



# Farm Credit Services of North Dakota, ACA

Quarterly Report  
September 30, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of North Dakota, ACA and its subsidiaries. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. Our 2010 annual report should also be read for a description of our organization, operations and significant accounting policies.

AgriBank, FCB's (AgriBank) financial condition and results of operations materially affect shareholders' investment in Farm Credit Services of North Dakota, ACA. To request free copies of the AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our report contact us at Post Office Box 70, Minot, North Dakota 58702-0070, (701) 852-1265 or by e-mail to info@farmcreditnd.com or through our website at www.farmcreditnd.com. You may also contact AgriBank at 375 Jackson Street, St. Paul, Minnesota 55101-1810, (651) 282-8800, or by e-mail to agribankmn@agribank.com. The AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

### Loan Portfolio

Loan volume totaled \$691.1 million at September 30, 2011, a \$738 thousand increase from December 31, 2010. The minor change in loan volume is the result of new business marketing efforts offset by scheduled payments being made on both the short and long term portfolio. Oil income continues to generate unscheduled payments especially on the long term portfolio. There have also been delayed disbursements on our operating loans due to the excessive moisture that delayed or prevented planting in our territory. Mid-summer sales of 2010 crop inventory has also contributed to additional payments on existing lines of credit along with prevented planting insurance payments. Participation volume has also decreased.

### Risk Assets

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands):

	September 30	December 31
As of:	2011	2010
Loans:		
Accruing restructured	\$3,087	\$695
Past due 90 days or more still accruing	458	1
Nonaccrual	3,799	634
Total risk loans	7,344	1,330
Other property owned	--	--
Total risk assets	\$7,344	\$1,330
Risk loans as a % of total loans	1.0%	0.2%
Total delinquencies as a % of total loans	0.2%	0.2%

Our risk assets have increased from December 31, 2010, but still remain at acceptable levels.

The increase in accruing restructured loans was due to the classification of one account as accruing restructured.

Based on our analysis, loans past due 90 days or more and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

The increase in nonaccrual loans was mainly due to the transfer of two accounts to nonaccrual. Despite the increase in nonaccrual loans, total risk loans as a percentage of total loans remains well within our established risk management guidelines. The volume of nonaccrual loans remained at an acceptable level at September 30, 2011, and represented 0.6% of our total portfolio. At September 30, 2011, 79.3% of our nonaccrual loans were current.

### Portfolio Credit Quality

The credit quality of our portfolio has improved slightly from December 31, 2010. Adversely classified assets have decreased to 1.0% of the portfolio at September 30, 2011, from 1.2% of the portfolio at December 31, 2010. Adversely classified assets are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In some circumstances, we use various governmental guarantee programs to reduce the risk of loss. At September 30, 2011, \$33.4 million of our loans were, to some level, guaranteed under these governmental programs.

### Agricultural and Economic Conditions

Small grain harvest has been completed for the most part in our territory, but row crop harvest has just begun. Small grain yields were varied with some areas suffering quality and yield issues due to wet conditions and late seeding dates. Row crops are on schedule and early harvest results are at or above projection. Multi Peril prevented planting claims are nearing completion and most borrowers will be protected from losses with this insurance plus improved prices on crop that was seeded. Pastures are in good condition and will allow extended grazing. Hay production was short given problems with excess moisture and flooding this spring, but most producers will be able to find sufficient feed for herds this winter. Credit quality remains high with no major problems identified at this time. The local economy remains strong with continued oil exploration and production providing good off-farm employment opportunities if desired. Land prices remain stable to increasing with benchmark values trending higher.

### Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, portfolio quality and current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

	September 30	December 31
Allowance as a percentage of:	2011	2010
Loans	0.3%	0.2%
Nonaccrual loans	56.5%	259.5%
Total risk loans	29.2%	123.7%

The decrease in ratios representing allowance as a percentage of nonaccrual loans and as a percentage of total risk loans is mainly due to the increase in total risk loans as discussed above. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2011.

## Results of Operations

Net income for the nine months ended September 30, 2011, totaled \$9.5 million compared to \$9.8 million for the same period of 2010. The following table illustrates profitability information:

As of September 30	2011	2010
Return on average assets	1.8%	2.0%
Return on average members' equity	8.8%	10.1%

The following table summarizes the changes in components of net income for the nine months ended September 30, 2011, compared to the same period of 2010 (in thousands):

Increase (decrease) in net income	2011 vs 2010
Net interest income	\$1,351
Provision for loan losses	(314)
Patronage income	57
Other income, net	(692)
Operating expenses	(568)
Provision for income taxes	(175)
Total change in net income	(\$341)

Net interest income was \$14.6 million for the nine months ended September 30, 2011. The following table quantifies changes in net interest income for the nine months ended September 30, 2011, compared to the same period of 2010 (in thousands):

Change in net interest income	2011 vs 2010
Changes in volume	\$1,086
Changes in rates	299
Changes in nonaccrual income and other	(34)
Net change	\$1,351

The change in the provision for loan losses was related to our estimate of losses in our portfolio for the applicable years and chargeoff activity.

