



**QUARTERLY  
REPORT**

**JUNE 30, 2010**

**FARM CREDIT OF  
WESTERN KANSAS, ACA**

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COLBY KANSAS 67701  
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**DISCLOSURE OF IMPACT OF BANK OPERATIONS ON SHAREHOLDERS' INVESTMENT IN THE ASSOCIATION**

The shareholders' investment in Farm Credit of Western Kansas, ACA is materially affected by the financial condition and results of operations of U.S. AgBank, FCB, (AgBank). The 2009 AgBank Annual Report to Shareholders, the 2009 AgBank District Annual Report to Shareholders, the AgBank quarterly shareholders' reports and the AgBank District quarterly shareholders' reports are available free of charge on AgBank's web site, [www.usagbank.com](http://www.usagbank.com), or may be obtained at no charge by contacting:

Farm Credit of Western Kansas, ACA  
PO Box 667  
1190 South Range  
Colby, Kansas 67701  
(785) 462-6714 or (800) 657-6048

## **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 Western Kansas, ACA for the six months ended June 30, 2010, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2009 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

In general, good moisture was received across the our service area during the first half of 2010. Crop conditions were very good as a result and wheat yields should be above normal for most producers. Corn, soybean, and grain sorghum appear to be progressing well. Some producers in our local service area have experienced hail losses, but it is shaping up to be a good production year for most. Grain markets have begun to strengthen recently while cattle markets are starting to improve following a recent decline. Real estate prices have maintained a stable value during 2010.

Credit quality has remained very high. Profitability is sufficient to meet our operating, capital, and credit risk needs. Related services continue to provide income to cover a substantial portion of our operating costs but total sales have declined from last year due to lower price guarantees.

### **LOAN PORTFOLIO**

Loans outstanding at June 30, 2010 totaled \$239,003, a decrease of \$5,764, or 2.35%, from loans of \$244,767 at December 31, 2009. The decrease was primarily due to a substantial decline in production loans. There was also a decline in cooperative and processing and marketing loans. These decreases were partially offset by continued growth in farm real estate and intermediate term loans. The decrease in production loans was partially from a specific customer payoff, and is also a reflection of substantial grain sales in 2010 combined with a market decrease in some categories of operating expense such as fertilizer and fuel.

### **RESULTS OF OPERATIONS**

Net income for the six months ended June 30, 2010 was \$2,350, an increase of \$695, or 41.99%, from the same period ended one year ago. This was primarily due to a decrease in Farm Credit System Insurance Company (FCSIC) premiums, an increase in AgBank patronage, a loan loss reversal compared to a provision for loan losses for the same period one year ago, and an increase in net interest income. These were then offset by a decrease in related services income and an increase in operating expenses.

Net interest income for the six months ended June 30, 2010 was \$3,118, an increase of \$136, or 4.56%, from the same period ended one year ago. Net interest income increased \$495 primarily as a result of a higher average spread on the portfolio and an increase in average loan volume. This increase was then reduced by a \$142 decrease in interest earnings on net funding capital and a \$217 increase in AgBank spread.

There was a provision for loan loss reversal of \$84 for the six months ended June 30, 2010, compared to a provision for loan losses of \$109 for the same period one year ago. The provision for loan loss reversal reflects a decrease in portfolio risk supported in part by the payoff on a large loan.

Beginning in 2009, patronage from AgBank was paid annually after the end of the year. During the first quarter of 2010, AgBank paid us \$336 in patronage based on AgBank's 2009 earnings. As a result, our year-to-date patronage earnings from AgBank increased compared to year-to-date 2009.

During the first quarter of 2010, we received our allocated portion of a rebate of \$227 distributed by FCSIC. As a result, our year-to-date noninterest income increased compared to year-to-date 2009.

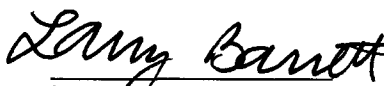
During the second quarter of 2010, FCSIC adjusted their premium rate from 10 basis points to 5 basis points for 2010. As a result, we recorded a reversal of FCSIC premium expense for the recognition of year to date expense at the 5 basis points. Future month's premium rates will be at the 5 basis point rate.

