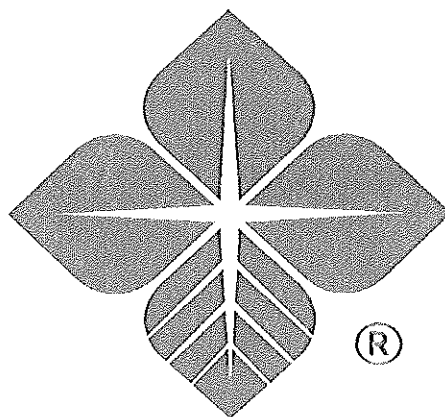


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***FARM CREDIT OF NESS CITY, FLCA***



***2011  
FIRST QUARTER  
REPORT***

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The shareholders' investment in Farm Credit of Ness City, FLCA 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 Farm Credit of Ness City, FLCA, 19332 State Highway 96, PO Box 457, Ness City, Kansas, 67560, or calling (800) 950-3522.

**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 Farm Credit of Ness City, FLCA for the three months ended March 31, 2011, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2010 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

Commodity prices have generally strengthened for grain and livestock since year-end 2010. However, crop and pasture conditions have deteriorated in most locations due to drought conditions, and feed costs have narrowed profit margins on cattle. Many farmers will be filing claims for federal crop insurance as a result. Fuel and fertilizer prices have increased due to market conditions and political unrest in the Middle East, which will further affect producer profitability unless crude oil prices drop from current levels. On a positive note, short term and intermediate term interest rates remain at or near historical lows, and long term mortgage rates remain favorable as well. Real estate prices have shown continued strength as evidenced by several public auction and private treaty sales. Overall, conditions for area agriculture remain favorable, partially offset by the current dry soil conditions and expected lower crop yields. Delinquent loan payments remain minimal.

#### **LOAN PORTFOLIO**

Loans outstanding at March 31, 2011 totaled \$203,334, an increase of \$762, or 0.38%, from loans of \$202,572 at December 31, 2010. The increase was primarily due to moderate demand for new loans and an active real estate market.

#### **RESULTS OF OPERATIONS**

Net income for the three months ended March 31, 2011 was \$1,784, an increase of \$818, or 84.68%, from the same period ended one year ago primarily due to patronage from U.S. AgBank, FCB (AgBank). Increases in net interest income and a provision for loan loss reversal contributed to the increase in net income.

Net interest income for the three months ended March 31, 2011 was \$1,394, an increase of \$200, or 16.75%, from the same period ended one year ago. Interest income increased as a result of an increase in accrual loans and a modest increase in average loan spread.

Noninterest income increased \$697 primarily due to patronage received from AgBank of \$954. Additionally during the first quarter of 2010, we received our allocated portion of a distribution of \$164 from Farm Credit System Insurance Company (FCSIC) which offset the increase in noninterest income.

The loan loss reversal for the three months ended March 31, 2011 was \$24, a decrease of \$64, or 72.73%, from the same period ended one year ago. The loan loss reversal was a result of improved credit quality as measured by the Farm Credit System's 14 Point Risk Rating System, with noted improvement in risk ratings on loans to ethanol producers, plus a reduction in ethanol loan volume.

#### **CAPITAL RESOURCES**

Our shareholders' equity at March 31, 2011 was \$47,101, a decrease from \$47,128 at December 31, 2010. This decrease is due to net income partially offset by patronage distributions payable of \$1,800.


**OTHER MATTERS**

In November of 2010, the AgBank Board of Directors voted to pursue a merger with CoBank, ACB another Farm Credit System Bank. The proposed merger is targeted to be effective on October 1, 2011. 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.

