009. Overall, charge-off activity remains low relative to the size of our loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 is shown in the following table.

	2009	2008	2007
Allowance as a percentage of:			
Loans	1.01%	0.68%	0.43%
Impaired loans	108.00%	92.05%	1,074.03%
Nonaccrual loans	111.17%	100.32%	1,074.03%

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

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

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

Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originated.

Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than \$250 thousand in annual gross sales of agricultural or aquatic products as of the date the loan was originated.

The following table outlines our percentage of YBS loans as a percentage of our loan portfolio (by number of loans) as of December 31, 2009.

The USDA column represents the percentage of farmers and ranchers classified as YBS within our territory per the 2007 USDA Agricultural Census, which is the most current data available.

	2009	2008	2007	USDA
Young	10.66%	11.26%	11.82%	3.60%
Beginning	18.85%	18.93%	19.42%	32.20%
Small	49.95%	58.39%	51.37%	99.40%

#### 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 develop qualitative targets to monitor our progress.

Specific actions taken in 2009 include:

- Sponsor the New Mexico Ag Leadership Conference;
- Support Future Farmers of America;
- Support 4-H;
- Support Kids, Kows, and More; and,
- Support other functions related to YBS.

Goals for 2009 included:

- Take full advantage of opportunities for coordinating credit and services offered with other System institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS;
- Take full advantage of Farm Services Agency loan guarantees;
- Continue underwriting standards that help YBS borrowers have access to credit; an effective outreach program to attract YBS farmers and ranchers; an advertising campaign to encourage YBS farmers and ranchers to borrow from us; and an advisory committee comprised of “young”, “beginning” and “small” farmers and ranchers to provide views on how our credit and services could best serve the credit and services needs of YBS farmers and ranchers.
- Maintain an advisory committee comprised of “young”, “beginning” and “small” farmers and ranchers to provide views on how the credit and services of the Association could best serve the needs of YBS farmers and ranchers.

*Quantitative Goals and Results*

Quantitative goals for credit to YBS farmers and ranchers are based on an understanding of reasonably reliable demographic data for our lending territory. Quarterly reports are provided to our Board of Directors detailing the number, volume and credit quality of our YBS customers. We develop quantitative targets to monitor our progress.

YBS goals and results are in the following table.

	2009 Goals		2009 Results		2010 Goals		2011 Goals	
	Volume	Number	Volume	Number	Volume	Number	Volume	Number
Young	\$20,000	45	\$8,017	27	\$23,000	48	\$25,000	50
Beginning	\$24,000	58	\$25,946	52	\$26,000	62	\$28,000	64
Small	\$40,000	90	\$39,354	101	\$42,000	92	\$43,000	92

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

	2009 Goals	2009 Results	2010 Goals	2011 Goals
Young	11%	10.66%	11%	11%
Beginning	17%	18.85%	18%	19%
Small	50%	49.95%	51%	52%

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

	2009 Goals		2009 Results		2010 Goals		2011 Goals	
	Volume	Number	Volume	Number	Volume	Number	Volume	Number
Young	31%	23%	5.64%	13.50%	33%	24%	34%	25%
Beginning	55%	44%	18.27%	26.00%	58%	46%	59%	47%
Small	72%	92%	27.71%	50.50%	76%	97%	78%	97%

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

	2009 Goal	2009 Results	2010 Goal	2011 Goal
Goals	\$18,700	\$56,227	\$20,000	\$21,000

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 serve 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 assist young farmers and ranchers in New Mexico to be more efficient producers of agricultural commodities. The bi-annual two-day training session provides participants with knowledge and instruction to prosper in the agricultural industry. We encourage young producers to enroll in the event by covering all expenses including lodging, meals and speakers.

A \$250 scholarship endowment established at New Mexico State University (NMSU) provides \$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 and also in our unfunded loan commitments and standby letters of credit. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

Underwriting standards are 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 – intended use of the loan funds, terms, restrictions, etc.

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

By regulation, we cannot have loan commitments to one borrower for more than 25% of our permanent capital. Through lending delegations, AgBank further restricts individual lending limits to one borrower to 15% of permanent capital; exceptions must be reported to AgBank. Within these parameters, we set our own lending limits to manage loan concentration risk. Lending limits are established for individual loan size, commodity type, special lending programs and geographic concentrations. We have adopted an individual lending limit maximum of 15% of permanent capital for our highest quality borrowers.

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

The majority of our lending is first mortgage real estate loans which must be secured by a first lien. Production and intermediate-term lending accounts for most of the remaining volume and is also 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 use a Combined System Risk Model (Model) which is a two-dimensional risk rating system that estimates each loan's probability of default and loss given default. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. The Model is utilized in loan and portfolio management processes. It is also used in allowance for loan losses estimates, as it contains much more portfolio granularity, particularly related to acceptable loan classification under the UCS. The Model's 14-point scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category and one loss category. In addition, this Model serves as the basis for economic capital modeling.

## RESULTS OF OPERATIONS

### Earnings Summary

In 2009, we recorded net income of \$14,145, compared with \$15,375 in 2008, and \$22,746 in 2007. The decrease in 2009 was primarily due to a decrease in patronage distribution from AgBank and an increase in the provision for loan losses, partially offset by an increase in net interest income. The following table presents the changes in the significant components of net income from the previous year.

	2009 vs. 2008	2008 vs. 2007
Net income, prior year	\$ 15,375	\$ 22,746
Increase/(Decrease) from changes in:		
Interest income	(12,526)	(17,530)
Interest expense	16,544	17,098
Net interest income	4,018	(432)
Provision for loan losses	(536)	(3,859)
Noninterest income	(4,654)	(1,655)
Noninterest expense	79	(1,260)
Provision for income taxes	(137)	(165)
Total decrease in net income	(1,230)	(7,371)
Net income, current year	\$ 14,145	\$ 15,375

Return on average assets was 1.11% in 2009, 1.29% in 2008 and 2.08% in 2007. Return on average shareholders' equity was 6.60% in 2009, 7.25% in 2008 and 11.46% in 2007. The decreases were due to a reduction in net income.

### Net Interest Income

Net interest income for 2009 was \$33,619, compared with \$29,601 for 2008 and \$30,033 for 2007. The table below provides an analysis of the individual components of the change in net interest income during 2009 and 2008.

	2009 vs. 2008	2008 vs. 2007
Net interest income, prior year	\$ 29,601	\$ 30,033
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	(16,228)	(22,924)
Interest rates paid	17,674	20,028
Volume of interest-bearing assets and liabilities	2,330	2,365
Interest income on nonaccrual loans	242	99
Increase/(Decrease) in net interest income	4,018	(432)
Net interest income, current year	\$ 33,619	\$ 29,601

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

	For the Year Ended December 31		
	2009	2008	2007
Net interest margin	2.74%	2.60%	2.90%
Interest rate on:			
Average loan volume	3.91%	5.31%	7.53%
Average debt	1.36%	3.19%	5.47%
Interest rate spread	2.55%	2.12%	2.06%

The increase in interest rate spread resulted from a 140 basis point decrease in interest rates on average loan volume and a 183 basis point decrease in interest rates on average debt. Net interest margin increased 14 basis points. This is primarily a result of larger spreads on administered variable loan products in 2009 due to lower cost of funds resulting from the Federal Reserve lowering key rates. Fixed rate products typically do not have as high a spread as variable rate products, but we also widened the spread overall on fixed rate notes due in part to conversion to a high volume of fixed rate notes to lower rates, but with slightly higher spreads. The spread was negatively impacted by an increase charged by AgBank of 10 basis points effective July 1, 2009.

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

We review our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is necessary based on our assessment of the probable losses in our loan portfolio. We recorded a provision of loan loss of \$5,675 in 2009, compared with net provision for loan losses of \$5,139 in 2008 and \$1,280 in 2007. The increase in the provision for loan losses recorded during 2009 was primarily due to dairy, livestock, poultry, and building materials industries, an increase in loan volume, and additional risk in the loan portfolio.

