

**High Plains Farm Credit, ACA**

**2011 THIRD**

**QUARTER**

**STOCKHOLDERS**

**REPORT**

**HIGH PLAINS FARM CREDIT, ACA**  
**Quarterly Report**  
**September 30, 2011**

The shareholders' investment in High Plains Farm Credit, ACA is materially affected by the financial condition and results of operations of U.S. AgBank, FCB, (AgBank). The 2010 U. S. AgBank Annual Report to Shareholders, the 2010 U.S. AgBank District Annual Report to Shareholders, the U.S. AgBank quarterly shareholders' reports and the U.S. AgBank District quarterly shareholders' 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 High Plains Farm Credit, ACA, 605 Main, Larned, Kansas 67550-0067 or calling 620-672-1265.

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

(Dollars in Thousands, Except as Noted)  
(Unaudited)

The following discussion summarizes the financial position and results of operations of High Plains Farm Credit, ACA for the nine months ended September 30, 2011, with comparisons to prior periods. The following discussion and analysis should be read in conjunction with the accompanying financial statements and related notes and with our 2010 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

### **CURRENT MARKET CONDITIONS**

Fall crop harvest is underway with most of the corn crop already being harvested well ahead of typical years. The northern part of the loan servicing area will have good fall crops with decreasing yields towards the south. The hot, dry summer conditions reduced yields on irrigated acreage and a large portion of dry land was chopped for silage in the south. Irrigated soybeans are beginning to be cut with yields expected to be average. The winter wheat crop is being planted in very dry conditions, especially in the southern part of the loan servicing area.

The hay crop has been less than average as dry conditions throughout the summer stressed the crop. The weather has affected both irrigated and dry land acreage. Sowed feed and other roughage has seen limited growth. Producers have been utilizing other forage sources and have swathed CRP, wheat straw, and corn stalks as alternatives. Native pasture has seen limited growth during the summer; between lack of new growth on the grass and water issues some ranchers have begun to cull herds.

Crop pricing has continued to be challenging as large swings in the commodity markets have been difficult to out-guess. The higher than traditional prices have allowed producers to still operate profitably even with reduced yields. Spring planted crop prices have also been higher than normal yet recent fall harvest pressure has trended prices lower.

Fed cattle prices trended lower into the early summer months after the seasonal price increase through August and September. Calf prices have remained strong and expected to remain steady into the fall due to limited supply. Many calves have been marketed well ahead of their typical weaning time. Poor grass and water issues are causing producers to take livestock to auction ahead of normal marketing schedule. The feeder markets have also been stronger in relation to the fat cattle prices.

The real estate market remains steady to higher. Buyers continue to be traditional farmers and ranchers with some influence from energy producers. The buying strength is supported by cash as they are investing in hard assets as compared to the stock market.

### **LOAN PORTFOLIO**

Loans outstanding at September 30, 2011 totaled \$449.8 million, an increase of \$4.8 million, or 1.08%, from loans of \$445.0 million at December 31, 2010. The increase was primarily due to new loans exceeding scheduled payments and loan pay-offs. The growth is attributed to our real estate mortgage portfolio as new and existing customers purchase land or refinance debt held with other lenders.

## **RESULTS OF OPERATIONS**

Net income for the nine months ended September 30, 2011 was \$7.6 million, an increase of \$2.2 million, as compared with net income of \$5.4 million from the same period ended one year ago. Increased earnings were driven primarily by an increase in patronage from U.S. AgBank, FCB (AgBank) and an increase in net interest income. These favorable items were partially offset by an increase in noninterest expense.

Net interest income for the nine months ended September 30, 2011 was \$8.5 million, an increase of \$1.5 million from the same period ended one year ago. The increase is due to higher average loan volume and reduced funding costs.

Noninterest income increased \$1.2 million during the first nine months of 2011 compared with the same period in 2010 primarily due to \$2.2 million of AgBank patronage received. This favorable variance was partially offset by a \$388 thousand decrease, as the prior-year period included refunds of Farm Credit System Insurance Company (FCSIC) premiums.