The decrease in other income, net is primarily due to our share of distributions received in the first quarter of 2010 from Allocated Insurance Reserve Accounts (AIRA) of \$597 thousand. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. There has been no distribution in 2011.

The changes in operating expenses are primarily related to increased salary and benefits cost.

The change in provision for income taxes is related to increased taxable income.

Changes in our return on average assets and return on average members' equity are directly related to the changes in income discussed above, changes in assets discussed in the Loan Portfolio section above and changes in capital discussed in the Funding, Liquidity and Capital section below.

## Funding, Liquidity and Capital

We borrow from AgriBank in the form of a line of credit. Our promissory note matured on September 30, 2011, and was renewed for \$735 million with a maturity date of September 30, 2012. The note will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Total members' equity increased \$9.5 million from December 31, 2010, due primarily to net income for the period in addition to a slight net increase in capital stock and participation certificates.

Farm Credit Administration regulations require us to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7% and a core surplus ratio of at least 3.5%. Refer to Note 8 in our 2010 annual report for a more complete description of these ratios. As of September 30, 2011, the ratios were as follows:

- The permanent capital ratio was 16.9%.
- The total surplus ratio was 16.6%.
- The core surplus ratio was 16.6%.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained above and the changes in assets as further discussed in the Loan Portfolio section above.

**Certification**

The undersigned certify they have reviewed Farm Credit Services of North Dakota, ACA's September 30, 2011, quarterly report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Daryl Klein  
Chairperson of the Board  
Farm Credit Services of North Dakota, ACA



Claude Sem  
President and Chief Executive Officer  
Farm Credit Services of North Dakota, ACA



Kent Huss  
Chief Financial Officer  
Farm Credit Services of North Dakota, ACA

October 25, 2011

**CONSOLIDATED STATEMENTS OF CONDITION**

Farm Credit Services of North Dakota, ACA

(Dollars in thousands)

(Unaudited)

	September 30 2011	December 31 2010
<b>ASSETS</b>		
Loans	\$691,106	\$690,368
Allowance for loan losses	2,148	1,645
<b>Net loans</b>	<b>688,958</b>	688,723
Investment in AgriBank, FCB	14,264	13,898
Investment securities	697	1,447
Accrued interest receivable	12,115	10,190
Premises and equipment, net	1,959	1,954
Assets held for lease, net	1,488	1,854
Other assets	2,257	2,618
<b>Total assets</b>	<b>\$721,738</b>	\$720,684
<b>LIABILITIES</b>		
Note payable to AgriBank, FCB	\$568,368	\$576,288
Accrued interest payable	1,745	1,820
Net deferred income tax liability	667	670
Other liabilities	2,120	2,590
<b>Total liabilities</b>	<b>572,900</b>	581,368
Contingencies and commitments	--	--
<b>MEMBERS' EQUITY</b>		
Protected members' equity	--	2
Capital stock and participation certificates	2,238	2,216
Unallocated surplus	146,600	137,098
<b>Total members' equity</b>	<b>148,838</b>	139,316
<b>Total liabilities and members' equity</b>	<b>\$721,738</b>	\$720,684

**CONSOLIDATED STATEMENTS OF INCOME**

Farm Credit Services of North Dakota, ACA

(Dollars in thousands)

(Unaudited)

Period ended September 30	Three Months		Nine Months	
	2011	2010	2011	2010
<b>Interest income</b>	<b>\$6,840</b>	\$6,520	<b>\$19,811</b>	\$18,751
<b>Interest expense</b>	<b>1,745</b>	1,904	<b>5,170</b>	5,461
<b>Net interest income</b>	<b>5,095</b>	4,616	<b>14,641</b>	13,290
<b>Provision for loan losses</b>	<b>345</b>	221	<b>918</b>	604
<b>Net interest income after provision for loan losses</b>	<b>4,750</b>	4,395	<b>13,723</b>	12,686
<b>Other income</b>				
Patronage income	314	296	905	848
Financially related services income	1,679	1,698	3,916	3,937
Fee income	130	143	378	362
Allocated insurance reserve account distribution	--	--	--	597
Miscellaneous income, net	49	85	194	284
<b>Total other income</b>	<b>2,172</b>	2,222	<b>5,393</b>	6,028
<b>Operating expenses</b>				
Salaries and employee benefits	1,974	2,034	5,877	5,565
Other operating	906	785	2,725	2,469
<b>Total operating expenses</b>	<b>2,880</b>	2,819	<b>8,602</b>	8,034
<b>Income before income taxes</b>	<b>4,042</b>	3,798	<b>10,514</b>	10,680
<b>Provision for income taxes</b>	<b>457</b>	289	<b>1,012</b>	837
<b>Net income</b>	<b>\$3,585</b>	\$3,509	<b>\$9,502</b>	\$9,843

**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY**

Farm Credit Services of North Dakota, ACA

(Dollars in thousands)