### Noninterest Income

During 2009, we recorded noninterest income of \$1,523, compared with \$6,177 in 2008 and \$7,832 in 2007. Patronage distributions from AgBank are our primary source of noninterest income. Beginning in 2009, patronage from AgBank, except for certain priority patronage, is to be paid annually rather than quarterly. As a result, our patronage was significantly reduced in 2009, compared with 2008 and 2007. Patronage

received was \$442 in 2009, \$4,817 in 2008, and \$5,747 in 2007. All patronage was paid in cash. Noninterest income also includes loan fees, financially related services income and other noninterest income.

#### Noninterest Expense

Noninterest expense for 2009, decreased \$79, or 0.52%, to \$15,044 compared with 2008. Significant components of noninterest expense for each of the three years ended December 31 are compared in the following table.

	Percent of Change				
	2009	2008	2007	2009/2008	2008/2007
Salaries & employee benefits	\$ 7,913	\$ 8,490	\$ 7,787	(6.80%)	9.03%
Occupancy & equipment	1,056	831	730	27.08%	13.84%
Purchased services from AgVantis	565	530	483	6.60%	9.73%
Supervisory & examination costs	354	341	326	3.81%	4.60%
Other	2,894	3,153	2,999	(8.21%)	5.14%
Total operating expense	12,782	13,345	12,325	(4.22%)	8.28%
Farm Credit Insurance Fund premium	2,262	1,778	1,538	27.22%	15.60%
Total noninterest expense	\$ 15,044	\$ 15,123	\$ 13,863	(0.52%)	9.09%

For the year ended December 31, 2009, total operating expense decreased \$563, or 4.22%, compared with the year ended December 31, 2008, primarily due to decreased expenditures for salaries and benefits as a result of a reduction in the employee incentive pay program. Insurance Fund premium increased \$484 to \$2,262 due to an increase in the premium rate and an increase in volume. As of July 1, 2008, the Farm Credit System Insurance Corporation began charging premiums based on debt rather than loan volume. Rates were increased to 20 basis points during 2009 compared with 15 basis points on debt for the third quarter of 2008 and 18 basis points for the fourth quarter of 2008. Rates were 15 basis points on average loan volume during the first six months of 2008 and during 2007. During 2010, the Insurance Fund premium is anticipated to decrease to 10 basis points with an additional 10 basis point premium for certain high-risk assets.

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

We recorded \$278 in provision for income taxes during 2009, compared with \$141 in 2008 and a benefit from income taxes of \$24 in 2007. The increase was primarily due to a reduction in patronage paid to shareholders. We operate as a Subchapter T cooperative for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 9 of the consolidated financial statements for details.

#### LIQUIDITY

Liquidity is necessary to meet our financial obligations. Obligations that require liquidity include paying our note with AgBank, funding loans and other commitments, and funding operations in a cost-effective manner. Our liquidity policy is intended to manage cash balances in order to maximize debt reduction and to liquidate non-earning assets. Our continued liquidity is directly dependent on the System's ability to sell debt securities at competitive rates and our maintaining a sound financial position and borrowing relationship with AgBank. Our direct loan with AgBank, cash on hand and loan repayments provide adequate liquidity to fund our on-going operations and other commitments. Even with the volatility in the financial markets, 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, 2012 in accordance with normal business practices. The annual average principal balances of the note payable to AgBank were \$1,038,837 in 2009, \$956,671 in 2008 and \$864,964 in 2007.

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 System wide Debt Securities to investors through the Federal Farm Credit Bank Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets have experienced significant volatility, we have been able to obtain sufficient funding to support our lending and business operations.

#### Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with AgBank which allows for loans to be match-funded. 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.

Our ESMP commitment balance and the average interest rate as of December 31 in the various maturities are reflected below:

	2009		2008		2007	
	Balance	Average Rate	Balance	Average Rate	Balance	Average Rate
Maturing in 1 year or less	\$ 7,000	5.22%	\$ 9,500	4.57%	\$ 44,900	4.40%
Maturing in 1 to 3 years	4,000	5.66%	7,000	5.12%	16,500	4.80%
Maturing in over 3 years	-	-	4,000	5.56%	4,000	5.56%
Total	\$ 11,000	5.38%	\$ 20,500	4.95%	\$ 65,400	4.57%

#### Funds Management

We offer variable, fixed, adjustable prime-based and LIBOR-based loans to borrowers. The Asset Liability Committee, under the direction of our Board of Directors, determines the interest rates 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.

#### 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 in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2009 totaled \$218,482, compared with \$207,270 at December 31, 2008 and \$200,558 at December 31, 2007. 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.

	2009	2008	2007
Debt to shareholders' equity	4.88:1	5.10:1	4.78:1
Shareholders' equity as a percent of loans	17.71%	17.17%	18.27%
Shareholders' equity as a percent of assets	17.00%	16.38%	17.31%

Debt to shareholders' equity decreased and shareholders' equity as a percent of loans and percent of assets increased, due to the increase in shareholders' equity, loans and the corresponding debt to finance the loans.

#### Retained Earnings

Our retained earnings increased \$11,092 to \$217,070 at December 31, 2009 from \$205,978 at December 31, 2008. The increase was a result of net income of \$14,145, partially offset by \$3,053 of declared patronage distributions.

#### Patronage Program

Our Board of Directors has adopted a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, this includes increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on each eligible loan's proportionate share of our average outstanding loan balance during the year. We paid a patronage of \$8,538 in 2009, \$7,750 in 2008 and \$6,600 in 2007. All patronage paid for these years was paid in cash. In 2009, the Board declared a \$3,053 patronage to be paid in 2010.

#### Stock

Our total stock decreased \$47 to \$1,378 at December 31, 2009, from \$1,425 at December 31, 2008. The decrease was due to \$168 of stock retirements, partially offset by \$121 issuances. We require a stock investment for each borrower. During 2006, the Board of Directors approved the implementation of a Borrower Level Stock Program. This program allows stock to be assigned to a borrower instead of a loan which reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s). Loan level stock of \$48 was transferred to borrower level stock as a result of this program during 2009.

#### Accumulated Other Comprehensive Income and Losses (AOCI)

Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). On December 31, 2007, we adopted a FASB disclosure which requires recognition of the Plan's unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to AOCI. During 2007, the AOCI related to the unfunded portion of a qualified pension plan was transferred to the District combined financial statements in conjunction with adoption of the FASB disclosure at the District level. On December 31, 2009, \$142 was transferred to other comprehensive income due to the current year actuarial gain and the amortization of the gains and losses in the nonqualified plan of \$25.

#### Capital Plan and Regulatory Requirements

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

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

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	2009	2008	2007
Permanent capital ratio	7.00%	15.24%	16.17%	16.52%
Total surplus ratio	7.00%	15.13%	16.05%	16.39%
Core surplus ratio	3.50%	15.13%	15.83%	15.71%

Our permanent capital ratio, total surplus, and core surplus ratio decreased compared with year-end 2008 due to the increase in loan volume, an increase in allocated equities counted by AgBank, partially offset by the decrease in net income. As of December 31, 2009, we exceeded the regulatory minimum capital ratios and are expected to do so throughout 2010. However, the minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2009, we have exceeded our goals and due to our strong capital position, we will continue to be able to retire at-risk stock.

#### REGULATORY MATTERS

As of December 31, 2009, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

On October 31, 2007, the Farm Credit Administration published an advance notice of proposed rulemaking in the Federal Register with respect to the consideration of possible modifications to the Farm Credit Administration's risk-based capital rules for Farm Credit System institutions that are similar to the standardized approach delineated in the Basel II Framework. The Farm Credit Administration requested comments to facilitate the development of a proposed rule that would enhance its regulatory capital framework and more closely align minimum capital requirements with risks taken by System institutions. Comments on the advance notice of proposed rulemaking were due no later than December 31, 2008. FCA action is planned for the second quarter of 2010.

On June 16, 2008, the Farm Credit Administration published a proposed rule in the Federal Register that would authorize Banks, Associations or service corporations to invest in rural communities, i.e., communities that have fewer than 50,000 residents and are outside of an urbanized area, under certain conditions. The proposed rule would authorize two types of rural community investments: (1) investment in debt securities that would involve projects or programs that benefit the public in rural communities, and (2) equity investment in venture capital funds, which funds create economic opportunities and jobs in rural communities by providing capital to small or start-up businesses. Under the proposed rule, these investments would be limited to 150% of the institution's total surplus. The comment period closed August 15, 2008. Final action is planned for the second quarter of 2010.

