

PANHANDLE-PLAINS LAND BANK, FLCA

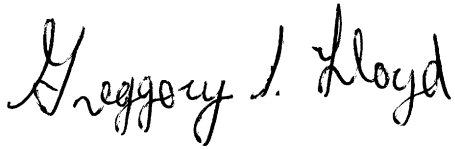
2011 Quarterly Report Third Quarter



For the Quarter Ended September 30, 2011

REPORT OF MANAGEMENT

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



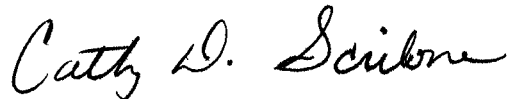
Greggory S. Lloyd, Chief Executive Officer

October 28, 2011



Steve Rader, Chairman, Board of Directors

October 28, 2011



Cathy D. Scribner, Chief Financial Officer

October 28, 2011

**PANHANDLE-PLAINS LAND BANK, FLCA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Panhandle-Plains Land Bank, FLCA, referred to as the association, for the quarter and nine months ended September 30, 2011. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2010 Annual Report to Stockholders.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The financial statements were prepared under the oversight of the association's audit committee.

Loan Portfolio:

Total loans outstanding at September 30, 2011, including nonaccrual loans and sales contracts, were \$374,570,037 compared to \$368,505,413 at December 31, 2010, reflecting an increase of 1.7 percent. Nonaccrual loans as a percentage of total loans outstanding were 3.0 percent at September 30, 2011, compared to 3.3 percent at December 31, 2010.

The association recorded \$0 in recoveries and \$216,736 in charge-offs for the quarter ending September 30, 2011, and \$0 in recoveries and \$853,937 in charge-offs for the same period in 2010. The association's allowance for loan losses was 0.6 percent and 0.6 percent of total loans outstanding as of September 30, 2011, and December 31, 2010, respectively.

The association's loan portfolio has increased during the nine months ending September 30, 2011. This loan growth is due primarily to low interest rates and a continuing demand for real estate. The association's territory allows the association's portfolio to have good diversity. The primary crops grown are a mixture of corn, cotton, grain sorghum, wheat and grass hay. The association also has a significant livestock production segment in the loan portfolio. The association will continue to monitor its underwriting standards so as to be actively involved in extending new credit while effectively managing the risk in its portfolio.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the association's components and trends of high-risk assets.

| | <u>September 30, 2011</u> | | <u>December 31, 2010</u> | |
|---|---------------------------|---------------|--------------------------|---------------|
| | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> |
| Nonaccrual | \$ 11,329,956 | 80.2% | \$ 11,981,666 | 92.2% |
| 90 days past due and still accruing interest | - | 0.0% | - | 0.0% |
| Formally restructured | 1,783,918 | 12.6% | - | 0.0% |
| Other property owned, net | 1,010,392 | 7.2% | 1,010,392 | 7.8% |
| Total | <u>\$ 14,124,266</u> | <u>100.0%</u> | <u>\$ 12,992,058</u> | <u>100.0%</u> |

While the association's high risk assets increased since the previous year end, the association experienced a \$651,710 decrease in nonaccrual assets due to the pay off of one nonaccrual participation loan, one nonaccrual retail loan, along with the sale of one nonaccrual participation loan. The sale of one ethanol participation loan at 60% of the legal balance resulted in a specific allowance reversal of \$500,000 and a charge off of \$216,736. The pay off of another nonaccrual participation loan resulted in the Association receiving the total principal balance of \$2,743,852 and accrued interest of \$186,103. This loan had no specific reserve. Formally restructured loans increased by \$1,724,740 compared to year end 2010. This restructured loan is one ethanol participation loan which is performing in accordance with the terms of the restructured agreement.

Management continues to be alert to portfolio trends and report problem loans as quickly as possible. In addition, management has in place processes to evaluate, identify and monitor counter party risk that could have an adverse impact on the loan portfolio.

Results of Operations:

The association had net income of \$2,163,405 and \$5,289,668 for the three and nine months ended September 30, 2011, as compared to net income of \$1,757,220 and \$5,675,848 for the same periods in 2010 reflecting an increase of 18.8 percent and a decrease of 6.8 percent respectively. The increase in net income for the three month period ending September 30, 2011 is due primarily to an increase in net interest income from interest paid on nonaccrual loans. The decrease in year to date net income for the nine months ended September 30, 2011 is due primarily to a refund of excess reserves from the Farm Credit System Insurance Corporation in the amount of \$376,187 which was recorded in 2010 and a reduction in FCSLIC insurance premiums in 2010 from .20 percent to .05 percent. Net interest income was \$2,779,260 and \$7,695,403 for the three and nine months ended September 30, 2011, compared to \$2,259,088 and \$7,233,882 for the same periods in 2010. Interest margins on loans continue to improve as market rates and the association's cost of funds decrease. Interest income for the nine months of 2011 decreased by \$20,401, or 0.1 percent, from the same period of 2010, primarily due to declines in yields on earning assets and an increase in nonaccrual assets. Interest expense for the nine months of 2011 decreased by \$481,922, or 6.8 percent, from the same period of 2010 due to a decrease in cost of funds. Average loan volume for the third quarter of 2011 was \$377,901,801, compared to \$375,449,008 in the third quarter of 2010. The average spread on the loan portfolio for the third quarter of 2011 was 2.46 percent, compared to 1.90 percent in the third quarter of 2010.