Noninterest expense for the nine months ended September 30, 2011 was \$3.4 million compared with \$3.0 million for the same period in 2010. Noninterest expense increased primarily due to increases in salaries and employee benefits, purchased services from AgVantis, Inc. and other noninterest expense.

The loan loss reversal for the nine months ended September 30, 2011 was \$65 thousand, an \$85 thousand favorable variance from the provision for loan losses for the same period one year ago. The loan loss reversal in 2011 was due to an overall improvement in our loan portfolio's risk profile.

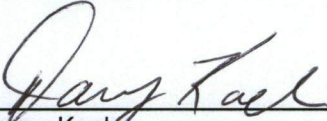
## **CAPITAL RESOURCES**


Our shareholders' equity at September 30, 2011 was \$74.6 million, an increase from \$67.0 million at December 31, 2010. This increase is due to net income and net stock issuances offset by cash patronage distributions.

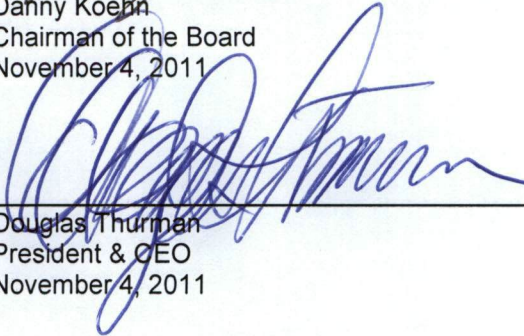
## **OTHER MATTERS**

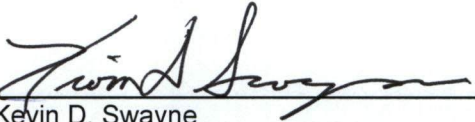
In November of 2010, the AgBank Board of Directors voted to pursue a merger with CoBank, ACB another Farm Credit System Bank. On September 8, 2011, AgBank and CoBank announced that their voting stockholders have approved the proposed plan of merger between the two banks. The Farm Credit Administration (FCA) had already granted preliminary approval to the transaction. Final approval from the FCA is expected following a statutorily required 35 day reconsideration period. The proposed merger is targeted to be effective on January 1, 2012. We do not expect there to be any material negative impact to our operations as a result of the merger.

The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief.

  
\_\_\_\_\_  
Danny Koehn  
Chairman of the Board  
November 4, 2011

  
\_\_\_\_\_  
Craig Gebhard  
Chairman of the Audit Committee  
November 4, 2011

  
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Douglas Thurman  
President & CEO  
November 4, 2011

  
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Kevin D. Swayne  
Chief Financial Officer  
November 4, 2011

## Consolidated Statement of Condition

(Dollars in Thousands)

	September 30 2011	December 31 2010
	UNAUDITED	AUDITED
<b>ASSETS</b>		
Loans	\$ 449,778	\$ 445,018
Less allowance for loan losses	1,264	1,337
Net loans	448,514	443,681
Cash	2,626	2,147
Investment in dealer notes	1,823	1,560
Accrued interest receivable	8,162	6,838
Investment in U.S. AgBank, FCB	13,523	11,767
Premises and equipment, net	1,642	1,659
Prepaid benefit expense	235	374
Deferred tax asset	157	157
Other assets	388	623
<b>Total assets</b>	<b>\$ 477,070</b>	<b>\$ 468,806</b>
<b>LIABILITIES</b>		
Note payable to U.S. AgBank, FCB	\$ 388,954	\$ 389,559
Advance conditional payments	7,014	4,204
Accrued interest payable	3,489	3,960
Patronage distributions payable	-	1,300
Accrued benefits liability	135	141
Other liabilities	2,916	2,668
<b>Total liabilities</b>	<b>\$ 402,508</b>	<b>\$ 401,832</b>
<b>Commitments and Contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Protected borrower stock	16	17
Capital stock	1,092	1,054
Unallocated retained earnings	73,446	65,893
Accumulated other comprehensive income	8	10
<b>Total shareholders' equity</b>	<b>74,562</b>	<b>66,974</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 477,070</b>	<b>\$ 468,806</b>