#### GOVERNANCE

##### Board of Directors

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

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

### *Director Independence*

All directors must exercise sound judgment in deciding matters in our interest. All our directors are independent from the perspective that none of our management or staff serves as Board members. However, we are a financial 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, our borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of our Board. Annually, in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

### *Audit Committee*

The Audit Committee is responsible for assisting the Board in monitoring the integrity of the financial statements, compliance with applicable legal 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 2009, three meetings and five conference calls were held.

### *Compensation Committee*

The Compensation Committee is responsible for the oversight of employee and director compensation. The Committee is composed of three members. The Committee annually reviews and evaluates the compensation policies and plans for senior officers and employees and approves the overall compensation program for senior officers and employees, including benefits programs. During 2009, three meetings 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 strive to maintain strong governance and financial reporting through the following actions:

- a system for the receipt and treatment of whistleblower complaints,
- a code of ethics for all employees
- open lines of communication between the independent auditors, management, and the Audit Committee,
- “plain English” disclosures,
- officer certification of accuracy and completeness of the consolidated financial statements, and
- information disclosure through our website.

### **FORWARD-LOOKING INFORMATION**

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;

- weather, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and/or the Farm Credit System; and,
- actions taken by the Federal Reserve System in implementing monetary policy.

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

Our consolidated financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because we have to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying consolidated financial statements. The 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 existing in and inherent in our loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. We determine the allowance for loan losses based on a regular evaluation of the loan portfolio, which generally considers recent historic charge-off experience adjusted for relevant factors.

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

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

### **CUSTOMER PRIVACY**

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

### **SUMMARY**

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

**FARM CREDIT OF NEW MEXICO, ACA**

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2009	2008	2007
<b>ASSETS</b>			
Loans	\$ 1,233,621	\$ 1,206,936	\$ 1,097,996
Less allowance for loan losses	12,412	8,244	4,715
Net loans	1,221,209	1,198,692	1,093,281
Cash	4,571	5,541	5,229
Accrued interest receivable	10,260	13,129	19,136
Investment in U.S. AgBank, FCB	33,524	31,990	31,990
Premises and equipment, net	13,188	13,692	7,094
Other property owned	48	-	-
Prepaid benefit expense	1,272	1,184	860
Deferred tax asset	-	105	62
Other assets	1,201	829	923
<b>Total assets</b>	<b>\$ 1,285,273</b>	<b>\$ 1,265,162</b>	<b>\$ 1,158,575</b>
<b>LIABILITIES</b>			
Note payable to U.S. AgBank, FCB	\$ 1,041,835	\$ 1,018,708	\$ 914,893
Advance conditional payments	11,637	12,258	12,179
Accrued interest payable	3,960	10,152	17,828
Patronage distributions payable	3,053	8,538	7,750
Accrued benefits liability	182	198	377
Other liabilities	6,124	8,038	4,990
<b>Total liabilities</b>	<b>1,066,791</b>	<b>1,057,892</b>	<b>958,017</b>
<b>Commitments and Contingencies (See Note 13)</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Protected borrower stock	14	20	27
Capital stock	1,364	1,405	1,445
Unallocated retained earnings	217,070	205,978	199,148
Accumulated other comprehensive income/(loss)	34	(133)	(62)
<b>Total shareholders' equity</b>	<b>218,482</b>	<b>207,270</b>	<b>200,558</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,285,273</b>	<b>\$ 1,265,162</b>	<b>\$ 1,158,575</b>

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

**FARM CREDIT OF NEW MEXICO, ACA**

Consolidated Statement of Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2009	2008	2007
<b>INTEREST INCOME</b>			
Loans	\$ 47,978	\$ 60,504	\$ 78,034
<b>Total interest income</b>	<b>47,978</b>	<b>60,504</b>	<b>78,034</b>
<b>INTEREST EXPENSE</b>			
Note payable to U.S. AgBank, FCB	14,252	30,629	47,429
Other	107	274	572
<b>Total interest expense</b>	<b>14,359</b>	<b>30,903</b>	<b>48,001</b>
<b>Net interest income</b>	<b>33,619</b>	<b>29,601</b>	<b>30,033</b>
Provision for loan losses	5,675	5,139	1,280
<b>Net interest income after provision for loan losses</b>	<b>27,944</b>	<b>24,462</b>	<b>28,753</b>
<b>NONINTEREST INCOME</b>			
Financially related services income	526	607	535
Loan fees	487	521	659
Patronage distribution from U.S. AgBank, FCB	442	4,817	5,747
Other noninterest income	68	232	891
<b>Total noninterest income</b>	<b>1,523</b>	<b>6,177</b>	<b>7,832</b>
<b>NONINTEREST EXPENSE</b>			
Salaries and employee benefits	7,913	8,490	7,787
Occupancy and equipment	1,056	831	730
Purchased services from AgVantis, Inc.	565	530	483
Farm Credit Insurance Fund premium	2,262	1,778	1,538
Supervisory and examination costs	354	341	326
Other noninterest expense	2,894	3,153	2,999
<b>Total noninterest expense</b>	<b>15,044</b>	<b>15,123</b>	<b>13,863</b>
<b>Income before income taxes</b>	<b>14,423</b>	<b>15,516</b>	<b>22,722</b>
Provision for/(Benefit from) income taxes	278	141	(24)
<b>Net income</b>	<b>\$ 14,145</b>	<b>\$ 15,375</b>	<b>\$ 22,746</b>

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

**FARM CREDIT OF NEW MEXICO, ACA**

*Consolidated Statement of Changes in Shareholders' Equity*

(Dollars in Thousands)

	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
<b>Balance at December 31, 2006</b>	\$ 37	\$ 1,647	\$ 184,152	\$ (113)	\$ 185,723
Comprehensive income					
Net income			22,746		
Minimum pension liability adjustment				(5)	
Total comprehensive income					22,741
Adjustment to initially apply FASB guidance				56	56
Stock converted	(2)	2			-
Stock issued	-	119			119
Stock retired	(8)	(323)			(331)
Patronage Distributions: Cash			(7,750)		(7,750)
<b>Balance at December 31, 2007</b>	27	1,445	199,148	(62)	200,558
Comprehensive income					
Net income			15,375		
Change in retirement obligation				(71)	
Total comprehensive income					15,304
Effect of changing defined benefit plan measurement date			(7)		(7)
Stock issued	-	161			161
Stock retired	(7)	(201)			(208)
Patronage Distributions: Cash			(8,538)		(8,538)
<b>Balance at December 31, 2008</b>	20	1,405	205,978	(133)	207,270
Comprehensive income					
Net income			14,145		
Change in retirement obligation				167	
Total comprehensive income					14,312
Stock issued		121			121
Stock retired	(6)	(162)			(168)
Patronage Distributions: Cash			(3,053)		(3,053)
<b>Balance at December 31, 2009</b>	\$ 14	\$ 1,364	\$ 217,070	\$ 34	\$ 218,482