The association's return on average assets for the months ended September 30, 2011, was 2.40 percent compared to 1.97 percent for the same period in 2010. The association's return on average equity for the months ended September 30, 2011, was 12.49 percent, compared to 11.03 percent for the same period in 2010.

The association's noninterest income decreased from \$1,048,539 in the first nine months of 2010 to \$345,840 in the first nine months of 2011. One major component of this difference is the refund of excess reserves of \$376,187 from the Farm Credit System Insurance Corporation in 2010. Furthermore, this decrease is also caused by the implementation of authoritative accounting guidance for loan origination fee income and the related origination costs. This guidance requires loan origination fees and direct loan origination costs, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. This guidance resulted in the capitalization of \$214,921 of loan original fees during the first nine months of 2011. This guidance was not utilized by the association during the first nine months of 2010.

Noninterest expenses decreased \$41,680 in the first nine months of 2011 as compared to the same time period in 2010. Most of this decrease is attributable to the aforementioned implementation of the authoritative accounting guidance for loan original fee income and the costs related to the loan origination and a \$56,301 decrease in purchased services. This decrease in purchased services is mainly due to the Bank no longer charging an IS allocation beginning in the second quarter of 2011. This decrease is offset by an increase of \$24,217 in FCSIC insurance.

Liquidity and Funding Sources:

The association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The following schedule summarizes the association's borrowings.

| | September 30, 2011 | December 31, 2010 |
|----------------------------------|-----------------------|-----------------------|
| Note payable to the bank | \$ 309,573,685 | \$ 300,722,549 |
| Accrued interest on note payable | 733,572 | 770,090 |
| Total | <u>\$ 310,307,257</u> | <u>\$ 301,492,639</u> |

Capital Resources:

The association's capital position increased by \$2,034,722 at September 30, 2011, compared to December 31, 2010. The association's debt as a percentage of members' equity was 4.04:1 as of September 30, 2011, compared to 4.06:1 as of December 31, 2010.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The association's permanent capital ratio at September 30, 2011, was 17.7 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at September 30, 2011, were 17.3 and 17.3 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

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, and interim periods within those years, beginning after December 15, 2011. 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 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, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard did not impact the association’s financial condition or results of operations, but did result in significant additional disclosures.

In January 2010, the FASB issued guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. 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 are 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 or results of operations but did result in additional disclosures.

Relationship with the Farm Credit Bank of Texas:

The association’s financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder’s investment in the association. The Management’s Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2010 Annual Report of Panhandle-Plains Land Bank, FLCA more fully describe the association’s relationship with the bank.

The Texas Farm Credit District’s (district) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the district’s quarterly and annual stockholder reports also can be requested by e-mail at fcf@farmcreditbank.com. The district makes its annual and quarterly stockholder reports available on its website at www.farmcreditbank.com.

The association’s quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Panhandle-Plains Land Bank, FLCA, P.O. Box 7785, Amarillo, Texas 79114-7785 or calling 806.353.6688. Copies of the association’s quarterly stockholder reports can also be requested by e-mailing cathy.scribner@farmcreditbank.com. The Association makes its annual and quarterly stockholder reports available on its website at www.panhandle-plainslandbank.com.

