



**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 \$648.9 million at March 31, 2011, a \$41.4 million decrease from December 31, 2010. This decrease in loan volume is the result of scheduled payments being made on both the short and long term portfolio. We have also experienced some additional payments from the oil development that is occurring in our territory. New business solicitation has increased volume. This new volume along with an increase in participation volume has helped to mitigate the impact of any unscheduled payments that have occurred.

**Risk Assets**

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

	March 31	December 31
As of:	2011	2010
Loans:		
Accruing restructured	\$698	\$695
Past due 90 days or more still accruing	1	1
Nonaccrual	2,388	634
Total risk loans	3,087	1,330
Other property owned	--	--
Total risk assets	\$3,087	\$1,330
Risk loans as a % of total loans	0.5%	0.2%
Total delinquencies as a % of total loans	0.3%	0.2%

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

Based on our analysis, loans 90 days or more past due 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 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 March 31, 2011, and represented 0.4% of our total portfolio. At March 31, 2011, 58.6% of our nonaccrual loans were current.

**Portfolio Credit Quality**

The credit quality of our portfolio at March 31, 2011 is comparable to December 31, 2010. Adversely classified assets were 1.2% of the portfolio at March 31, 2011 and 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 March 31, 2011, \$33.5 million of our loans were, to some level, guaranteed under these governmental programs.

**Agricultural and Economic Conditions**

Yields across our territory in 2010 were generally very good and this coupled with strong commodity prices resulted in a profitable year for most of our borrowers. Credit quality remains high going into the 2011 production season. Soil moisture conditions were good to excess across most of our territory last fall and there may be challenges with spring planting. Prices for commodities are projected to remain strong, but input costs will also increase given high petroleum costs and possible availability issues for chemicals and fertilizer. The local economy is strong given good ag profits plus an expanding oil industry in the territory providing good off-farm employment opportunities if desired. Land values remain stable to increasing with strong demand for available land.

**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:

	March 31	December 31
Allowance as a percentage of:	2011	2010
Loans	0.2%	0.2%
Nonaccrual loans	65.3%	259.5%
Total risk loans	50.5%	123.7%

The decrease in ratios representing allowance as a percentage of nonaccrual loans and as a percentage of total risk loans reflects 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 March 31, 2011.

## Results of Operations

Net income for the three months ended March 31, 2011, totaled \$3.2 million compared to \$3.1 million for the same period of 2010. The following table illustrates profitability information:

As of March 31	2011	2010
Return on average assets	1.9%	2.0%
Return on average members' equity	9.0%	9.7%

The following table summarizes the changes in components of net income for the three months ended March 31, 2011, compared to the three months ended March 31, 2010 (in thousands):

Increase (decrease) in net income	2011 vs 2010
Net interest income	\$516
Provision for loan losses	155
Patronage income	19
Other income, net	(447)
Operating expenses	(149)
Provision for income taxes	13
Total change in net income	\$107

Net interest income was \$4.7 million for the three months ended March 31, 2011. The following table quantifies changes in net interest income for the three months ended March 31, 2011, compared to the three months ended March 31, 2010 (in thousands):

Change in net interest income	2011 vs 2010
Changes in volume	\$430
Changes in rates	126
Changes in nonaccrual income and other	(40)
Net change	\$516

The change in the provision for loan losses is due to changes in loan volume and loss estimates in the portfolio and decreased charge off activity from the prior year.

The change in patronage income is related to increased patronage received based on an increase in our note payable to AgriBank.

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. This decrease is partially offset by an increase in multi-peril crop insurance income reflecting increased sales.

The operating expense increases were primarily related to increased salary and benefits cost.

The change in provision for income taxes is related to a decrease in 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 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 \$3.1 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 March 31, 2011, the ratios were as follows:

- The permanent capital ratio was 17.3%.
- The total surplus ratio was 17.0%.
- The core surplus ratio was 17.0%.

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.

## Certification

The undersigned certify they have reviewed Farm Credit Services of North Dakota, ACA's March 31, 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.