May 4, 2011

  
\_\_\_\_\_  
Keith Kennedy  
Chairman of the Board

  
\_\_\_\_\_  
Scott Stockwell  
President/Chief Executive Officer

  
\_\_\_\_\_  
Doris J. Scott  
Chief Financial Officer

**Statement of Condition**

(Dollars in Thousands)

	March 31 2011 UNAUDITED	December 31 2010 AUDITED
<b>ASSETS</b>		
Loans	\$ 203,334	\$ 202,572
Less allowance for loan losses	144	168
Net loans	203,190	202,404
Cash	126	801
Accrued interest receivable	3,146	2,992
Investment in U.S. AgBank, FCB	5,113	4,648
Premises and equipment, net	1,882	1,891
Prepaid benefit expense	185	224
Other assets	113	122
<b>Total assets</b>	<b>\$ 213,755</b>	<b>\$ 213,082</b>
<b>LIABILITIES</b>		
Note payable to U.S. AgBank, FCB	\$ 162,730	\$ 162,391
Accrued interest payable	1,579	3,085
Patronage distributions payable	1,800	-
Accrued benefits liability	49	50
Other liabilities	496	428
<b>Total liabilities</b>	<b>166,654</b>	<b>165,954</b>
<b>Commitments and Contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Protected borrower stock	15	15
Capital stock	746	757
Unallocated retained earnings	46,340	46,356
<b>Total shareholders' equity</b>	<b>47,101</b>	<b>47,128</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 213,755</b>	<b>\$ 213,082</b>

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

## Statement of Income

(Dollars in Thousands)

UNAUDITED	For the three months ended March 31	
	2011	2010
<b>INTEREST INCOME</b>		
Loans	\$ 2,627	\$ 2,430
<b>Total interest income</b>	<b>2,627</b>	<b>2,430</b>
<b>INTEREST EXPENSE</b>		
Note payable to U.S. AgBank, FCB	1,233	1,236
<b>Total interest expense</b>	<b>1,233</b>	<b>1,236</b>
Net interest income	1,394	1,194
Loan loss reversal	(24)	(88)
Net interest income after loan loss reversal	1,418	1,282
<b>NONINTEREST INCOME</b>		
Financially related services income	39	29
Loan fees	1	1
Patronage refund from Farm Credit Institutions	954	104
Farm Credit Insurance Fund distribution	-	164
Other noninterest income	10	9
<b>Total noninterest income</b>	<b>1,004</b>	<b>307</b>
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	391	373
Occupancy and equipment	27	28
Purchased services from AgVantis, Inc.	66	53
Farm Credit Insurance Fund premium	28	39
Supervisory and examination costs	19	17
Other noninterest expense	107	113
<b>Total noninterest expense</b>	<b>638</b>	<b>623</b>
<b>Net income</b>	<b>\$ 1,784</b>	<b>\$ 966</b>

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 Farm Credit of Ness City, FLCA (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 first quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Shareholders.

In November of 2010, the U.S. AgBank Board of Directors voted to pursue a merger with CoBank, ACB, (CoBank) another Farm Credit System Bank. The proposed merger is targeted to be effective on October 1, 2011. The Association does not expect there to be any material negative impact to its operations as a result of the merger.

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses," which 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 rollforward 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 non-public 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 any impact on the Association's financial condition or results of operations, but will result in additional disclosures.

Effective January 1, 2010, the Association adopted Financial Accounting Standards Board (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 rollforward 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 resulted 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 with generally accepted accounting principles and prevailing practices within the banking industry. The results for the three months ended March 31, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011.

## NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the allowance for loan losses follows.

	March 31, 2011	March 31, 2010
Balance at beginning of year	\$ 168	\$ 336
Loan loss reversal	(24)	(88)
Balance at end of period	\$ 144	\$ 248

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

Impaired loans including accrued interest totaled \$78 as of March 31, 2011 and \$7 as of March 31, 2010. No impaired loans carried a specific allowance for loan losses at each period end.

The following table summarizes impaired loan information.

	For the three months ended	
	March 31, 2011	March 31, 2010
Average impaired loans	\$ 22	\$ 7
Interest income recognized on impaired loans	\$ -	\$ -

## NOTE 3 - CAPITAL

In March 2011, a borrower cash patronage of \$1,800 was declared.

## NOTE 4 - SUBSEQUENT EVENTS

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