



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of Western Arkansas, 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 Western Arkansas, 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 3115 W. 2<sup>nd</sup> Court, Russellville, Arkansas 72801, (479) 968-1434 or at www.myaglender.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 \$792.5 million at June 30, 2011, a \$30.3 million increase from December 31, 2010. Mortgage loans have increased from 2010 due to growth in our core market. The mortgage growth has been a strong reflection of our continued success in competing for sound mortgage loans in our core market area. We have seen some pay down in our core loan growth in commercial loans since year end of 2010. We have also seen a decrease in our commercial capital market portfolio.

**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	\$1,272	\$772
Past due 90 days or more still accruing	--	238
Nonaccrual	32,668	7,232
Total risk loans	33,940	8,242
Other property owned	1,532	995
Total risk assets	\$35,472	\$9,237
Risk loans as a % of total loans	4.2%	1.1%
Total delinquencies as a % of total loans	0.5%	0.8%

Risk assets have increased from 2010 mainly due to two large credits. These credits contain some uncertainty due to economic factors which we have recognized in our portfolio.

The increase in nonaccrual loans was due to two large credits. The volume of nonaccrual loans remained at an acceptable level at June 30, 2011, and represented 4.1% of our total portfolio. At June 30, 2011, 90.4% of our nonaccrual loans were current.

**Portfolio Credit Quality**

The credit quality of our portfolio has improved from December 31, 2010. Adversely classified assets have decreased to 5.4% of the portfolio at June 30, 2011, from 5.9% 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, \$92.5 million of our loans were, to some level, guaranteed under these governmental programs.

**Agricultural and Economic Conditions**

On average, precipitation has been higher than normal for the quarter; however, most of the rain fell during May. June rainfall amounts are running significantly below normal. Temperatures have been higher than normal in June. The U.S. Drought Monitor shows only the extreme southern portion of the state in drought conditions.

Commodity prices for row crops have been volatile, but at the end of the quarter are not significantly higher than last quarter. Flooding in crop lands has destroyed some early planting and is delaying planting in other areas.

Feed prices remain high and have experienced some wide variation in prices over the past month. Corn prices have ranged from a high of \$7.99 per bushel on June 10 down to \$6.40 per bushel on June 23. Poultry meat prices have remained mostly stable, but too low for profitability for most companies. The outlook for the second half of 2011 is poor. Profitability will not resume for poultry integrators until the industry can exercise restraint on supply or until the overall economic conditions improve to stimulate additional product demand.

Dry weather has forced cattle into feedlots earlier than normally planned. Cattle on feed are up 4% over last year. Beef imports are down almost 15% as the value of the dollar has declined against foreign currencies. The combination of increased exports and decreased imports has constrained supply. Beef exports are forecasted to be 13% higher in 2011 over 2010 levels.

Harvesting crews are on quotas at most pine mills. Harvesting is moving toward hardwood production which will fill hardwood mill inventories early again this year. Continuing railroad tie market keeps small hardwood mills at full production and hardwood lumber prices have increased. Mill production has increased thus quotas may not be as low as last year. Pine and hardwood pulpwood are hard to move, probably continuing until late fall or early winter. Lumber demand is still somewhat muted as the housing industry remains in a five year slump.

**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	1.1%	0.6%
Nonaccrual loans	25.8%	66.6%
Total risk loans	24.8%	58.5%

The allowance for loan loss has increased from 2010 primarily due to two large credits. These credits contain some uncertainty due to economic factors which we have recognized in our portfolio. 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 \$8.2 million compared to \$9.7 million for the same period of 2010. The following table illustrates profitability information:

As of June 30	2011	2010
Return on average assets	2.0%	2.6%
Return on average members' equity	9.3%	12.1%

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	\$2,084
Provision for loan losses	(3,161)
Patronage income	44
Other income, net	(629)
Operating expenses	(487)
Provision for income taxes	647
Total change in net income	(\$1,502)

Net interest income was \$13.8 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	\$1,098
Changes in rates	1,157
Changes in nonaccrual income and other	(171)
Net change	\$2,084

The change in the provision for loan losses is related to increased provision expense primarily due to two large credits. These credits contain some uncertainty due to economic factors which we have recognized in our portfolio.