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		
	2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 14,145	\$ 15,375	\$ 22,746
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	869	636	515
Provision for loan losses	5,675	5,139	1,280
Gains on sales of premises and equipment	(58)	(55)	(908)
Change in assets and liabilities:			
Decrease/(Increase) in deferred tax asset	105	(43)	(15)
Decrease/(Increase) in accrued interest receivable	2,869	6,007	(2,639)
(Increase)/Decrease in prepaid benefit expense	(88)	(324)	399
(Increase)/Decrease in other assets	(372)	94	252
(Decrease)/Increase in accrued interest payable	(6,192)	(7,676)	1,886
Decrease in accrued benefits liability	(16)	(179)	(238)
(Decrease)/Increase in other liabilities	(1,747)	2,970	312
Total adjustments	1,045	6,569	844
Net cash provided by operating activities	15,190	21,944	23,590
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Increase in loans, net	(28,240)	(110,550)	(106,093)
Increase in investment in U.S. AgBank, FCB	(1,534)	-	(1,361)
(Expenditures)/Proceeds for premises and equipment, net	(307)	(7,179)	91
Net cash used in investing activities	(30,081)	(117,729)	(107,363)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net draw on note payable to U.S. AgBank, FCB	23,127	103,815	86,403
(Decrease)/Increase in advance conditional payments	(621)	79	1,453
Protected borrower stock retired	(6)	(7)	(8)
Capital stock retired	(162)	(201)	(323)
Capital stock issued	121	161	119
Cash patronage distributions paid	(8,538)	(7,750)	(6,600)
Net cash provided by financing activities	13,921	96,097	81,044
Net (decrease)/increase in cash	(970)	312	(2,729)
Cash at beginning of year	5,541	5,229	7,958
Cash at end of year	\$ 4,571	\$ 5,541	\$ 5,229
<b>SUPPLEMENTAL CASH INFORMATION:</b>			
Cash paid/(received) during the year for:			
Interest	\$ 20,551	\$ 38,579	\$ 46,115
Income taxes	\$ 149	\$ 190	\$ (322)
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Loans transferred to other property owned	\$ 48	\$ -	\$ -
Net charge-offs	\$ 1,507	\$ 1,610	\$ -
Patronage distributions payable	\$ 3,053	\$ 8,538	\$ 7,750
Change in accumulated other comprehensive income/(loss)	\$ 167	\$ (71)	\$ 51

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

## FARM CREDIT OF NEW MEXICO, ACA

Notes to Consolidated Financial Statements

(Dollars in Thousands, Except as Noted)

### NOTE 1 – ORGANIZATION AND OPERATIONS

- A. Organization: Farm Credit of New Mexico, ACA and its subsidiaries, Farm Credit of New Mexico, FLCA, (Federal Land Credit Association (FLCA)) and Production Credit Association of Southern New Mexico, (Production Credit Association (PCA)), (collectively called “the Association”) are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/ shareholders for qualified agricultural purposes in all the counties except San Juan 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, 2009, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and approximately 90 associations.

U.S. AgBank, FCB (AgBank), its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. AgBank provides the majority of funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to AgBank and certain associations. On December 31, 2009, the District consisted of AgBank, 24 Agricultural Credit Association (ACA) parent companies, which each have two wholly owned subsidiaries, (a FLCA and a PCA), two 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 has been required to pay premiums into the Insurance Fund based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as two percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines 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 average adjusted note payable with AgBank.

- 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 offers credit life insurance, multi-peril crop and crop hail insurance, and provides 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 U.S. AgBank District Annual Report to Shareholders (District’s Annual Report). The District’s Annual Report is available free of charge on AgBank’s website, [www.usagbank.com](http://www.usagbank.com); or may be obtained at no charge by contacting the Association at 5651 Balloon Fiesta Parkway NE, Albuquerque, New Mexico 87113 or by calling (505) 884-1048 or (800) 451-5997. 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, upon request. 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 consolidated 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’ consolidated financial statements have been reclassified to conform to current financial statement presentation. Beginning in 2008, Farm Credit Foundations began providing our human resource services previously provided by AgBank. These services are reflected in other noninterest expense.

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. Recently Issued or Adopted Accounting Pronouncements: In June 2009, the Financial Accounting Standards Board (FASB) issued, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.” This Codification became the source of authoritative U.S. generally accepted accounting principles recognized by the FASB. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. This Statement was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Association adopted the codification in the third quarter of 2009 with no impact on the Association’s financial statements, but resulted in changes to disclosures.

In May 2009, the FASB issued guidance on “Subsequent Events” which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was effective for interim or annual periods ending after June 15, 2009. The adoption of this guidance had no impact on the Association’s financial statements, but did result in additional disclosure.

In April 2009, the FASB issued guidance on “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.” This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. It was effective for interim periods ending after June 15, 2009. Revisions resulting from a

change in valuation techniques or their application are accounted for as a change in accounting estimate. The adoption did not have a material impact on the Association.

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

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

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded investment asset balance (if accrued in prior years).

When loans are in nonaccrual status, loan payments are generally applied against the recorded investment in the loan asset. Nonaccrual loans may, at times, be maintained on a cash basis. Generally, cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which the collectability of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest 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 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, collateral value, portfolio quality, current production conditions 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.

- C. **Cash:** Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at banks.
- D. **Investment in AgBank:** The Association's investment in AgBank is in the form of Class A Stock. The minimum required investment in AgBank is 5.00 percent of average direct loan volume, net of excess investment. 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.
- E. **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.
- F. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through a collection action, is recorded at fair value less estimated selling costs upon acquisition. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in (gains)/losses on other property owned, net.

- G. **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.

- H. **Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. Amounts received on short- and intermediate-term loans are recorded in the Consolidated Statement of Condition as liabilities and represent borrower payments in excess of the related loan balance or amounts to which the borrower has unrestricted access. A limited amount of funds, reserved for future loan repayments and placed in trust fund accounts, is permitted on long-term loans. These amounts are netted against loans on the Consolidated Statement of Condition. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.

- I. **Employee benefit plans:** Substantially all employees of the Association participate in the Ninth Farm Credit District Pension Plan (Pension Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan). The Pension Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. Detailed financial information for the Pension Plan may be found in the District's Annual Report. The Pension Plan was closed to new participants beginning January 1, 2007, amended and then terminated during 2007 for those participants with benefits only in the Account Balance Provisions of the Pension Plan. The accrued benefits for these participants were distributed from the Pension Plan and were transferred to the 401(k) Plan. The Association matches a certain percentage of employee contributions to the 401(k) Plan. The 401(k) Plan costs are expensed monthly as funded.

The Association also participates in the Farm Credit Foundations Retiree Medical Plan. These postretirement benefits (other than pensions) are provided to eligible retired employees of the Association. Prior to 2007, only employees who were hired before 2004 could become eligible for employer subsidies under the Retiree Medical Plan. These benefits and the anticipated costs of these benefits were accrued during the period of the employee's active service. During 2007, the Retiree Medical Plan was amended to only continue employer subsidized benefits for current retirees. Accrued balances as of September 30, 2007 for eligible employees were converted to present value and transferred to the Pension Plan as an additional pension benefit.

- J. **Patronage Distribution from AgBank:** Patronage distributions are made by AgBank annually, except for certain priority patronage. The Association records patronage distributions from AgBank upon receipt of the distribution.
- K. **Income Taxes:** As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state or local laws.

The Association 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 consolidated 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.

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.

- L. Other Comprehensive Income/(Loss): Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders' equity but are excluded from net income. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.
- M. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds that relate to deferred compensation and supplemental retirement plans. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates and (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

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

The fair value disclosures are reported in Note 15.

### NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
	2009	2008	2007
Real estate mortgage	\$ 783,277	\$ 756,304	\$ 704,145
Production and intermediate-term Agribusiness:	351,738	322,867	229,025
Cooperatives	2,112	3,032	6,701
Process and marketing	63,897	90,313	125,873
Farm related business	12,265	15,441	15,072
Communication	6,757	6,753	9,250
International	4,625	2,843	-
Rural residential real estate	8,950	9,383	7,930
<b>Total loans</b>	<b>\$ 1,233,621</b>	<b>\$ 1,206,936</b>	<b>\$ 1,097,996</b>

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

SIC Category	December 31					
	Amount	2009 Percent	Amount	2008 Percent	Amount	2007 Percent
Dairy	\$ 462,855	37.52%	\$ 416,996	34.55%	\$ 339,171	30.89%
Cattle	247,958	20.10%	259,371	21.49%	293,604	26.74%
Hay crops	111,273	9.02%	103,676	8.59%	94,757	8.63%
Pecans	88,327	7.16%	90,279	7.48%	66,978	6.10%
Grains	48,111	3.90%	46,708	3.87%	42,932	3.91%
Feed lots	47,494	3.85%	45,984	3.81%	42,712	3.89%
Ag services	40,093	3.25%	42,243	3.50%	36,344	3.31%
Vegetables & Chile	32,568	2.64%	32,225	2.67%	36,453	3.32%
Cotton	17,887	1.45%	18,828	1.56%	22,509	2.05%
Other	137,055	11.11%	150,626	12.48%	122,536	11.16%
<b>Total</b>	<b>\$ 1,233,621</b>	<b>100.00%</b>	<b>\$ 1,206,936</b>	<b>100.00%</b>	<b>\$ 1,097,996</b>	<b>100.00%</b>

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

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

	December 31		
	2009	2008	2007
Nonaccrual loans:			
Current as to principal and interest	\$ 4,391	\$ 8,218	\$ 439
Past due	6,774	-	-
<b>Total nonaccrual loans</b>	<b>\$ 11,165</b>	<b>\$ 8,218</b>	<b>\$ 439</b>
Impaired accrual loans			
Restructured accrual loans	148	-	-
Accrual loans 90 days or more past due	180	738	-
<b>Total impaired accrual loans</b>	<b>\$ 328</b>	<b>\$ 8,218</b>	<b>\$ 439</b>
<b>Total impaired loans</b>	<b>\$ 11,493</b>	<b>\$ 8,956</b>	<b>\$ 439</b>

There were no material commitments to lend additional funds to debtors whose loans were classified impaired at December 31, 2009.