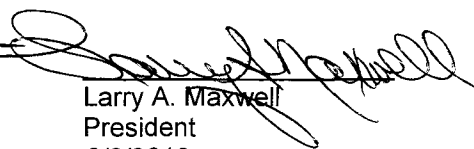
Offsetting this reversal was a \$70 decrease in related services income primarily due to lower price guarantees on multi-peril crop insurance policies, which resulted in decreased premiums on the policies. A \$130 decrease in FCSIC premiums was not sufficient to offset the \$174 increase in all other noninterest expense categories including salaries and benefits and occupancy and equipment.


### **CAPITAL RESOURCES**

Our shareholders' equity at June 30, 2010 was \$61,986, an increase from \$59,618 at December 31, 2009. This increase is due to net income and an increase in borrower stock.

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.

  
Larry Barrett  
Audit Committee Chairman  
8/9/2010

  
Larry A. Maxwell  
President  
8/9/2010

  
Vernon M. Roemer  
Sr. Vice Pres. – Operations  
8/9/2010

**FARM CREDIT OF WESTERN KANSAS, ACA**  
**CONSOLIDATED STATEMENT OF CONDITION**  
(Dollars in Thousands)

	June 30 2010	December 31 2009
	UNAUDITED	AUDITED
<b>ASSETS</b>		
Loans	\$ 239,003	\$ 244,767
Less allowance for loan losses	395	483
Net loans	238,608	244,284
Cash	854	3,547
Accrued interest receivable	5,105	4,838
Investment in U.S. AgBank, FCB	5,639	5,226
Premises and equipment, net	4,645	4,647
Prepaid benefit expense	543	600
Other assets	163	154
<b>Total assets</b>	<b>\$ 255,557</b>	<b>\$ 263,296</b>
<b>LIABILITIES</b>		
Note payable to U.S. AgBank, FCB	\$ 186,807	\$ 193,139
Advance conditional payments	3,288	3,131
Accrued interest payable	2,627	3,727
Patronage distributions payable	98	2,000
Accrued benefits liability	169	180
Other liabilities	582	1,501
<b>Total liabilities</b>	<b>193,571</b>	<b>203,678</b>
<b>Commitments and contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Protected borrower stock	16	16
Capital stock	926	908
Unallocated retained earnings	61,044	58,694
<b>Total shareholders' equity</b>	<b>61,986</b>	<b>59,618</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 255,557</b>	<b>\$ 263,296</b>

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

**FARM CREDIT OF WESTERN KANSAS, ACA**  
**CONSOLIDATED STATEMENT OF INCOME**  
(Dollars in Thousands)

UNAUDITED	For the three months ended June 30		For the six months ended June 30	
	2010	2009	2010	2009
<b>INTEREST INCOME</b>				
Loans	\$ 3,303	\$ 3,221	\$ 6,623	\$ 6,287
<b>Total interest income</b>	<b>3,303</b>	<b>3,221</b>	<b>6,623</b>	<b>6,287</b>
<b>INTEREST EXPENSE</b>				
Note payable to U.S. AgBank, FCB	1,745	1,656	3,494	3,291
Other	6	6	11	14
<b>Total interest expense</b>	<b>1,751</b>	<b>1,662</b>	<b>3,505</b>	<b>3,305</b>
Net interest income	1,552	1,559	3,118	2,982
(Loan loss reversal)/Provision for loan losses	(118)	75	(84)	109
Net interest income after (loan loss reversal)/provision for loan losses	1,670	1,484	3,202	2,873
<b>NONINTEREST INCOME</b>				
Financially related services income	153	28	474	544
Loan fees	25	13	38	26
Patronage distribution from U.S. AgBank, FCB	-	2	336	93
Farm Credit Insurance Fund rebate	-	-	227	-
Other noninterest income	14	10	28	30
<b>Total noninterest income</b>	<b>192</b>	<b>53</b>	<b>1,103</b>	<b>693</b>
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	545	525	1,206	1,187
Occupancy and equipment	56	20	118	47
Purchased services from AgVantis, Inc.	98	87	196	176
Farm Credit Insurance Fund premium	(4)	91	53	183
Supervisory and examination costs	22	20	44	40
Other noninterest expense	152	111	338	278
<b>Total noninterest expense</b>	<b>869</b>	<b>854</b>	<b>1,955</b>	<b>1,911</b>
<b>Net income</b>	<b>\$ 993</b>	<b>\$ 683</b>	<b>\$ 2,350</b>	<b>\$ 1,655</b>