PANHANDLE-PLAINS LAND BANK, FLCA

BALANCE SHEET

| | September 30, 2011 (unaudited) | December 31, 2010 |
|---|---|------------------------------|
| <u>ASSETS</u> | | |
| Cash | \$ 487,303 | \$ 1,501,132 |
| Investments | - | - |
| Loans | 374,570,037 | 368,505,413 |
| Less: allowance for loan losses | 2,093,985 | 2,214,464 |
| Net loans | <u>372,476,052</u> | <u>366,290,949</u> |
| Accrued interest receivable | 8,041,284 | 5,150,801 |
| Investment in and receivable from the bank: | | |
| Capital stock | 6,273,620 | 6,273,620 |
| Other | - | - |
| Other property owned, net | 1,010,392 | 1,010,392 |
| Premises and equipment | 719,813 | 735,788 |
| Other assets | 247,918 | 151,758 |
| Total assets | <u><u>\$ 389,256,382</u></u> | <u><u>\$ 381,114,440</u></u> |
| <u>LIABILITIES</u> | | |
| Note payable to the bank | \$ 309,573,685 | \$ 300,722,549 |
| Accrued interest payable | 733,572 | 770,090 |
| Drafts outstanding | 436,390 | 3,197,277 |
| Dividends payable | - | - |
| Patronage distributions payable | - | - |
| Other liabilities | 1,204,914 | 1,151,424 |
| Total liabilities | <u><u>311,948,561</u></u> | <u><u>305,841,340</u></u> |
| <u>MEMBERS' EQUITY</u> | | |
| Capital stock and participation certificates | 1,737,120 | 1,763,750 |
| Additional paid-in capital | - | - |
| Allocated retained earnings | - | - |
| Unallocated retained earnings | 75,496,595 | 73,418,696 |
| Accumulated other comprehensive income (loss) | 74,107 | 90,654 |
| Total members' equity | <u><u>77,307,822</u></u> | <u><u>75,273,100</u></u> |
| Total liabilities and members' equity | <u><u>\$ 389,256,383</u></u> | <u><u>\$ 381,114,440</u></u> |

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

PANHANDLE-PLAINS LAND BANK, FLCA

STATEMENT OF INCOME

(unaudited)

| | <u>Quarter Ended</u> <u>September 30,</u> | | <u>Nine Months Ended</u> <u>September 30,</u> | |
|--|--|---------------------|--|---------------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| <u>INTEREST INCOME</u> | | | | |
| Loans | \$ 5,027,415 | \$ 4,640,886 | \$ 14,348,234 | \$ 14,368,635 |
| Investments | - | - | - | - |
| Other | - | - | - | - |
| Total interest income | <u>5,027,415</u> | <u>4,640,886</u> | <u>14,348,234</u> | <u>14,368,635</u> |
| <u>INTEREST EXPENSE</u> | | | | |
| Note payable to the bank | <u>2,248,155</u> | <u>2,381,798</u> | <u>6,652,831</u> | <u>7,134,753</u> |
| Total interest expense | <u>2,248,155</u> | <u>2,381,798</u> | <u>6,652,831</u> | <u>7,134,753</u> |
| Net interest income | <u>2,779,260</u> | <u>2,259,088</u> | <u>7,695,403</u> | <u>7,233,882</u> |
| <u>PROVISION FOR LOAN LOSSES</u> | | | | |
| | <u>91,563</u> | <u>-</u> | <u>196,382</u> | <u>-</u> |
| Net interest income after provision for loan losses | <u>2,687,697</u> | <u>2,259,088</u> | <u>7,499,021</u> | <u>7,233,882</u> |
| <u>NONINTEREST INCOME</u> | | | | |
| Income from the bank: | | | | |
| Patronage income | 44,552 | 47,240 | 133,758 | 142,864 |
| Loan fees | 84,599 | 225,829 | 185,837 | 496,498 |
| Refunds from Farm Credit System | | | | |
| Insurance Corporation | - | - | - | - |
| Financially related services income | 3,228 | 3,374 | 11,678 | 12,997 |
| Gain (loss) on other property owned, net | - | - | - | - |
| Gain (loss) on sale of premises and equipment, net | 6,500 | - | 9,700 | - |
| Other noninterest income | 843 | 1,617 | 14,567 | 396,180 |
| Impairment losses on investments | | | | |
| Total other-than-temporary impairment losses | - | - | - | - |
| Less: portion of loss recognized in other comprehensive income | - | - | - | - |
| Net impairment loss recognized in earnings | - | - | - | - |
| Total noninterest income | <u>139,722</u> | <u>278,060</u> | <u>355,540</u> | <u>1,048,539</u> |
| <u>NONINTEREST EXPENSES</u> | | | | |
| Salaries and employee benefits | 387,872 | 488,211 | 1,604,578 | 1,668,842 |
| Directors' expense | 21,462 | 17,284 | 146,646 | 128,847 |
| Purchased services | 65,496 | 90,052 | 190,938 | 247,239 |
| Travel | 24,326 | 16,492 | 71,063 | 51,279 |
| Occupancy and equipment | 29,151 | 26,844 | 93,545 | 75,370 |
| Communications | 5,528 | 4,639 | 19,090 | 15,871 |
| Advertising | 14,955 | 19,887 | 67,716 | 66,279 |
| Public and member relations | 13,909 | 15,375 | 50,032 | 49,732 |
| Supervisory and exam expense | 38,828 | 38,145 | 115,118 | 111,104 |
| Insurance Fund premiums | 48,266 | 39,581 | 141,377 | 117,159 |
| Merger-implementation and restructuring costs | - | - | - | - |
| Other noninterest expense | 14,221 | 23,418 | 64,789 | 74,851 |
| Total noninterest expenses | <u>664,014</u> | <u>779,928</u> | <u>2,564,892</u> | <u>2,606,573</u> |
| Net income | <u>\$ 2,163,405</u> | <u>\$ 1,757,220</u> | <u>\$ 5,289,669</u> | <u>\$ 5,675,848</u> |