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		
	2009	2008	2007
Interest income recognized on:			
Nonaccrual loans	\$ 242	\$ 99	\$ 461
Accrual loans 90 days or more past due	28	94	8
<b>Interest income recognized on impaired loans</b>	<b>\$ 270</b>	<b>\$ 193</b>	<b>\$ 469</b>
<b>Average impaired loans</b>	<b>\$ 18,397</b>	<b>\$ 6,734</b>	<b>\$ 2,023</b>

The following table presents information concerning impaired loans.

	December 31		
	2009	2008	2007
Impaired loans with related allowance	\$ 8,731	\$ -	\$ -
Impaired loans with no related allowance	2,762	8,956	439
Total impaired loans	\$ 11,493	\$ 8,956	\$ 439
Allowance on impaired loans	\$ 2,555	\$ -	\$ -

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		
	2009	2008	2007
Interest income which would have been recognized under the original loan terms	\$ 573	\$ 556	\$ 254
Less: interest income recognized	242	99	461
Interest income not recognized/(recognized)	\$ 331	\$ 457	\$ (207)

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

	2009	2008	2007
Balance at beginning of year	\$ 8,244	\$ 4,715	\$ 3,435
Charge-offs:			
Production and intermediate-term	725	-	-
Agribusiness	766	1,610	-
Rural residential real estate	16	-	-
Total charge-offs	1,507	1,610	-
Provision for loan losses	5,675	5,139	1,280
Balance at December 31	\$ 12,412	\$ 8,244	\$ 4,715
Net charge-offs to average net loans	0.12%	0.14%	-

A breakdown of the allowance for loan losses follows.

	December 31					
	2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent
Real estate mortgage	\$ 3,065	24.69%	\$ 2,373	28.78%	\$ 1,739	36.87%
Production and intermediate-term	8,450	68.08%	5,259	63.79%	1,727	36.63%
Agribusiness	852	6.86%	581	7.05%	1,221	25.90%
Communication	13	0.11%	13	0.16%	13	0.28%
Rural residential real estate	32	0.26%	18	0.22%	15	0.32%
Total	\$ 12,412	100.00%	\$ 8,244	100.00%	\$ 4,715	100.00%

To mitigate the risk of loan losses, the Association may enter into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under long-term standby commitments was \$132,236 at December

31, 2009, \$139,603 at December 31, 2008 and \$95,178 at December 31, 2007. Fees paid to Farmer Mac for such commitments totaled \$624 during 2009, \$502 during 2008 and \$387 during 2007. These amounts are classified as noninterest expense.

Credit guarantees with government agencies of approximately \$6,800 at year-end 2009, \$8,821 at year-end 2008 and \$8,231 at year-end 2007 were outstanding.

#### NOTE 4 – INVESTMENT IN AGBANK

The Association is required to maintain an investment in AgBank equal to 5.00 percent of average direct loan volume, net of excess investment. 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 investment in AgBank is 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		
	2009	2008	2007
Land	\$ 1,862	\$ 1,862	\$ 470
Buildings and leasehold improvements	10,649	10,623	3,835
Furniture, equipment and automobiles	3,528	3,452	2,664
Construction in progress	-	2	2,339
	16,039	15,939	9,308
Less: accumulated depreciation	2,851	2,247	2,214
Total	\$ 13,188	\$ 13,692	\$ 7,094

#### NOTE 6 – NOTE PAYABLE TO AGBANK

The Association's indebtedness to AgBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA) which provides for a \$1,100 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, 2009. 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 1.37 percent for the year ended December 31, 2009. The line of credit expires on April 30, 2010; 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.

	2009	2008	2007
Committed funds	\$ 11,000	\$ 20,500	\$ 65,400
Average rates	5.38%	4.95%	4.57%

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, 2009, 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

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

The borrower acquires ownership of the stock 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 FCA that, if undertaken, could have a direct material effect on the Association's consolidated 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, 2009, the Association's permanent capital was 15.24 percent, total surplus was 15.13 percent and core surplus ratio was 15.13 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, 2009. 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, 249,020 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, 23,727 shares outstanding) – Class C Common Stock may be issued to borrowers or applicants who are: (a) rural residents, including persons eligible to hold voting stock, to capitalize rural housing loans; (b) persons or organizations furnishing farm-related services; (c) other persons or organizations who are eligible to borrow from or participate with the Association but who are not eligible to hold voting stock. Class C Common Stock may be issued to any person who is not a shareholder but who is eligible to borrow from the Association for the purpose of qualifying such person for technical assistance, financially related services and leasing services offered by the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class C Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

**Class D** Common Stock (Nonvoting, at-risk, no shares outstanding) – Issued to 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, 2,883 shares outstanding) – Shall be issued to those individuals and entities who held the same class of stock in a predecessor to the Association. The Association shall not issue any additional Class F Common Stock. Each Class F Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class F Common Stock shall be converted to Class G Common Stock. Retirement is at the sole discretion of the Board of Directors.

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

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

##### 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 \$8,538 during 2009, \$7,750 during 2008 and \$6,600 during 2007. The Association declared a \$3,053 cash patronage during 2009 to be distributed during 2010.

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.

The Association allocated 21.88 percent of its patronage-sourced net income to its patrons. At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage refund. That portion of patronage-sourced net income not distributed in cash is also allocated to patrons. In accordance with Internal Revenue Service requirements, each customer is sent a nonqualified written notice of allocation. Allocated, but not distributed patronage refunds, are added to the unallocated retained earnings account. Such allocations may provide a future basis for a distribution of capital. The Board of Directors considers these unallocated retained earnings to be permanently invested in the Association. As such, there is no current plan to revolve or redeem these amounts. No express or implied right to have such capital retired or revolved at any time is granted.

F. Other Comprehensive Income/Loss

The Association reports other comprehensive income/loss in its Consolidated Statement of Changes in Shareholder's Equity. As more fully described in Note 2, other comprehensive income/loss results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits of income of \$34 as of December 31, 2009, loss of \$133 as of December 31, 2008 and loss of \$62 as of December 31, 2007. There were no other items affecting comprehensive income or loss.

**NOTE 8 – PATRONAGE DISTRIBUTION FROM AGBANK**

The patronage distribution from AgBank was distributed in cash. Patronage paid by AgBank to the Association during 2009 was \$442, \$4,817 in 2008 and \$5,747 in 2007.

**NOTE 9 – INCOME TAXES**

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

	Year Ended December 31		
	2009	2008	2007
Current:			
Federal	\$ 151	\$ 162	\$ (30)
State	21	23	21
Deferred:			
Federal	86	(38)	(10)
State	20	(6)	(5)
Provision for/(Benefit from) income taxes	\$ 278	\$ 141	\$ (24)

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

	Year Ended December 31		
	2009	2008	2007
Federal tax at statutory rate	\$ 4,904	\$ 5,276	\$ 7,726
State tax, net	27	12	10
Effect of non-taxable entity	(5,769)	(6,749)	(7,872)
Patronage	(197)	-	-
Increase in valuation allowance	1,296	1,565	236
Other	17	37	(124)

Provision for/(Benefit from) income taxes	\$ 278	\$ 141	\$ (24)
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Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2009	2008	2007
Deferred income tax assets:			
Allowance for loan losses	\$ 3,464	\$ 2,250	\$ 1,120
Nonaccrual loan interest	221	99	7
State NOL carryover			
Net operating loss carryover	820	827	256
Gross deferred tax assets	4,505	3,176	1,383
Deferred tax asset valuation allowance	(4,428)	(2,993)	(1,241)
Deferred income tax liabilities:			
Depreciation	(70)	(71)	(73)
Sale of fixed assets	(7)	(7)	(7)
Gross deferred tax liability	(77)	(78)	(80)
Net deferred tax asset	\$ -	\$ 105	\$ 62

The calculation of tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings. The Association recorded a valuation allowance of \$4,428 during 2009, \$2,993 during 2008 and \$1,241 during 2007. The Association will continue to evaluate the likely realization of these deferred tax assets and adjust the valuation allowance accordingly.

