



Farm Credit Services of North Dakota, ACA

Quarterly Report
June 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 \$680.1 million at June 30, 2011, a \$10.3 million decrease from December 31, 2010. The change in loan volume is the result of scheduled payments being made on both the short and long term portfolios. 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 has delayed or prevented planting in our territory. New business marketing efforts along with an increase in participation volume have helped to minimize the impact of these issues.

Risk Assets

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

	June 30 2011	December 31 2010
As of:		
Loans:		
Accruing restructured	\$652	\$695
Past due 90 days or more still accruing	58	1
Nonaccrual	3,833	634
Total risk loans	4,543	1,330
Other property owned	--	--
Total risk assets	\$4,543	\$1,330
Risk loans as a % of total loans	0.7%	0.2%
Total delinquencies as a % of total loans	0.6%	0.2%

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

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 due to the transfer of four 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 June 30, 2011, and represented 0.6% of our total portfolio. At June 30, 2011, 77.7% of our nonaccrual loans were current.

Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2010. Adversely classified assets have decreased to 1.0% of the portfolio at June 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 June 30, 2011, \$34.5 million of our loans were, to some level, guaranteed under these governmental programs.

Agricultural and Economic Conditions

Completion of planting varied greatly across our territory as most producers struggled with excess moisture conditions. Some producers were able to seed the majority of planned crops while others seeded very limited to no acres. Multi-Peril Prevented Planting coverage is in effect for the vast majority of our producers so large losses are not expected and break-even scenarios will be common versus the profits we have seen over the past three years. Credit quality is strong and with higher commodity prices than projected plus the multi-peril coverage, it is expected to remain stable. Some livestock producers may be challenged with loss of hay land due to flooding or fewer acres of feed grains in production, but the price outlook remains good. The local economy remains strong with continued oil exploration and production providing good off-farm employment opportunities if desired. Major flooding in the Mouse River Valley and city of Minot, while catastrophic to those in the valley, will not have a large impact on our borrowers nor on our corporate office which was not directly affected. Land prices remain stable to increasing with benchmark values showing some increases.

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:

	June 30	December 31
Allowance as a percentage of:	2011	2010
Loans	0.3%	0.2%
Nonaccrual loans	57.5%	259.5%
Total risk loans	48.5%	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 June 30, 2011.

Results of Operations

Net income for the six months ended June 30, 2011, totaled \$5.9 million compared to \$6.3 million for the same period of 2010. The following table illustrates profitability information:

As of June 30	2011	2010
Return on average assets	1.7%	2.0%
Return on average members' equity	8.3%	9.9%

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

Increase (decrease) in net income	2011 vs 2010
Net interest income	\$872
Provision for loan losses	(190)
Patronage income	39
Other income, net	(624)
Operating expenses	(507)
Provision for income taxes	(7)
Total change in net income	(\$417)

Net interest income was \$9.5 million for the six months ended June 30, 2011. The following table quantifies changes in net interest income for the six months ended June 30, 2011, compared to the same period of 2010 (in thousands):

Change in net interest income	2011 vs 2010
Changes in volume	\$794
Changes in rates	103
Changes in nonaccrual income and other	(25)
Net change	\$872

The change in the provision for loan losses is due to changes in loan volume and loss estimates in the portfolio which is mainly due to increased specific reserves.

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.

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

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. 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 \$5.9 million from December 31, 2010, due to net income for the period partially offset by a decrease 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 June 30, 2011, the ratios were as follows:

- The permanent capital ratio was 17.2%.
- The total surplus ratio was 16.9%.
- The core surplus ratio was 16.9%.

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 June 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

July 27, 2011

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Services of North Dakota, ACA

(Dollars in thousands)

(Unaudited)

	June 30 2011	December 31 2010
ASSETS		
Loans	\$680,115	\$690,368
Allowance for loan losses	2,204	1,645
Net loans	677,911	688,723
Investment in AgriBank, FCB	13,506	13,898
Investment securities	827	1,447
Accrued interest receivable	7,752	10,190
Premises and equipment, net	1,958	1,954
Assets held for lease, net	1,582	1,854
Other assets	4,368	2,618
Total assets	\$707,904	\$720,684
LIABILITIES		
Note payable to AgriBank, FCB	\$557,198	\$576,288
Accrued interest payable	1,694	1,820
Net deferred income tax liability	630	670
Other liabilities	3,158	2,590
Total liabilities	562,680	581,368
Contingencies and commitments	--	--
MEMBERS' EQUITY		
Protected members' equity	--	2
Capital stock and participation certificates	2,209	2,216
Unallocated surplus	143,015	137,098
Total members' equity	145,224	139,316
Total liabilities and members' equity	\$707,904	\$720,684