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

PANHANDLE-PLAINS LAND BANK, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

| | Capital Stock/ Participation Certificates | Additional Paid-in-Capital | Retained Earnings | | Accumulated Other Comprehensive Income (Loss) | Total Members' Equity |
|---|---|-------------------------------|-------------------|----------------------|--|-----------------------------|
| | | | Allocated | Unallocated | | |
| Balance at December 31, 2009 | \$ 1,753,200 | \$ - | \$ - | \$ 65,891,790 | \$ 206,669 | \$ 67,851,659 |
| Comprehensive income | | | | | | |
| Net income | - | - | - | 5,675,848 | - | 5,675,848 |
| Change in unrealized gains (losses) on investment securities | - | - | - | - | - | - |
| Noncredit portion of other-than- temporarily impaired investments | - | - | - | - | - | - |
| Change in postretirement benefit plans | - | - | - | - | (17,163) | (17,163) |
| Total comprehensive income | - | - | - | 5,675,848 | (17,163) | 5,658,685 |
| Capital stock/participation certificates and allocated retained earnings issued | 148,805 | - | - | - | - | 147,805 |
| Capital stock/participation certificates and allocated retained earnings retired | (130,005) | - | - | - | - | (130,005) |
| Stock equalization | - | - | - | - | - | - |
| Dividends declared | - | - | - | - | - | - |
| Equity issued or re-characterized upon merger | - | - | - | - | - | - |
| Equity retired or re-characterized upon merger | - | - | - | - | - | - |
| Patronage refunds: | | | | | | |
| Cash | - | - | - | (2,150,000) | - | (2,150,000) |
| Capital stock/participation certificates and allocated retained earnings | - | - | - | - | - | - |
| Balance at September 30, 2010 | \$ 1,772,000 | \$ - | \$ - | \$ 69,417,638 | \$ 189,506 | \$ 71,378,144 |
| Balance at December 31, 2010 | \$ 1,763,750 | \$ - | \$ - | \$ 73,418,695 | \$ 90,654 | \$ 75,273,099 |
| Comprehensive income | | | | | | |
| Net income | - | - | - | 5,289,668 | - | 5,289,668 |
| Change in unrealized gains (losses) on available-for-sale investment securities | - | - | - | - | - | - |
| Noncredit portion of other-than- temporarily impaired investments | - | - | - | - | - | - |
| Change in postretirement benefit plans | - | - | - | - | (16,547) | (16,547) |
| Total comprehensive income | - | - | - | 5,289,668 | (16,547) | 5,273,121 |
| Capital stock/participation certificates and allocated retained earnings issued | 175,290 | - | - | - | - | 175,290 |
| Capital stock/participation certificates and allocated retained earnings retired | (201,920) | - | - | - | - | (201,920) |
| Stock equalization | - | - | - | - | - | - |
| Dividends declared | - | - | - | - | - | - |
| Equity issued or recharacterized upon merger | - | - | - | - | - | - |
| Equity retired or recharacterized upon merger | - | - | - | - | - | - |
| Patronage refunds: | | | | | | |
| Cash | - | - | - | (3,211,768) | - | (3,211,768) |
| Capital stock/participation certificates and allocated retained earnings | - | - | - | - | - | - |
| Balance at September 30, 2011 | \$ 1,737,120 | \$ - | \$ - | \$ 75,496,595 | \$ 74,107 | \$ 77,307,822 |

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

PANHANDLE-PLAINS LAND BANK, FLCA
NOTES TO THE FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Panhandle-Plains Land Bank, FLCA (Agricultural Credit Association), referred to as the association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The association serves the Armstrong, Briscoe, Carson, Floyd, Gray, Hale, southwest portion of Hall, Hansford, Hemphill, Hutchinson, Lipscomb, Motley, Ochiltree, Oldham, Randall and Roberts counties of the State of Texas. The association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The significant accounting policies followed and the financial condition and results of operations of the association as of and for the year ended December 31, 2010 are contained in the 2010 Annual Report to Stockholders. These unaudited third quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Stockholders.

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, and interim periods within those years, beginning after December 15, 2011. 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.

