
FARM CREDIT OF NESS CITY, FLCA



***2011
SECOND QUARTER
REPORT***

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, 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 six months ended June 30, 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.

As of June 30, 2011, commodity prices are mostly higher for grain and livestock since year-end 2010. The wheat harvest was below average, and grazing conditions are less favorable. Many farmers filed claims for federal crop insurance as a result. 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 auctions and private treaty sales. Overall, conditions for area agriculture remain slightly favorable. Significant moisture is needed soon for the outlook to be considered normal for fall crop yields of corn and milo. Delinquent loan payments remain minimal.

LOAN PORTFOLIO

Loans outstanding at June 30, 2011 totaled \$203,440, an increase of \$868, or 0.43%, from loans of \$202,572 at December 31, 2010. The increase was primarily due to moderate new loan activity from existing and new borrowers, partially offset by loan volume retired.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2011 was \$2,694, an increase of \$829, or 44.45%, from the same period ended one year ago, primarily due to patronage from U.S. AgBank, FCB (AgBank).

Net interest income for the six months ended June 30, 2011 was \$2,795, an increase of \$373, or 15.40%, from the same period ended one year ago. Interest income increased as a result of loan portfolio growth.

The loan loss reversal for the six months ended June 30, 2011 was \$28, a decrease of \$108, or 79.41%, from the same period ended one year ago. The loan loss reversal decreased as a result of stability in the loan portfolio.

Noninterest income increased \$676 during the first six months of 2011 compared with the same period in 2010 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.

CAPITAL RESOURCES

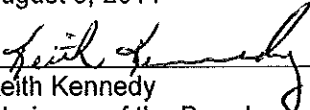
Our shareholders' equity at June 30, 2011 was \$48,009, an increase from \$47,128 at December 31, 2010. This increase is due to net income.

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 effective merger date is 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.

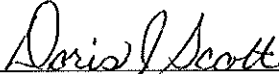
August 3, 2011



Keith Kennedy
Chairman of the Board



Scott Stockwell
President/Chief Executive Officer



Doris J. Scott
Chief Financial Officer

Statement of Condition

(Dollars in Thousands)

	June 30 2011	December 31 2010
	UNAUDITED	AUDITED
ASSETS		
Loans	\$ 203,440	\$ 202,572
Less allowance for loan losses	140	168
Net loans	203,300	202,404
Cash	26	801
Accrued interest receivable	4,517	2,992
Investment in U.S. AgBank, FCB	5,173	4,648
Premises and equipment, net	1,918	1,891
Prepaid benefit expense	197	224
Other assets	108	122
Total assets	\$ 215,239	\$ 213,082
LIABILITIES		
Note payable to U.S. AgBank, FCB	\$ 162,807	\$ 162,391
Accrued interest payable	2,184	3,085
Patronage distributions payable	1,800	-
Accrued benefits liability	48	50
Other liabilities	391	428
Total liabilities	167,230	165,954
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Protected borrower stock	12	15
Capital stock	747	757
Unallocated retained earnings	47,250	46,356
Total shareholders' equity	48,009	47,128
Total liabilities and shareholders' equity	\$ 215,239	\$ 213,082

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

Statement of Income

(Dollars in Thousands)

UNAUDITED	For the three months ended June 30		For the six months ended June 30	
	2011	2010	2011	2010
INTEREST INCOME				
Loans	\$ 2,631	\$ 2,521	\$ 5,258	\$ 4,952
Total interest income	2,631	2,521	5,258	4,952
INTEREST EXPENSE				
Note payable to U.S. AgBank, FCB	1,230	1,294	2,463	2,530
Total interest expense	1,230	1,294	2,463	2,530
Net interest income	1,401	1,227	2,795	2,422
Loan loss reversal	(4)	(49)	(28)	(136)
Net interest income after loan loss reversal	1,405	1,276	2,823	2,558
NONINTEREST INCOME				
Financially related services income	22	35	61	64
Loan fees	(3)	5	(2)	6
Patronage refund from Farm Credit Institutions	-	-	954	104
Farm Credit Insurance Fund distribution	-	-	-	164
Other noninterest income	11	11	21	20
Total noninterest income	30	51	1,034	358
NONINTEREST EXPENSE				
Salaries and employee benefits	278	244	669	617
Occupancy and equipment	34	28	61	56
Purchased services from AgVantis, Inc.	64	52	130	106
Farm Credit Insurance Fund premium	25	(2)	53	37
Supervisory and examination costs	19	17	38	34
Other noninterest expense	105	89	212	201
Total noninterest expense	525	428	1,163	1,051
Net income	\$ 910	\$ 899	\$ 2,694	\$ 1,865

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

Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2009	\$ 15	\$ 737	\$ 44,461	\$ 45,213
Net income			1,865	1,865
Stock issued	-	32		32
Stock retired	-	(21)		(21)
Patronage distributions: Cash			(1,700)	(1,700)
Balance at June 30, 2010	\$ 15	\$ 748	\$ 44,626	\$ 45,389
Balance at December 31, 2010	\$ 15	\$ 757	\$ 46,356	\$ 47,128
Net income			2,694	2,694
Stock issued		25		25
Stock retired	(3)	(35)		(38)
Patronage Distributions: Cash			(1,800)	(1,800)
Balance at June 30, 2011	\$ 12	\$ 747	\$ 47,250	\$ 48,009

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 second quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Shareholders.

In December 2010, U.S. AgBank, FCB (AgBank), Farm Credit of Ness City, FLCA'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, with completed merger ballots due to be returned by September 7, 2011. 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 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. For public entities, the amendments are effective for fiscal years ending after December 15, 2012 and interim and annual periods thereafter. For nonpublic entities, the amendments are 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 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 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 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 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 with generally accepted accounting principles and prevailing practices within the banking industry. The results for the six months ended June 30, 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.

	June 30, 2011	June 30, 2010
Balance at beginning of year	\$ 168	\$ 336
Loan loss reversal	(28)	(136)
Balance at end of period	\$ 140	\$ 200

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 \$78 as of June 30, 2011 and \$7 as of June 30, 2010. No impaired loans carried a specific allowance for loan losses at each period end. Average impaired loans for the six months ended were \$46 as of June 30, 2011 and \$7 as of June 30, 2010. No interest income has been recognized on impaired loans for the six months ending June 30, 2011 and June 30, 2010.

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 August 3, 2011, which is the date the financial statements were available to be issued, and no material subsequent events were identified.