The change in patronage income is related to increased patronage received based on our note payable due to an increase in the balance of our note payable.

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 \$732 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 costs.

The change in provision for income taxes is related to decreased 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 above and changes in capital discussed in the Funding, Liquidity and Capital section below.

## Funding, Liquidity and Capital

The Farm Credit System is a government-sponsored enterprise that has benefited from broad access to domestic and global capital markets. This access has provided us with a dependable source of competitively priced debt which is critical for supporting our mission of providing credit to agriculture and rural America. The recent U.S. Congressional negotiations aimed at raising the government's borrowing limit and addressing long-term budget imbalances have further highlighted the risks to the System relating to the U.S. fiscal situation. These risks include the apparent implied link between the credit rating of the System and the U.S. government given the System's status as a government-sponsored enterprise.

On August 2, 2011 Moody's Investors Service confirmed the AAA of financial institutions directly linked to the U.S. government, including Farm Credit Banks. The government bond rating of the U.S. government was confirmed AAA following the raising of the statutory debt limit, with a rating outlook of negative. In conjunction with the revision of the U.S. government outlook to negative, the rating outlook for the directly linked issuers, including Farm Credit Banks, has also been revised to negative. Fitch has also confirmed the AAA rating of the U.S. government. A reduction in the System's credit ratings, if it were to occur in the future, may increase our borrowing costs and may limit Farm Credit System access to the capital markets, reducing our flexibility to issue debt across the full spectrum of the yield curve.

We borrow from AgriBank in the form of a line of credit. Our promissory note matured on May 31, 2011, and was renewed for \$750 million with a maturity date of May 31, 2012. The note will be renegotiated at that time. 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 \$5.4 million from December 31, 2010, due to net income for the period partially offset by patronage distribution accruals and an increase 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 19.4%.
- The total surplus ratio was 18.8%.
- The core surplus ratio was 18.8%.

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 Western Arkansas, 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.



Kevin Crumpacker  
Chairperson of the Board of Directors  
Farm Credit Services of Western Arkansas, ACA



Glen Manchester  
President and Chief Executive Officer  
Farm Credit Services of Western Arkansas, ACA



Lori Schumacher  
Chief Financial Officer  
Farm Credit Services of Western Arkansas, ACA

August 5, 2011

**CONSOLIDATED STATEMENTS OF CONDITION**

Farm Credit Services of Western Arkansas, ACA

(Dollars in thousands)

(Unaudited)

	June 30 2011	December 31 2010
<b>ASSETS</b>		
Loans	\$792,473	\$762,178
Allowance for loan losses	8,423	4,818
<b>Net loans</b>	<b>784,050</b>	<b>757,360</b>
Investment in AgriBank, FCB	24,871	25,131
Investment securities	1,259	2,257
Accrued interest receivable	7,205	6,367
Premises and equipment, net	3,506	3,446
Other property owned	1,532	995
Net deferred income tax asset	364	--
Other assets	4,765	7,654
<b>Total assets</b>	<b>\$827,552</b>	<b>\$803,210</b>
<b>LIABILITIES</b>		
Note payable to AgriBank, FCB	\$639,041	\$616,438
Accrued interest payable	3,857	3,739
Net deferred income tax liability	--	97
Patronage distribution payable	2,900	7,100
Other liabilities	3,589	3,040
<b>Total liabilities</b>	<b>649,387</b>	<b>630,414</b>
Contingencies and commitments	--	--
<b>MEMBERS' EQUITY</b>		
Capital stock and participation certificates	4,325	4,265
Unallocated surplus	173,840	168,531
<b>Total members' equity</b>	<b>178,165</b>	<b>172,796</b>
<b>Total liabilities and members' equity</b>	<b>\$827,552</b>	<b>\$803,210</b>

**CONSOLIDATED STATEMENTS OF INCOME**

Farm Credit Services of Western Arkansas, ACA

(Dollars in thousands)

(Unaudited)