Rollin Tonneson  
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

April 26, 2011

**CONSOLIDATED STATEMENTS OF CONDITION**

Farm Credit Services of North Dakota, ACA

(Dollars in thousands)

(Unaudited)

	March 31	December 31
	2011	2010
<b>ASSETS</b>		
Loans	\$648,919	\$690,368
Allowance for loan losses	1,560	1,645
Net loans	647,359	688,723
Investment in AgriBank, FCB	13,299	13,898
Investment securities	990	1,447
Accrued interest receivable	6,356	10,190
Premises and equipment, net	1,962	1,954
Assets held for lease, net	1,700	1,854
Other assets	2,310	2,618
Total assets	\$673,976	\$720,684
<b>LIABILITIES</b>		
Note payable to AgriBank, FCB	\$527,508	\$576,288
Accrued interest payable	1,731	1,820
Net deferred income tax liability	675	670
Other liabilities	1,611	2,590
Total liabilities	531,525	581,368
Contingencies and commitments	--	--
<b>MEMBERS' EQUITY</b>		
Protected members' equity	--	2
Capital stock and participation certificates	2,194	2,216
Unallocated surplus	140,257	137,098
Total members' equity	142,451	139,316
Total liabilities and members' equity	\$673,976	\$720,684

**CONSOLIDATED STATEMENTS OF INCOME**

Farm Credit Services of North Dakota, ACA

(Dollars in thousands)

(Unaudited)

Period ended March 31	Three Months	
	2011	2010
Interest income	\$6,424	\$5,907
Interest expense	1,731	1,730
Net interest income	4,693	4,177
<b>(Reversal of)</b>		
Provision for loan losses	(84)	71
Net interest income after provision for loan losses	4,777	4,106
<b>Other income</b>		
Patronage income	294	275
Financially related services income	1,046	938
Fee income	127	108
Allocated insurance reserve account distribution	--	597
Miscellaneous income, net	90	67
Total other income	1,557	1,985
<b>Operating expense</b>		
Salaries and employee benefits	1,957	1,799
Other operating	932	941
Total operating expenses	2,889	2,740
Income before income taxes	3,445	3,351
Provision for income taxes	286	299
Net income	\$3,159	\$3,052

**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	--	--	3,052	3,052
Capital stock/participation certificates issued	--	81	--	81
Capital stock/participation certificates retired	--	(119)	--	(119)
<b>Balance at March 31, 2010</b>	\$2	\$2,125	\$125,998	\$128,125
<b>Balance at December 31, 2010</b>	\$2	\$2,216	\$137,098	\$139,316
Net income	--	--	3,159	3,159
Capital stock/participation certificates issued	--	85	--	85
Capital stock/participation certificates retired	(2)	(107)	--	(109)
<b>Balance at March 31, 2011</b>	\$ --	\$2,194	\$140,257	\$142,451

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 first 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 three months ended March 31, 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 July 2010, the Financial Accounting Standards Board (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.

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 guidance to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring. The new guidance will require creditors to evaluate modifications and restructurings of receivables using a more principles-based approach, which may result in more modifications and restructurings being considered troubled debt restructurings. 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 will have no impact on our financial condition or results of operations, but will result in additional disclosures.

### NOTE 2: Investment Securities

We held investment securities of \$990 thousand at March 31, 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):

	March 31 2011	December 31 2010
As of:		
Amortized cost	\$990	\$1,447
Unrealized gains	8	15
Unrealized losses	--	--
Fair value	\$998	\$1,462
Weighted average yield	2.0%	5.5%

Investment income is recorded in "Interest income" on the Consolidated Statements of Income and totaled \$6 thousand for the three month period ended March 31, 2011, and \$37 thousand for the three month period ended March 31, 2010.

### NOTE 3: Allowance for Loan Losses

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

	2011	2010
Three months ended March 31		
Balance at beginning of year	\$1,645	\$1,227
(Reversal of)		
Provision for loan losses	(84)	71
Loan recoveries	1	34
Loan chargeoffs	(2)	(133)
Balance at end of period	\$1,560	\$1,199

The change in our allowance for loan losses as compared to the prior year is primarily related to an increase in loan volume and the estimated risk of loss in our portfolio based on the current environment.

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

	March 31 2011	December 31 2010
As of:		
Volume with specific reserves	\$251	\$211
Volume without specific reserves	2,836	1,119
Total risk loans	\$3,087	\$1,330
Total specific reserves	\$165	\$134
Three months ended March 31		
Income on accrual risk loans	\$8	\$7
Income on nonaccrual loans	21	42
Total income on risk loans	\$29	\$49
Average recorded investment	\$2,209	\$2,361

The increase in total risk loans was primarily due to the transfer of two accounts to nonaccrual.

### 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 March 31, 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 Gain (Loss)
	Level 1	Level 2	Level 3		
<b>March 31, 2011</b>					
Loans	\$ --	\$ --	\$90	\$90	(\$31)
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 April 26, 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.