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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,” 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, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard did not impact the association’s financial condition or results of operations, but did result in additional disclosures.

In January 2010, the FASB issued guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. 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 are 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, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these financial statements.

The preparation of these financial statements requires the use of management’s estimates. The results for the quarter ended September 30, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

| Loan Type | September 30, 2011 Amount | December 31, 2010 Amount |
|-------------------------------------|---------------------------------|--------------------------------|
| Production agriculture: | | |
| Real estate mortgage | \$ 315,619,135 | \$ 306,585,443 |
| Production and intermediate term | 11,723,082 | 10,775,510 |
| Agribusiness: | | |
| Loans to cooperatives | 4,432,882 | 3,026,240 |
| Processing and marketing | 15,239,344 | 16,314,122 |
| Farm-related business | 2,407,691 | 5,825,438 |
| Communication | 5,425,053 | 5,166,731 |
| Energy | 16,604,696 | 17,142,437 |
| Water and waste disposal | - | - |
| Rural residential real estate | 3,118,154 | 3,669,492 |
| International | - | - |
| Lease receivables | - | - |
| Total | \$ 374,570,037 | \$ 368,505,413 |

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2011:

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|----------------------------------|--------------------------------|------------------------|------------------------------|------------------------|-----------------------------|------------------------|
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | \$ 30,373,754.68 | \$ - | \$ 1,401,915.11 | \$ - | \$ 31,775,669.79 | \$ - |
| Production and intermediate term | 11,723,081.85 | - | - | - | 11,723,082 | - |
| Agribusiness | 15,582,871.88 | - | - | - | 15,582,872 | - |
| Communication | 5,425,053.09 | - | - | - | 5,425,053 | - |
| Energy | 16,604,696.31 | - | - | - | 16,604,696 | - |
| Water and waste disposal | - | - | - | - | - | - |
| Rural residential real estate | - | - | - | - | - | - |
| International | - | - | - | - | - | - |
| Lease receivables | - | - | - | - | - | - |
| Total | \$ 79,709,457.81 | \$ - | \$ - | \$ - | \$ 81,111,372.92 | \$ - |

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

| | September 30, 2011 | December 31, 2010 |
|---|-------------------------------|----------------------|
| Nonaccrual loans: | | |
| Real estate mortgage | \$ 6,472,926.80 | \$ 1,937,116.49 |
| Production and intermediate term | - | - |
| Agribusiness | - | 835,058.43 |
| Communication | - | - |
| Rural residential real estate | - | - |
| Energy and water/waste disposal | - | - |
| Lease receivables | - | - |
| Total nonaccrual loans | <u>6,472,926.80</u> | <u>2,772,174.92</u> |
| Accruing restructured loans: | | |
| Real estate mortgage | 1,783,918.00 | 1,904,868.00 |
| Production and intermediate term | - | - |
| Agribusiness | - | - |
| Total accruing restructured loans | <u>1,783,918.00</u> | <u>1,904,868.00</u> |
| Accruing loans 90 days or more past due: | | |
| Real estate mortgage | - | 4,857,029.12 |
| Production and intermediate term | - | - |
| Agribusiness | - | - |
| Rural residential real estate | - | - |
| Communication | - | - |
| Lease receivables | - | - |
| Total accruing loans 90 days or more | <u>-</u> | <u>4,857,029.12</u> |
| Total nonperforming loans | <u>8,256,844.80</u> | <u>9,534,072.04</u> |
| Other property owned | <u>1,010,392.00</u> | <u>1,010,392.00</u> |
| Total nonperforming assets | <u>\$ 9,267,236.80</u> | <u>#####</u> |

One credit quality indicator utilized by the association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