The Association has no uncertain tax positions to be recognized as of December 31, 2009, 2008 or 2007. The tax years that remain open for federal and major state income tax jurisdictions are 2006 and forward.

**NOTE 10 – EMPLOYEE BENEFIT PLANS**

The employees of the Association may participate in one of two District defined benefit pension plans (Ninth Pension Plan and Eleventh Pension Plan). The Pension Plans are noncontributory and cover a significant number of employees. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. As a participant in the District's defined benefit plans, the Association funded \$461 for 2009, \$739 for 2008 and \$60 for 2007, through its note payable to AgBank. Pension Plan expenses included in salaries and employee benefits expense were \$373 for 2009, \$295 for 2008, and \$461 for 2007. As of January 1, 2007, the Ninth Pension Plan was closed to new participants. During 2007, those participants with benefits only in the Account Balance provisions of the Pension Plan were spun off into a separate pension plan, which was then terminated. The termination resulted in immediate expense recognition of \$83 by the Association for its proportional share which is included in the above Pension Plan expenses. Additional financial information for both Pension Plans may be found in the District's Annual Report.

As of December 31, 2007, the Eleventh Pension Plan's minimum liability and accumulated other comprehensive income were transferred to the District combined financial statements because of implementation of new FASB guidance at the District level and changes to the District-wide allocation methodology.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits (primarily health care benefits) included in salaries and employee benefits were expense of \$15 for 2009 and \$14 for 2008 and income of \$139 for 2007. During 2008, the life insurance benefit in the plan was funded by a one-time buy-out contribution with an insurance company resulting in income recognition of \$4 and additional cash contributions of \$34. Prior to 2007, only employees who were hired before 2004 could become eligible for employer subsidies under the Retiree Medical Plan. As of September 30, 2007, the Retiree Medical Plan was amended to only continue employer subsidized benefits for current

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

The Association participates in a District-wide non-qualified defined benefit Pension Restoration Plan that is unfunded. The purpose of the Pension Restoration Plan is to supplement a participant's benefits under the District's other retirement plans to the extent that such benefits are reduced by the limitations imposed by the Internal Revenue Code. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. Pension Restoration Plan expenses included in salaries and employee benefits were \$49 for 2009, \$28 for 2008 and \$15 in 2007.

In September 2006, the FASB issued guidance which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of the guidance were adopted at December 31, 2007. The guidance also requires that the benefit obligation and plan assets be measured as of the fiscal year-end for fiscal years ending after December 15, 2008. In fiscal 2007, the Association used a September 30 measurement date for pension and other postretirement benefit plans. The guidance provided two approaches for an employer to transition to a fiscal year end measurement date. The District applied the second approach which allowed for the use of the measurements determined for the prior year end. Under this second approach, pension benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the Association decreased retained earnings \$7, net of taxes and increased the pension restoration liability by \$7.

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

<b>Nonqualified Pension Benefits</b>			
	2009	2008	2007
<b>Change in projected benefit obligation:</b>			
Benefit obligation at the beginning of the period	\$ 263	\$ 227	\$ 197
Service cost	6	5	1
Interest cost	17	18	12
Actuarial (gain)/loss	(142)	84	92
Benefits paid	(21)	(71)	(75)
Benefit obligation at the end of the period	\$ 123	\$ 263	\$ 227
<b>Change in plan assets:</b>			
Company contributions	21	72	75
Benefits paid	(21)	(72)	(75)
Fair value of plan assets at the end of the period	\$ -	\$ -	\$ -
Funded status of the plan	\$ (123)	\$ (263)	\$ (227)
<b>Amounts recognized in the Consolidated Statement of Condition consist of:</b>			
Liabilities	\$ 123	\$ 263	\$ 227
Net amount recognized	\$ 123	\$ 263	\$ 227

The following table represents the amounts included in accumulated other comprehensive income/loss for the Pension Restoration Plan:

	2009	2008	2007
Net actuarial gain/(loss)	\$ 43	\$ (123)	\$ (46)
Prior service costs	(9)	(10)	(16)
Total amount recognized in AOCI/(loss)	\$ 34	\$ (133)	\$ (62)

An estimated net actuarial gain of \$8 and prior service cost of \$2 for the Pension Restoration Plan will be amortized into income during 2010.

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

	2009	2008	2007
Projected benefit obligation	\$ 123	\$ 263	\$ 277
Accumulated benefit obligation	\$ 115	\$ 226	\$ 187

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

	Pension Benefits		
	2009	2008	2007
<b>Components of net periodic benefit cost</b>			
Service cost	\$ 6	\$ 4	\$ 1
Interest cost	17	14	12
Net amortization and deferral	26	10	2
Net periodic benefit cost	\$ 49	\$ 28	\$ 15

The adjustment to retained earnings due to the change in measurement date is detailed below.

	2008
Service cost	\$ (1)
Interest cost	(3)
Amortization of prior service cost	(1)
Amortization of net actuarial loss	(2)
Total adjustment to retained earnings	\$ (7)

Changes in benefit obligation recognized in accumulated other comprehensive income are included in the following table.

	2009	2008
Current year net actuarial gain/(loss)	\$ 142	\$ (84)
Amortization of prior service credit	-	4
Amortization of net actuarial gain	25	6
Adjustment due to change in measurement date	-	3
Total recognized in other comprehensive income	\$ 167	\$ (71)

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

	2009	2008	2007
Discount rate	5.65%	6.35%	6.35%
Rate of compensation increase	5.00%	5.00%	5.00%

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

	2009	2008	2007
Discount rate	6.35%	6.35%	6.00%
Rate of compensation increase	5.00%	5.00%	5.00%

The Association expects to contribute \$21 to the pension restoration plan in 2010.

*Estimated Future Benefit Payments*

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

	Pension Restoration Benefits	
2010	\$	22
2014	\$	121
2015 – 2019	\$	7

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan (Contribution Plan). The Association matches a certain percentage of employee contributions to the plan. Employer contributions to this plan were \$472 in 2009, \$536 in 2008 and \$301 in 2007.

**NOTE 11 – RELATED PARTY TRANSACTIONS**

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

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

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

	2009	2008	2007
New loans	\$ 41,945	\$ 50,742	\$ 33,731
Repayments	\$ 37,639	\$ 52,995	\$ 36,843
Ending balance	\$ 34,659	\$ 30,053	\$ 28,433

In the opinion of management, none of these loans outstanding at December 31, 2009 involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid \$565 in 2009, \$530 in 2008 and \$483 in 2007 to AgVantis for technology services.

**NOTE 12 – REGULATORY ENFORCEMENT MATTERS**

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

**NOTE 13 – 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 consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2009, \$306,944 of commitments to extend credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credit to satisfy the financing needs of their borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2009, the Association had \$1,251 of standby letters of credit. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

**NOTE 14 – FAIR VALUE MEASUREMENTS**

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2 — Significant Accounting Policies for additional information. Assets and liabilities measured at fair value on a recurring basis for each of the fair value hierarchy values are summarized below:

	Level 1	Fair Value Measurement Using Level 2	Level 3	Total Fair Value
Assets:				
Assets held in nonqualified benefits trusts	\$ 455	\$ -	\$ -	\$ 455

The Association has no liabilities measured at fair value on a recurring basis at December 31, 2009.