Period ended June 30	Three Months		Six Months	
	2011	2010	2011	2010
<b>Interest income</b>	<b>\$10,685</b>	\$9,744	<b>\$21,390</b>	\$19,344
<b>Interest expense</b>	<b>3,857</b>	3,845	<b>7,590</b>	7,628
Net interest income	6,828	5,899	13,800	11,716
<b>Provision for loan losses</b>	<b>3,764</b>	656	<b>3,721</b>	560
Net interest income after provision for loan losses	3,064	5,243	10,079	11,156
<b>Other income</b>				
Patronage income	1,794	1,343	3,080	3,036
Financially related services income	31	31	51	54
Fee income	250	150	459	310
Allocated insurance reserve account distribution	--	--	--	732
Miscellaneous income, net	(19)	22	57	100
<b>Total other income</b>	<b>2,056</b>	1,546	<b>3,647</b>	4,232
<b>Operating expense</b>				
Salaries and employees benefits	1,675	1,582	3,484	3,283
Other operating	1,195	1,008	2,393	2,107
<b>Total operating expenses</b>	<b>2,870</b>	2,590	<b>5,877</b>	5,390
Income before income taxes	2,250	4,199	7,849	9,998
<b>(Reversal of) Provision for income taxes</b>	<b>(456)</b>	39	<b>(359)</b>	288
<b>Net income</b>	<b>\$2,706</b>	\$4,160	<b>\$8,208</b>	\$9,710

**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY**

Farm Credit Services of Western Arkansas, ACA

(Dollars in thousands)

(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
<b>Balance at December 31, 2009</b>	\$4,118	\$152,630	\$156,748
Net income	--	9,710	9,710
Unallocated surplus designated for patronage	--	(2,710)	(2,710)
Capital stock/participation certificates issued	280	--	280
Capital stock/participation certificates retired	(196)	--	(196)
<b>Balance at June 30, 2010</b>	<b>\$4,202</b>	<b>\$159,630</b>	<b>\$163,832</b>
<b>Balance at December 31, 2010</b>	<b>\$4,265</b>	<b>\$168,531</b>	<b>\$172,796</b>
Net income	--	8,208	8,208
Unallocated surplus designated for patronage	--	(2,899)	(2,899)
Capital stock/participation certificates issued	263	--	263
Capital stock/participation certificates retired	(203)	--	(203)
<b>Balance at June 30, 2011</b>	<b>\$4,325</b>	<b>\$173,840</b>	<b>\$178,165</b>

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 Western Arkansas, ACA (the parent) and Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, 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 \$1.3 million at June 30, 2011, and \$2.3 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 2011	December 31 2010
As of:		
Amortized cost	\$1,259	\$2,257
Unrealized gains	7	23
Unrealized losses	--	--
Fair value	\$1,266	\$2,280
Weighted average yield	2.2%	2.3%

Investment income is recorded in "Interest income" on the Consolidated Statements of Income and totaled \$17 thousand for the six month period ended June 30, 2011, and \$30 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	\$4,818	\$4,294
Provision for loan losses	3,721	560
Loan recoveries	7	39
Loan chargeoffs	(123)	(27)
Balance at end of period	\$8,423	\$4,866

The allowance for loan loss has increased from 2010 primarily due to two large credits. These credits contain some uncertainty due to economic factors which we have recognized in our portfolio.

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

	June 30	December 31
As of:	2011	2010
Volume with specific reserves	\$24,030	\$4,062
Volume without specific reserves	9,910	4,180
Total risk loans	<u>\$33,940</u>	<u>\$8,242</u>
Total specific reserves	\$5,650	\$2,095
Six months ended June 30	2011	2010
Income on accrual risk loans	\$40	\$31
Income on nonaccrual loans	36	207
Total income on risk loans	<u>\$76</u>	<u>\$238</u>
Average recorded investment	\$22,994	\$9,538

Risk assets have increased from 2010 primarily due to two large credits. These credits contain some uncertainty due to economic factors which we have recognized in our portfolio.

#### 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		
<b>June 30, 2011</b>					
Loans	\$ --	\$626	\$18,673	\$19,299	(\$3,555)
Other property owned	--	1,762	--	1,762	(50)
<b>December 31, 2010</b>					
Loans	\$ --	\$1,337	\$729	\$2,066	\$186
Other property owned	--	1,144	--	1,144	(117)

**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 August 5, 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.