| | September 30, 2011 | December 31, 2010 |
|----------------------------------|-------------------------------|----------------------|
| Real estate mortgage | | |
| Acceptable | 93.7 % | 91.2 % |
| OAEM | 1.6 | 1.6 |
| Substandard/doubtful | 4.7 | 7.2 |
| | <u>100.0</u> | <u>100.0</u> |
| Production and intermediate term | | |
| Acceptable | 65.6 | 60.4 |
| OAEM | 28.9 | 32.5 |
| Substandard/doubtful | 5.5 | 7.1 |
| | <u>100.0</u> | <u>100.0</u> |
| Agribusiness | | |
| Acceptable | 76.3 | 58.7 |
| OAEM | 6.6 | 12.3 |
| Substandard/doubtful | 17.1 | 29.1 |
| | <u>100.0</u> | <u>100.0</u> |
| Energy and water/waste disposal | | |
| Acceptable | 84.2 | 100.0 |
| OAEM | 15.8 | - |
| Substandard/doubtful | - | - |
| | <u>100.0</u> | <u>100.0</u> |
| Communication | | |
| Acceptable | 100.0 | 100.0 |
| OAEM | - | - |
| Substandard/doubtful | - | - |
| | <u>100.0</u> | <u>100.0</u> |
| Rural residential real estate | | |
| Acceptable | 97.3 | 94.7 |
| OAEM | 2.7 | 3.3 |
| Substandard/doubtful | - | 2.0 |
| | <u>100.0</u> | <u>100.0</u> |
| International | | |
| Acceptable | - | - |
| OAEM | - | - |
| Substandard/doubtful | - | - |
| | <u>-</u> | <u>-</u> |
| Lease receivables | | |
| Acceptable | - | - |
| OAEM | - | - |
| Substandard/doubtful | - | - |
| | <u>-</u> | <u>-</u> |
| Total Loans | | |
| Acceptable | 91.3 | 88.9 |
| OAEM | 3.8 | 3.2 |
| Substandard/doubtful | 4.9 | 8.0 |
| | <u>100.0 %</u> | <u>100.0 %</u> |

The following table provides an age analysis of past due loans (including accrued interest) as of September 30, 2011:

| | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans | Recorded Investment >90 Days and Accruing |
|----------------------------------|---------------------------|--------------------------------|----------------------|--|-------------------|--|
| Real estate mortgage | \$ - | \$ 4,857,029.12 | \$ 4,857,029.12 | \$ 318,330,184.29 | 323,187,213.41 | \$ - |
| Production and intermediate term | - | - | - | 11,795,908.47 | 11,795,908.47 | - |
| Loans to cooperatives | - | - | - | 4,525,900.72 | 4,525,900.72 | - |
| Processing and marketing | - | - | - | 15,313,176.79 | 15,313,176.79 | - |
| Farm-related business | - | - | - | 2,482,631.20 | 2,482,631.20 | - |
| Communication | - | - | - | 5,430,055.66 | 5,430,055.66 | - |
| Energy and water/waste disposal | - | - | - | 16,622,158.97 | 16,622,158.97 | - |
| Rural residential real estate | - | - | - | 3,158,356.36 | 3,158,356.36 | - |
| International | - | - | - | - | - | - |
| Lease receivables | - | - | - | - | - | - |
| Total | \$ - | \$ - | \$ - | \$ 377,658,372.46 | \$ 382,515,401.58 | \$ - |

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

Additional impaired loan information is as follows:

| | At September 30, 2011 | | | For the Three Months Ended September 30, 2011 | | For the Nine Months Ended September 30, 2011 | |
|---|-----------------------|---------------------------------------|-------------------|---|----------------------------|--|----------------------------|
| | Recorded Investment | Unpaid Principal Balance ^a | Related Allowance | Average Impaired Loans | Interest Income Recognized | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for credit losses: | | | | | | | |
| Real estate mortgage | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Production and intermediate term | - | - | - | - | - | - | - |
| Loans to cooperatives | - | - | - | - | - | - | - |
| Processing and marketing | - | - | - | - | - | - | - |
| Farm-related business | - | - | - | - | - | - | - |
| Communication | - | - | - | - | - | - | - |
| Energy and water/waste disposal | - | - | - | - | - | - | - |
| Rural residential real estate | - | - | - | - | - | - | - |
| International | - | - | - | - | - | - | - |
| Lease receivables | - | - | - | - | - | - | - |
| Total | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Impaired loans with no related allowance for credit losses: | | | | | | | |
| Real estate mortgage | \$ 13,054,695.92 | \$ 13,054,695.92 | \$ - | \$ 13,669,505.00 | \$ 127,533.65 | \$ 9,291,087.60 | \$ 127,533.65 |
| Production and intermediate term | - | - | - | - | - | - | - |
| Loans to cooperatives | - | - | - | - | - | - | - |
| Processing and marketing | - | 216,736.49 | - | 2,509,550.00 | - | 741,107.97 | - |
| Farm-related business | - | - | - | - | - | - | - |
| Communication | - | - | - | - | - | - | - |
| Energy and water/waste disposal | - | 1,715,057.45 | - | - | - | - | - |
| Rural residential real estate | - | - | - | - | - | - | - |
| International | - | - | - | - | - | - | - |
| Lease receivables | - | - | - | - | - | - | - |
| Total | \$ 13,054,695.92 | \$ 14,986,489.86 | \$ - | \$ 16,179,055.00 | \$ 127,533.65 | \$ 10,032,195.57 | \$ 127,533.65 |
| Total impaired loans: | | | | | | | |
| Real estate mortgage | \$ 13,054,695.92 | \$ 13,054,695.92 | \$ - | \$ 13,669,505.00 | \$ 127,533.65 | \$ 9,290,087.60 | \$ 127,533.65 |
| Production and intermediate term | - | - | - | - | - | - | - |
| Loans to cooperatives | - | - | - | - | - | - | - |
| Processing and marketing | - | 216,736.49 | - | 2,509,550.00 | - | 741,107.97 | - |
| Farm-related business | - | - | - | - | - | - | - |
| Communication | - | - | - | - | - | - | - |
| Energy and water/waste disposal | - | 1,715,057.45 | - | - | - | - | - |
| Rural residential real estate | - | - | - | - | - | - | - |
| International | - | - | - | - | - | - | - |
| Lease receivables | - | - | - | - | - | - | - |
| Total | \$ 13,054,695.92 | \$ 14,986,489.86 | \$ - | \$ 16,179,055.00 | \$ 127,533.65 | \$ 10,031,195.57 | \$ 127,533.65 |