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2009 for each of the fair value hierarchy values are summarized below:

	Level 1	Fair Value Measurement Using Level 2	Level 3	Total Fair Value	Total Losses
Assets:					
Loans	\$ -	\$ -	\$ 16,720	\$ 16,720	\$ 3,322
Other property owned	\$ -	\$ -	\$ 74	\$ 74	\$ 25

The Association has no liabilities measured at fair value on a non-recurring basis at December 31, 2009.

## VALUATION TECHNIQUES

As more fully discussed in Note 2 - Summary of Significant Accounting Policies, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used by the Association for assets and liabilities:

### Assets Held in Non-Qualified Benefits Trusts

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

### Loans

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

### Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based on the collateral value. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

## 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, 2009, 2008 and 2007. 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 follow.

	December 31					
	2009		2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans, net	\$ 1,221,209	\$ 1,223,236	\$ 1,198,692	\$ 1,204,705	\$ 1,093,281	\$ 1,096,796
Cash	\$ 4,571	\$ 4,571	\$ 5,541	\$ 5,541	\$ 5,229	\$ 5,229
Assets held in nonqualified benefits trusts	\$ 455	\$ 455	\$ 434	\$ 434	\$ 536	\$ 536
Financial liabilities:						
Note payable to AgBank	\$ 1,041,835	\$ 1,043,438	\$ 1,018,708	\$ 1,024,115	\$ 914,893	\$ 918,400
Advance conditional payments	\$ 11,637	\$ 11,637	\$ 12,258	\$ 12,258	\$ 12,179	\$ 12,179

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: 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. Assets held in nonqualified benefits trusts: These assets relate to deferred compensation and supplemental retirement plans. As discussed in Note 2, the fair value of these assets is quoted net asset values.
- D. Note 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.
- E. 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, 2009, 2008 and 2007, follow.

	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 7,300	\$ 8,278	\$ 8,711	\$ 9,330	\$ 33,619
Provision for loan losses	1,241	3,108	788	538	5,675
Noninterest expense, net	2,890	3,425	3,207	4,277	13,799
Net income	\$ 3,169	\$ 1,745	\$ 4,716	\$ 4,515	\$ 14,145

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 7,588	\$ 7,298	\$ 7,202	\$ 7,513	\$ 29,601
(Loan loss reversal)/Provision for loan losses	(211)	474	1,143	3,733	5,139
Noninterest expense, net	1,720	1,879	1,935	3,553	9,087
Net income	\$ 6,079	\$ 4,945	\$ 4,124	\$ 227	\$ 15,375

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

## NOTE 17 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 15, 2010, which is the date the financial statements were available to be issued.

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying consolidated statements of condition 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, 2009, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

March 15, 2010

The financial statements of 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, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2009 annual report is consistent with that in the financial statements.

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

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

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

  
Allen W. Wells  
Chairman of the Board  
Alfred E. Porter, Jr  
President and Chief Executive Officer  
Brian D. Lyon  
Chief Financial Officer

March 15, 2010

## FARM CREDIT OF NEW MEXICO, ACA

### Report on Internal Control over Financial Reporting

Farm Credit of New Mexico, ACA's (Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Boards of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

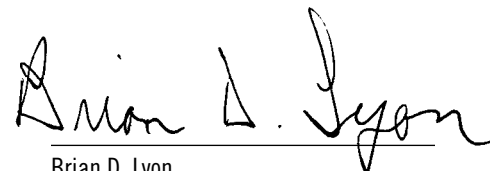
- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association,
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2009. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2009, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2009.



Alfred E. Porter, Jr.  
President and Chief Executive Officer



Brian D. Lyon  
Chief Financial Officer

March 15, 2010

## FARM CREDIT OF NEW MEXICO, ACA

### Audit Committee Report

The Audit Committee (Committee) includes three members from the Board of Directors of Farm Credit of New Mexico, ACA (Association). In 2009, three Committee meetings and five 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 2009.


The fees for professional services rendered for the Association by its independent auditor, PwC, during 2009 were \$37,646 for audit services, \$7,337 for tax services.

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

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

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2009 (the "Audited Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance). Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Audited Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2009.



Tom Drake, Chairman of the Audit Committee

#### Audit Committee Members

Tyson Achen

Ben Haines

## FARM CREDIT OF NEW MEXICO, ACA

Disclosure Information Required by Farm Credit Administration Regulations

(Amounts in Whole Dollars)

### DESCRIPTION OF BUSINESS

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

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

### DESCRIPTION OF PROPERTY

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

Location	Description	Form of Ownership
5651 Balloon Fiesta Parkway N.E. Albuquerque, New Mexico	Office Building	Owned
721 South First Street Clayton, New Mexico	Office Building	Owned
301 West Llano Estacado Blvd. 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 Street Tucumcari, New Mexico	Office Building	Owned

### LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

Information required to be disclosed in this section is incorporated herein by reference from Note 12 to the financial statements, "Regulatory Enforcement Matters," and Note 13 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 required to be disclosed in this section is incorporated herein by reference from Note 13 included in this annual report to shareholders.

### SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2009, required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Consolidated Financial Data," included in this annual report to shareholders.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### DIRECTORS AND SENIOR OFFICERS

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

#### Directors

Name:	Allen W. "Wess" Wells
Title:	Chairman
Term of Office:	Three years, expiring 2012. First elected in 2003.
Business Experience:	Ranching, cow/calf and yearling operation and owner of Wells Insurance Agency. Current member of New Mexico Farm and Livestock Bureau, New Mexico Cattle Growers' Association, Farm Credit Foundations Plan Sponsor Committee member, and serves in many community organizations.
Name:	Mack Bell
Title:	Vice Chairman
Term of Office:	Three years, expiring 2012. First elected in 2002.
Business Experience:	Ranching and farming; cow/calf and yearling operation. Member of New Mexico Cattle Growers' Association and served in many community organizations.
Name:	Tyson "Ty" Achen
Title:	Director
Term of Office:	Three years, expiring 2012. First elected in 2002.
Business Experience:	Farming; 600 acres of pecans. Served 33 years with Farm Credit of which he was CEO for 24 years for the PCA. Outstanding Alumnus award from New Mexico State University and served in various community organizations.

**Name:** Joe Clavel  
**Title:** Director  
**Term of Office:** Three years, expiring 2011. First elected in 1995.  
**Business Experience:** Cow/calf operation; President, Harding County Farm Bureau. Former director of FLBA of Tucumcari. Director of New Mexico Cattle Growers' Association and Director of New Mexico Beef Council.

**Name:** Tom Drake  
**Title:** Appointed Director  
**Term of Office:** Three years, expiring 2010. First appointed in 2002.  
**Business Experience:** Executive Director 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. He has previous commercial banking experience and is a general certified real estate appraiser in New Mexico.

**Name:** Ben Haines  
**Title:** Appointed Director  
**Term of Office:** Three years, expiring 2012. First appointed in 2006.  
**Business Experience:** Retired Chairman and CEO of Wells Fargo of Southern NM, 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:** Mike Marley  
**Title:** Director  
**Term of Office:** Three years, expiring 2011. First elected in 2008.  
**Business Experience:** Farming; corn silage, barley, alfalfa and chile. Ranching; cattle and sheep. Partner, Roswell Wool, Co-manager Enchantment Lamb Co-op, Director and Treasurer, Gandy Marley, Inc., Director, Roswell Livestock & Farm Supply, Inc., Chairman, Chaves County FSA Committee.

**Name:** V. Hilaire Mowduk  
**Title:** Appointed Director  
**Term of Office:** Three years, expiring 2012. First appointed in 2006.  
**Business Experience:** Former Operations and Finance Manager for the Corrections Corporation of America. Currently, Administrative Specialist for USDA – Farm Service Agency – New Mexico State Office. 18 years of banking experience including mortgage, retail, commercial and Ag lending functions; and multiple store and executive management. She is Past President and former Estancia Rotary Club member of 20 years.

**Name:** W. Douglas Reid  
**Title:** Director  
**Term of Office:** Three years, expiring 2010. First appointed in 2001.  
**Business Experience:** Runs 600 head of steers and takes 300-400 head per year through the feedlot. Produces crops of milo and wheat; partner in a 2,500 cow dairy at Black, Texas. He previously served on the Curry County ASCS County Committee and the Board of Directors of PCA of Eastern New Mexico. Currently, he serves as Farm Credit of New Mexico's representative to the U.S. AgBank District Farm Credit Council Board and Stockholder Advisory Committee. In 2008, he was elected to represent U.S. AgBank on the National Farm Credit Council Board.