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

## Consolidated Statement of Income

(Dollars in Thousands)

UNAUDITED	For the three months ended September 30		For the nine months ended September 30	
	2011	2010	2011	2010
<b>INTEREST INCOME</b>				
Loans	\$ 5,385	\$ 5,098	\$ 15,821	\$ 15,199
Investment in dealer notes	20	24	53	58
<b>Total interest income</b>	<b>5,405</b>	<b>5,122</b>	<b>15,874</b>	<b>15,257</b>
<b>INTEREST EXPENSE</b>				
Note payable to U.S. AgBank, FCB	2,488	2,682	7,360	8,265
Other	7	3	18	6
<b>Total interest expense</b>	<b>2,495</b>	<b>2,685</b>	<b>7,378</b>	<b>8,271</b>
Net interest income	2,910	2,437	8,496	6,986
Provision for loan losses/(Loan loss reversal)	-	58	(65)	20
Net interest income after provision for loan losses/(loan loss reversal)	2,910	2,379	8,561	6,966
<b>NONINTEREST INCOME</b>				
Financially related services income	117	141	262	219
Loan fees	-	8	17	49
Patronage refund from Farm Credit Institutions	-	-	2,211	558
Farm Credit Insurance Fund distribution	-	-	-	388
Other noninterest income	44	86	103	162
<b>Total noninterest income</b>	<b>161</b>	<b>235</b>	<b>2,593</b>	<b>1,376</b>
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	638	574	1,880	1,644
Occupancy and equipment	66	56	159	144
Purchased services from AgVantis, Inc.	129	130	458	391
Farm Credit Insurance Fund premium	64	51	195	150
Supervisory and examination costs	40	35	119	105
Other noninterest expense	217	174	637	545
<b>Total noninterest expense</b>	<b>1,154</b>	<b>1,020</b>	<b>3,448</b>	<b>2,979</b>
Income before income taxes	1,917	1,594	7,706	5,363
Provision for income taxes	120	-	120	-
<b>Net income</b>	<b>\$ 1,797</b>	<b>\$ 1,594</b>	<b>\$ 7,586</b>	<b>\$ 5,363</b>

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

## Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
<b>Balance at December 31, 2009</b>	\$ 19	\$ 966	\$ 61,371	\$ 14	\$ 62,370
Comprehensive income					
Net income			5,363		
Change in retirement obligation				(3)	
Total comprehensive income					5,360
Stock issued	-	111			111
Stock retired	(2)	(44)			(46)
<b>Balance at September 30, 2010</b>	\$ 17	\$ 1,033	\$ 66,734	\$ 11	\$ 67,795
<b>Balance at December 31, 2010</b>	\$ 17	\$ 1,054	\$ 65,893	\$ 10	\$ 66,974
Comprehensive income					
Net income			7,586		
Change in retirement obligation				(2)	
Total comprehensive income					7,584
Stock issued	-	108			108
Stock retired	(1)	(70)			(71)
Patronage distributions: Cash			(33)		(33)
<b>Balance at September 30, 2011</b>	\$ 16	\$ 1,092	\$ 73,446	\$ 8	\$ 74,562

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

## NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)  
(Unaudited)

### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of High Plains Farm Credit, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2010, are contained in the 2010 Annual Report to Shareholders. These unaudited third quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Shareholders.

In December 2010, U.S. AgBank, FCB (AgBank), the Association's funding bank and CoBank executed a Letter of Intent to merge. The merged bank will continue to do business under the CoBank name and be headquartered in Colorado but will maintain AgBank's existing presence and operations in Wichita, Kansas, and Sacramento, California. In June 2011, the Farm Credit Administration (FCA) voted to grant preliminary approval of the proposed plan of merger between the two banks. The FCA serves as the independent regulator for both banks and the rest of the Farm Credit System. AgBank distributed disclosure and voting materials to its stockholder associations in July. On September 8, 2011, AgBank and CoBank announced that their voting stockholders have approved the proposed plan of merger between the two banks. Final approval from the FCA is expected following a statutorily required 35 day reconsideration period. The boards of the two banks have approved a merger effective date of January 1, 2012. The Association does not expect there to be any material negative impact to its operations as a result of the merger.