| | At December 31, 2010 | | | For the Year Ended December 31, 2010 | |
|---|-------------------------|---|----------------------|--------------------------------------|----------------------------------|
| | Recorded Investment | Unpaid Principal Balance ^a | Related Allowance | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for credit losses: | | | | | |
| Real estate mortgage | \$ 1,291,890.23 | \$ 1,291,890.23 | \$ 71,425.00 | \$ 1,297,946.64 | \$ - |
| Production and intermediate term | - | - | - | - | - |
| Loans to cooperatives | - | - | - | - | - |
| Processing and marketing | 835,058.43 | 835,058.43 | 500,000.00 | 920,709.04 | - |
| Farm-related business | - | - | - | - | - |
| Communication | - | - | - | - | - |
| Energy and water/waste disposal | - | - | - | - | - |
| Rural residential real estate | - | - | - | - | - |
| International | - | - | - | - | - |
| Lease receivables | - | - | - | - | - |
| Total | <u>\$ 2,126,948.66</u> | <u>\$ 2,126,948.66</u> | <u>\$571,425.00</u> | <u>\$ 2,218,655.68</u> | <u>\$ -</u> |
| Impaired loans with no related allowance for credit losses: | | | | | |
| Real estate mortgage | \$ 9,854,717.09 | \$ 9,854,717.09 | \$ - | \$ 4,486,021.14 | \$347,757.59 |
| Production and intermediate term | - | - | - | - | - |
| Loans to cooperatives | - | - | - | - | - |
| Processing and marketing | - | - | - | - | - |
| Farm-related business | - | - | - | - | - |
| Communication | - | - | - | - | - |
| Energy and water/waste disposal | - | - | - | - | - |
| Rural residential real estate | - | - | - | - | - |
| International | - | - | - | - | - |
| Lease receivables | - | - | - | - | - |
| Total | <u>\$ 9,854,717.09</u> | <u>\$ 9,854,717.09</u> | <u>\$ -</u> | <u>\$ 4,486,021.14</u> | <u>\$347,757.59</u> |
| Total impaired loans: | | | | | |
| Real estate mortgage | \$ 11,146,607.32 | \$ 11,146,607.32 | \$ 71,425.00 | \$ 5,783,967.98 | \$347,757.59 |
| Production and intermediate term | - | - | - | - | - |
| Loans to cooperatives | - | - | - | - | - |
| Processing and marketing | 835,058.43 | 835,058.43 | 500,000.00 | 920,709.04 | - |
| Farm-related business | - | - | - | - | - |
| Communication | - | - | - | - | - |
| Energy and water/waste disposal | - | - | - | - | - |
| Rural residential real estate | - | - | - | - | - |
| International | - | - | - | - | - |
| Lease receivables | - | - | - | - | - |
| Total | <u>\$ 11,981,665.75</u> | <u>\$ 11,981,665.75</u> | <u>\$571,425.00</u> | <u>\$ 6,704,677.02</u> | <u>\$347,757.59</u> |

^a Unpaid principal balance represents the recorded principal balance of the loan.