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

**FARM CREDIT OF WESTERN KANSAS, ACA**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Dollars in Thousands)

UNAUDITED	Protected Stock	Capital Stock	Unallocated Retained Earnings	Total Shareholders' Equity
<b>Balance at December 31, 2008</b>	\$ 16	\$ 894	\$ 56,755	\$ 57,665
Net income			1,655	1,655
Stock issued	-	51		51
Stock retired	-	(35)		(35)
<b>Balance at June 30, 2009</b>	<b>\$ 16</b>	<b>\$ 910</b>	<b>\$ 58,410</b>	<b>\$ 59,336</b>
<b>Balance at December 31, 2009</b>	\$ 16	\$ 908	\$ 58,694	\$ 59,618
Net income			2,350	2,350
Stock issued	-	44		44
Stock retired	-	(26)		(26)
<b>Balance at June 30, 2010</b>	<b>\$ 16</b>	<b>\$ 926</b>	<b>\$ 61,044</b>	<b>\$ 61,986</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 Western Kansas, 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, 2009, are contained in the 2009 Annual Report to Shareholders. These unaudited second quarter 2010 financial statements should be read in conjunction with the 2009 Annual Report to Shareholders.

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 guidance will provide for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective January 1, 2010. This Statement must be applied to transfers occurring on or after the effective date. Additionally, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance. If the evaluation results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. The Association reviewed its loan participation agreements to ensure that participations would meet the requirements for sales treatment and not be required to be consolidated. The impact of adoption on January 1, 2010 was immaterial to the Association's financial condition and results of operations.

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, 2010, are not necessarily indicative of the results to be expected for the year ended December 31, 2010.

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

A summary of the allowance for loan losses follows.

	June 30, 2010	June 30, 2009
Balance at beginning of year	\$ 483	\$ 874
(Loan loss reversal)/Provision for loan losses	(84)	109
Charge-offs	4	-
Recoveries	-	4
Balance at end of period	\$ 395	\$ 987

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.

	June 30, 2010	June 30, 2009
Impaired loans with related allowance	\$ -	\$ 965
Impaired loans with no related allowance	136	170
<b>Total impaired loans</b>	<b>\$ 136</b>	<b>\$ 1,135</b>

Allowance on impaired loans	\$ -	\$ 612
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The following table summarizes impaired loan information.

	For the six months ended	
	June 30, 2010	June 30, 2009
Average impaired loans	\$ 347	\$ 981
Interest income recognized on impaired loans	\$ 6	\$ 3

### 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 2009 Annual Report to Shareholders for a more complete description.

The Association had no assets or liabilities measured at fair value on a recurring basis at June 30, 2010.

Assets and liabilities measured at fair value on a non-recurring basis at June 30, 2010 for each of the fair value hierarchy values are summarized below:

June 30, 2010	Fair Value Measurement Using			Total Fair Value	Total Losses
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
Loans	\$ -	\$ -	\$ -	\$ -	\$ 4
<hr/>					
December 31, 2009					
<b>Assets:</b>					
Loans	\$ -	\$ -	\$ -	\$ -	\$ 364

The Association had no liabilities measured at fair value on a non-recurring basis at.

### Valuation Techniques

As more fully discussed in Note 2 to the 2009 Annual Report to Shareholders, authoritative 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 for the Association's assets and liabilities.

#### Loans

For certain loans evaluated for impairment under FASB impairment 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 August 9, 2010, which is the date the financial statements were available to be issued.