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 a multiemployer pension plan and postretirement benefits other than pensions, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012 for non-public entities. The amendments should be applied retrospectively for all prior periods presented.

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements:

- A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income.
- In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

This guidance is to be applied retrospectively and is effective for fiscal years ending after December 15, 2012 and interim and annual periods thereafter. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

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 amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities.)
2. Aligning the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets.
3. Clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy.
4. 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 those risks.
5. Clarifying that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance.
6. Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the 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.

In January 2011, the FASB issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The

Association is currently evaluating the impact of adoption of this Standard on the financial condition or results of operations. The adoption 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 Loan 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 the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a roll forward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables by class, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For nonpublic entities, all disclosures are effective for interim and annual reporting periods ending on or after December 15, 2011. The adoption of this Standard will not have an impact on the Association’s financial condition or results of operations, but will result in additional disclosures.

Effective January 1, 2010, the Association adopted FASB guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurements by increasing transparency in financial reporting. The changes will provide for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this standard did not impact the Association’s financial condition and results of operations but did result in additional disclosures.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations, and conform to generally accepted accounting principles and prevailing practices within the banking industry. Certain amounts in the 2010 financial statements have been reclassified to conform to current financial statement presentation. The results for the nine months ended September 30, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011.

## NOTE 2 - ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

A summary of the allowance for loan losses follows.

	September 30, 2011	September 30, 2010
Balance at beginning of year	\$ 1,337	\$ 1,323
(Loan loss reversal)/Provision for loan losses	(65)	20
Charge-offs	(8)	(14)
Recoveries	-	16
Balance at end of period	<b>\$ 1,264</b>	<b>\$ 1,345</b>

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Impaired loans including accrued interest totaled \$1.7 million as of September 30, 2011 and \$985 thousand as of September 30, 2010. No impaired loans carried a specific allowance for loan losses at each period end.

The following table summarizes impaired loan information.

	<b>For the nine months ended</b>	
	<b>September 30, 2011</b>	<b>September 30, 2010</b>
Average impaired loans	<b>\$ 1,793</b>	\$ 914
Interest income recognized on impaired loans	<b>\$ 5</b>	\$ 9

### NOTE 3 - FAIR VALUE MEASUREMENTS

FASB 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 to the 2010 Annual Report to Shareholders for a more complete description.

Assets measured at fair value on a recurring basis are summarized below:

	<b>Fair Value Measurement Using</b>			<b>Total Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets:</b>				
Assets held in nonqualified benefits trusts				
<b>September 30, 2011</b>	<b>\$ 111</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 111</b>
December 31, 2010	\$ 100	\$ —	\$ —	\$ 100

During the first nine months of 2011, the Association recorded no transfers in or out of Levels 1, 2, or 3.

The Association had no liabilities measured at fair value on a recurring basis at September 30, 2011 or December 31, 2010.

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

	<b>Fair Value Measurement Using</b>			<b>Total Fair Value</b>	<b>Total Gains/(Losses)</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>		
<b>Assets:</b>					
<b>September 30, 2011</b>					
<b>Loans</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,742</b>	<b>\$ 1,742</b>	<b>\$ -</b>
December 31, 2010					
Loans	\$ —	\$ —	\$ 1,851	\$ 1,851	\$ 2

The Association had no liabilities measured at fair value on a non-recurring basis at September 30, 2011 or December 31, 2010.

## **Valuation Techniques**

As more fully discussed in Note 2 to the 2010 Annual Report to Shareholders, 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 presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

### *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 under FASB guidance, the fair value is based upon the underlying collateral since the loans 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.

## **NOTE 4 - SUBSEQUENT EVENTS**

The Association has evaluated subsequent events through November 4, 2011 which is the date the financial statements were available to be issued, and no material subsequent events were identified.