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Communications | Energy and Water/Waste Disposal | Rural Residential Real Estate | International | Lease Receivable | Total |
|--|-------------------------|--|------------------|-----------------|---------------------------------------|-------------------------------------|---------------|---------------------|-------------------|
| Allowance for Credit Losses: | | | | | | | | | |
| Balance at | | | | | | | | | |
| December 31, 2010 | \$ 867,824.00 | \$ 216,893.00 | \$ 1,007,207.00 | \$ 29,771.00 | \$ 85,628.00 | \$ 7,140.00 | \$ - | \$ - | \$ 2,214,463.00 |
| Charge-offs | (151,428) | - | (216,736) | - | - | - | - | - | \$ (368,164.00) |
| Recoveries | - | - | - | - | 51,304 | - | - | - | \$ 51,304.00 |
| Provision for loan losses | 367,146 | 552 | (244,102) | 1,824 | 69,515 | 1,447 | - | - | \$ 196,382.00 |
| Adjustment due to merger | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - |
| Balance at | | | | | | | | | |
| September 30, 2011 | \$ 1,083,542.00 | \$ 217,445.00 | \$ 546,369.00 | \$ 31,595.00 | \$ 206,447.00 | \$ 8,587.00 | \$ - | \$ - | \$ 2,093,985.00 |
| Ending Balance: | | | | | | | | | |
| individually evaluated for impairment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Ending Balance: | | | | | | | | | |
| collectively evaluated for impairment | \$ 1,083,542.00 | \$ 217,445.00 | \$ 546,369.00 | \$ 31,595.00 | \$ 206,447.00 | \$ 8,587.00 | \$ - | \$ - | \$ 2,093,985.00 |
| Ending Balance: loans acquired with deteriorated credit quality | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Recorded Investments in Loans Outstanding: | | | | | | | | | |
| Ending Balance at | | | | | | | | | |
| September 30, 2011 | \$ 323,187,213.00 | \$ 11,795,908.00 | \$ 22,321,709.00 | \$ 5,430,056.00 | \$ 16,622,159.00 | \$ 3,158,357.00 | \$ - | \$ - | \$ 382,515,402.00 |
| Ending Balance for loans individually evaluated for impairment | \$ 11,329,956.00 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 11,329,956.00 |
| Ending Balance for loans collectively evaluated for impairment | \$ 311,857,257.00 | \$ 11,795,908.00 | \$ 22,321,709.00 | \$ 5,430,056.00 | \$ 16,622,159.00 | \$ 3,158,357.00 | \$ - | \$ - | \$ 371,185,446.00 |
| Ending Balance for loans acquired with deteriorated credit quality | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

NOTE 3 — CAPITAL:

The association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected patronage, equity retirements and other actions that may decrease the association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

NOTE 4 — 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 the principal or most advantageous market for the asset or liability. See Note 10 to the 2010 Annual Report to Stockholders for a more complete description.

We have no assets or liabilities on a recurring basis to report. Assets and liabilities measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

| <u>September 30, 2011</u> | <u>Fair Value Measurement Using</u> | | | <u>Total Fair Value</u> | <u>Total Gains (Losses)</u> |
|---------------------------|-------------------------------------|----------------|----------------|-------------------------|-----------------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | | |
| Assets: | | | | | |
| Loans * | \$ - | \$ - | \$ 11,329,956 | \$ 11,329,956 | \$ (316,861) |
| Other property owned | - | - | 1,122,658 | 1,122,658 | - |
| | | | | | |
| <u>December 31, 2010</u> | <u>Fair Value Measurement Using</u> | | | <u>Total Fair Value</u> | <u>Total Gains (Losses)</u> |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | | |
| Assets: | | | | | |
| Loans * | \$ - | \$ - | \$ 13,953,632 | \$ 13,953,632 | \$ (853,452) |
| Other property owned | - | - | 1,122,658 | 1,122,658 | - |

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance, “Accounting by Creditors for Impairment of a Loan.” The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Valuation Techniques

As more fully discussed in Note 10 to the 2010 Annual Report to Stockholders, 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 represent a brief summary of the valuation techniques used for the associations’ assets and liabilities. For a more complete description, see Notes to the 2010 Annual Report to Stockholders.

Loans

For certain loans evaluated for impairment under authoritative 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.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value, which is generally determined using appraisals or other indications based on comparable sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value.

NOTE 5 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of non-pension other postretirement employee benefits for the months ended September 30,:

| | Other Benefits | |
|-------------------------------------|------------------|------------------|
| | 2011 | 2010 |
| Service cost | \$ 27,048 | \$ 23,028 |
| Interest cost | 38,268 | 33,747 |
| Expected return on plan assets | - | - |
| Amortization of prior service costs | (16,548) | (17,163) |
| Amortizations of net (gain) loss | - | - |
| Net periodic benefit cost | <u>\$ 48,768</u> | <u>\$ 39,612</u> |

The structure of the district's defined benefit pension plan is characterized as multi-employer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2010, that it expected to contribute \$432,756 to the district's defined benefit pension plan in 2011. As of September 30, 2011, \$324,567 of contributions have been made. The association presently anticipates contributing an additional \$108,089 to fund the defined benefit pension plan in 2011 for a total of \$432,756.

NOTE 6 — COMMITMENTS AND CONTINGENT LIABILITIES:

The association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association.

NOTE 7 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through October 28, 2011 which is the date the financial statements were available to be issued..