**Name:** David Salopek  
**Title:** Director  
**Term of Office:** Appointed July, 2009 to fill unexpired term, expiring 2011.  
**Business Experience:** Pecan farming; current President, New Mexico Pecan Growers; Past President and current member BOD National Pecan Growers Council; current member BOD National Pecan Shellers Association; previous governor-appointed position with the New Mexico Environment Department Board; numerous other past board positions.

*Senior Officers*

**Name:** Alfred E. Porter, Jr.  
**Title:** President and Chief Executive Officer  
**FCS Employment:** 30 years  
**Business Experience:** Farm Credit System

**Name:** Brian D. Lyon  
**Title:** Executive Vice President Finance/Chief Financial Officer  
**FCS Employment:** 37 years  
**Business Experience:** Certified Computer Professional, Business and Finance Management, Farm Credit System

**Name:** Stan Fettig  
**Title:** Senior Vice President/Chief Credit Officer  
**FCS Employment:** 18 years  
**Business Experience:** Farm Credit System

**Name:** Jim Welles  
**Title:** Vice President/Chief Appraisal Officer  
**FCS Employment:** 28 years  
**Business Experience:** Farm Credit System

Name: Chris Amend  
 Title: Vice President/Branch Manager  
 FCS Employment: 7 years  
 Business Experience: Credit Operations, Farm Credit System

Name: Craig Hicks  
 Title: Vice President/Branch Manager  
 FCS Employment: 12 years  
 Business Experience: Credit Operations, Farm Credit System

Name: Gregory M. Carrasco  
 Title: Vice President/Branch Manager  
 FCS Employment: 25 years  
 Business Experience: Credit Operations, Farm Credit System

Name: Cary Crist  
 Title: Vice President/Branch Manager  
 FCS Employment: 17 years  
 Business Experience: Credit Operations, Farm Credit System

Name: Dwain Nunez  
 Title: Vice President/Branch Manager  
 FCS Employment: 20 years  
 Business Experience: Credit Operations, Farm Credit System

Name: Jim McCoy  
 Title: Vice President/Interim Branch Manager  
 FCS Employment: 30 years. Retired effective February 15, 2010  
 Business Experience: Credit Operations, Farm Credit System

The photographs in this report were taken by Michael Barley.

**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 were reimbursed mileage at the rate of \$0.55 per mile while on official business.

Additional information for each director is provided below:

Name	Number of Days Served at Board Meetings	Number of Days Served in Other Official Activities	Board Meetings and Other Official Duties	Audit Committee	Compensation Committee	Total Compensation Paid During 2009
Allen W. Wells	18.5	12.5	\$ 14,500	\$ -	\$ 1,000	\$ 15,500
Mack Bell	17.5	13.5	15,500	-	-	15,500
Tyson "Ty" Achen	17.5	4.5	10,500	500	-	11,000
Joe Clavel	16.5	3.5	10,000	-	-	10,000
Tom Drake	15.5	8.4	10,750	1,200	-	11,950
Ben Haines	17.0	14.0	13,500	1,000	1,000	15,500
Mike Marley	18.5	9.5	13,000	-	1,000	14,000
V. Hilaire Mowduk	18.5	8.5	12,500	-	1,000	13,500
W. Douglas Reid	19.0	18.5	18,750	-	-	18,750
David Salopek	7.0	5.5	6,250	-	-	6,250
Total			\$ 125,250	\$ 2,700	\$ 4,000	\$ 131,950

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 \$63,783 in 2009, \$82,854 in 2008 and \$126,207 in 2007. Non-cash compensation paid to directors as a group during 2009 was less than \$2,000.

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 11 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 is materially affected by AgBank's financial condition and results of operations.

The Association's statutory obligation to borrow from AgBank is discussed in Note 6. Financial assistance agreements between the Association and AgBank are discussed in Note 7. Association requirement to invest in AgBank and AgBank's ability to access capital of the Association is discussed in Note 4 to the financial statements, "Investment in AgBank." AgBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section – Liquidity.

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

#### RELATIONSHIP WITH INDEPENDENT AUDITORS

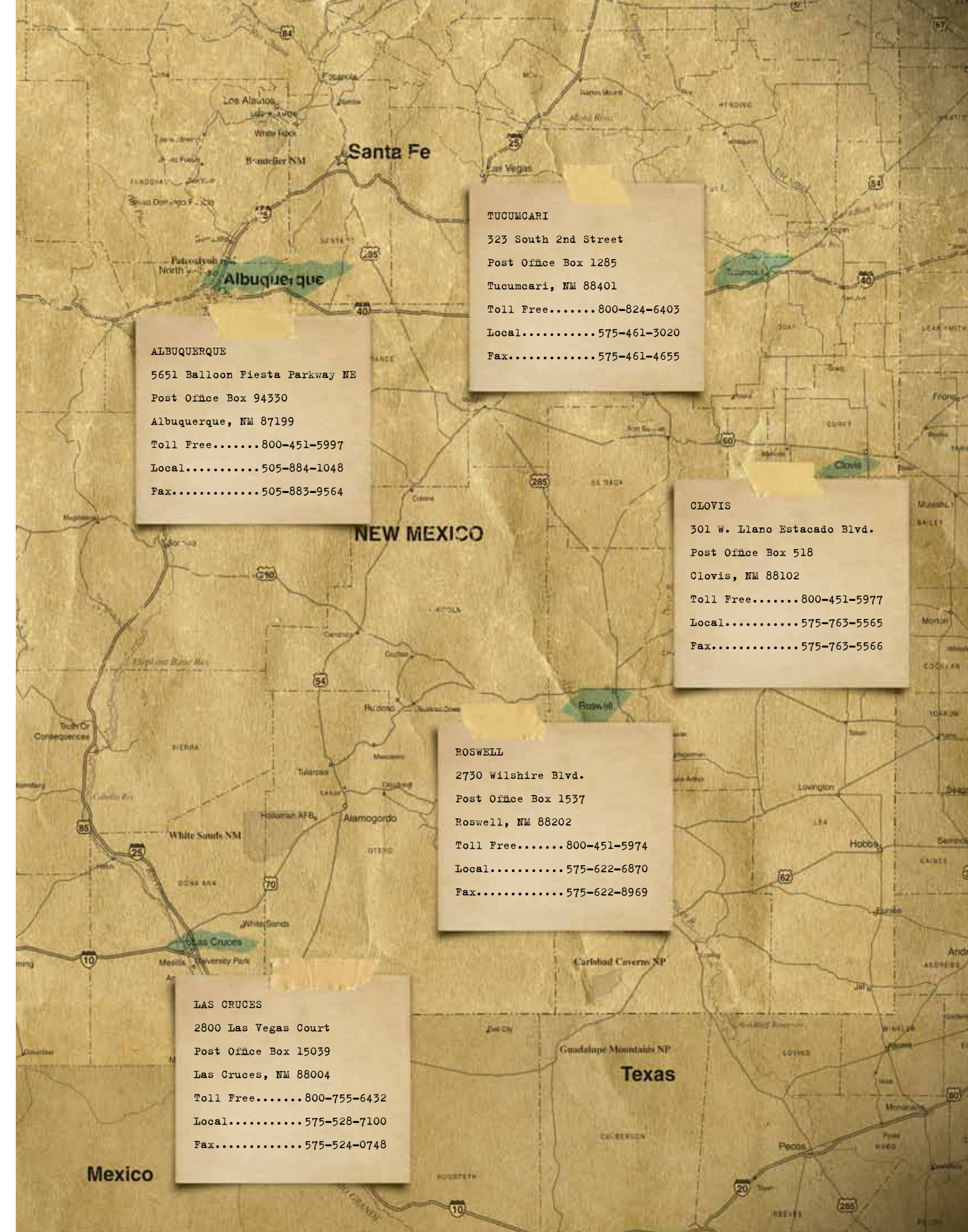
There were no changes in independent auditors since the prior annual report to shareholders and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

#### FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 15, 2010, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

#### AGBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

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



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