(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
<b>Balance at December 31, 2009</b>	\$2	\$2,163	\$122,946	\$125,111
Net income	--	--	9,843	9,843
Capital stock/participation certificates issued	--	268	--	268
Capital stock/participation certificates retired	--	(243)	--	(243)
<b>Balance at September 30, 2010</b>	\$2	\$2,188	\$132,789	\$134,979
<b>Balance at December 31, 2010</b>	\$2	\$2,216	\$137,098	\$139,316
Net income	--	--	9,502	9,502
Capital stock/participation certificates issued	--	247	--	247
Capital stock/participation certificates retired	(2)	(225)	--	(227)
<b>Balance at September 30, 2011</b>	\$ --	\$2,238	\$146,600	\$148,838

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: Organization and Significant Accounting Policies

Our 2010 annual report contains a description of our organization and operations, significant accounting policies followed, and financial condition and results of operations as of and for the year ended December 31, 2010. These unaudited third quarter 2011 consolidated financial statements should be read in conjunction with the 2010 annual report.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and the prevailing practices within the financial services industry. The results of the nine months ended September 30, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011.

The consolidated financial statements present the consolidated financial results of Farm Credit Services of North Dakota, ACA (the parent) and Farm Credit Services of North Dakota, FLCA and Farm Credit Services of North Dakota, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

#### Recent Accounting Developments

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to multiemployer pension and post-employment benefit plans which should help financial statement users better understand the financial health of significant plans that the employer participates. For non-public entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2012. The adoption of this guidance is not expected to have an impact on our financial condition or results of operations, but will result in additional disclosures.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The amendments include the following:

- Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets.
- An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to market risks such as interest rate risk and credit risk of counterparties.
- Expansion of the disclosures about fair value measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. The adoption of this guidance is not expected to have a significant impact on our financial condition or results of operations, but will result in additional disclosures.

In April 2011, the FASB issued guidance entitled "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring". This guidance provides additional clarification to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring. The guidance is effective for non-public entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance is not expected to have a significant impact on our financial condition or results of operations, but will result in additional disclosures.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis and also calls for new disclosures. For non-public entities, the disclosures are effective for interim and annual reporting periods ending on or after December 15, 2011. The adoption of this guidance is not expected to have an impact on our financial condition or results of operations, but will result in additional disclosures.

### NOTE 2: Investment Securities

We held investment securities of \$697 thousand at September 30, 2011, and \$1.4 million at December 31, 2010, consisting of investment notes in a trust of equipment loans. The securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

The following table presents the amortized cost, unrealized gains and losses, and fair value of the investment securities (in thousands):

As of:	September 30 2011	December 31 2010
Amortized cost	\$697	\$1,447
Unrealized gains	2	15
Unrealized losses	--	--
Fair value	<b>\$699</b>	<b>\$1,462</b>
Weighted average yield	<b>2.2%</b>	<b>5.5%</b>

Investment income is recorded in "Interest income" on the Consolidated Statements of Income and totaled \$15 thousand for the nine month period ended September 30, 2011, and \$132 thousand for the nine month period ended September 30, 2010.

### NOTE 3: Allowance for Loan Losses

A summary of changes in the allowance for loan losses follows (in thousands):

Nine months ended September 30	2011	2010
Balance at beginning of year	\$1,645	\$1,227
Provision for loan losses	918	604
Loan recoveries	3	39
Loan chargeoffs	(418)	(147)
Balance at end of period	<b>\$2,148</b>	<b>\$1,723</b>

The change in our allowance for loan losses is related to our estimate of losses in our portfolio.

The following table presents information concerning risk loans (in thousands):

	September 30	December 31
As of:	2011	2010
Volume with specific reserves	\$2,845	\$211
Volume without specific reserves	4,499	1,119
Total risk loans	<u>\$7,344</u>	<u>\$1,330</u>
Total specific reserves	\$940	\$134
Nine months ended September 30	2011	2010
Income on accrual risk loans	\$27	\$23
Income on nonaccrual loans	58	91
Total income on risk loans	<u>\$85</u>	<u>\$114</u>
Average recorded investment	\$4,076	\$2,124

The increase in total risk loans was primarily due to the transfer of two accounts to nonaccrual and one account to accruing restructured. The increase in specific reserves is primarily due to specific reserves set up on two accounts.

#### NOTE 4: Contingencies and Commitments

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

#### NOTE 5: Fair Value Measurements

The FASB guidance on "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 13 in our 2010 annual report for a more complete description.

We do not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2011, or December 31, 2010.

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (in thousands):

	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
<b>September 30, 2011</b>					
Loans	\$ --	\$1,183	\$724	\$1,907	(\$806)
Other property owned	--	--	--	--	--
<b>December 31, 2010</b>					
Loans	\$ --	\$ --	\$80	\$80	(\$65)
Other property owned	--	--	--	--	105

**Loans:** Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. The fair value measurement would fall under level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under level 3 of the hierarchy if the process requires significant input based on management's

knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

**Other Property Owned:** Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

#### NOTE 6: Subsequent Events

We have evaluated subsequent events through October 25, 2011, which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our quarterly report or disclosure in the Notes to those financial statements.