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Services of North Dakota, ACA

(Dollars in thousands)

(Unaudited)

Period ended June 30	Three Months		Six Months	
	2011	2010	2011	2010
Interest income	\$6,547	\$6,324	\$12,971	\$12,231
Interest expense	1,694	1,827	3,425	3,557
Net interest income	4,853	4,497	9,546	8,674
Provision for loan losses	657	312	573	383
Net interest income after provision for loan losses	4,196	4,185	8,973	8,291
Other income				
Patronage income	297	277	591	552
Financially related services income	1,191	1,302	2,237	2,240
Fee income	121	111	248	219
Allocated insurance reserve account distribution	--	--	--	597
Miscellaneous income, net	55	131	145	198
Total other income	1,664	1,821	3,221	3,806
Operating expense				
Salaries and employees benefits	1,946	1,732	3,903	3,531
Other operating	887	743	1,819	1,684
Total operating expenses	2,833	2,475	5,722	5,215
Income before income taxes	3,027	3,531	6,472	6,882
Provision for income taxes	269	249	555	548
Net income	\$2,758	\$3,282	\$5,917	\$6,334

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
Balance at December 31, 2009	\$2	\$2,163	\$122,946	\$125,111
Net income	--	--	6,334	6,334
Capital stock/participation certificates issued	--	185	--	185
Capital stock/participation certificates retired	--	(197)	--	(197)
Balance at June 30, 2010	\$2	\$2,151	\$129,280	\$131,433
Balance at December 31, 2010	\$2	\$2,216	\$137,098	\$139,316
Net income	--	--	5,917	5,917
Capital stock/participation certificates issued	--	173	--	173
Capital stock/participation certificates retired	(2)	(180)	--	(182)
Balance at June 30, 2011	\$ --	\$2,209	\$143,015	\$145,224

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 second 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 six months ended June 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 May 2011, the Financial Accounting Standards Board (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 will have no impact on our financial condition or results of operations, but it will result in additional disclosures.

NOTE 2: Investment Securities

We held investment securities of \$827 thousand at June 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):

	June 30	December 31
As of:	2011	2010
Amortized cost	\$827	\$1,447
Unrealized gains	5	15
Unrealized losses	--	--
Fair value	<u>\$832</u>	<u>\$1,462</u>
Weighted average yield	2.2%	5.5%

Investment income is recorded in "Interest income" on the Consolidated Statements of Income and totaled \$11 thousand for the six month period ended June 30, 2011, and \$73 thousand for the six month period ended June 30, 2010.

NOTE 3: Allowance for Loan Losses

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

Six months ended June 30	2011	2010
Balance at beginning of year	\$1,645	\$1,227
Provision for loan losses	573	383
Loan recoveries	2	37
Loan chargeoffs	(16)	(137)
Balance at end of period	<u>\$2,204</u>	<u>\$1,510</u>

The change in our allowance for loan losses as compared to the prior year is primarily related to an increase in specific reserves.

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

	June 30	December 31
As of:	2011	2010
Volume with specific reserves	\$3,127	\$211
Volume without specific reserves	1,416	1,119
Total risk loans	<u>\$4,543</u>	<u>\$1,330</u>
Total specific reserves	<u>\$796</u>	\$134
Six months ended June 30	2011	2010
Income on accrual risk loans	\$14	\$16
Income on nonaccrual loans	57	81
Total income on risk loans	<u>\$71</u>	<u>\$97</u>
Average recorded investment	<u>\$2,987</u>	\$2,252

The increase in total risk loans was primarily due to the transfer of four accounts to nonaccrual. The increase in specific reserves is primarily due to specific reserves set up on three 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 Measurements and Disclosures" defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. 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 June 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		
June 30, 2011					
Loans	\$ --	\$1,145	\$1,190	\$2,335	(\$662)
Other property owned	--	--	--	--	--
December 31, 2010					
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 July 27, 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.