

YOSEMITE FARM CREDIT, ACA

Helping our members prosper.

September 2011

Volume 16.3

Quarterly Financial Report

We are pleased to inform you of the Association's financial progress during the nine months ending September 30, 2011. The financial condition of the Association is sound. The Association is capitalized to withstand adversity, sufficiently liquid to meet obligations as they come due, and able to earn profits to further enhance total shareholders' equity. This quarterly shareholder report was prepared under the oversight of the Audit Committee.

The Association's third quarter 2011 net earnings were \$7.6 million, which is approximately \$0.1 million lower than the same period in the prior year. Net interest income before the provision for loan losses decreased to \$11.4 million compared to \$11.9 million in the prior year. This decrease was primarily due to reductions in net interest margins.

The quarterly review of credit risk resulted in the Association recording a provision for loan losses of \$136 thousand in the third quarter 2011 compared to a provision of \$ 448 thousand in the third quarter 2010.

Non-interest expense remained static at \$3.9 million for quarters ending September 30, 2011 and 2010.

The Association cash management account, offering an interest rate of 0.4% for the month of September increased \$1.4 million since year end 2010 from \$20.3 million to \$21.8 million at September 30, 2011.

Credit quality increased slightly to 95.6% Acceptable/OAEM at September 30, 2011 compared to 95.5 at December 31,

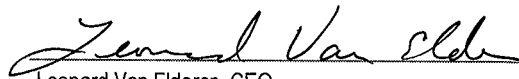
2010. Nonaccrual loan volume stands at \$9.2 million and represents .6% of total loan volume. The number of delinquent accounts, .6% of accrual loans and leases, remain low.

In November of 2010, the AgBank Board of Directors voted to pursue a merger with CoBank, ACB another Farm Credit System Bank. On September 8, 2011, AgBank and CoBank announced that their voting stockholders have approved the proposed plan of merger between the two banks. The Farm Credit Administration (FCA) had already granted preliminary approval to the transaction. Final approval from the FCA is expected following a statutorily required 35 day reconsideration period. The proposed merger is targeted to be effective on January 1, 2012. We do not expect there to be any material negative impact to our operations as a result of the merger.

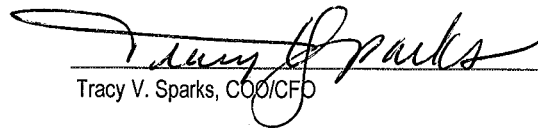
To our members, we appreciate the confidence you have placed in us. It is a privilege to serve you. And to our prospective customers, we welcome the opportunity to consider your agricultural financing needs.



Brian Genzoli, Chairman



Leonard Van Elderen, CEO



Tracy V. Sparks, COO/CFO

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The Stockholders' investment in the Association is materially affected by the financial condition and the results of operation of AgBank. A copy of the AgBank District Third Quarter 2011 Report to Shareholders or the 2010 Annual Shareholders Report is available, free of charge, by contacting AgBank Administrative Office, 245 N. Waco, P.O. Box 2940, Wichita, KS 67201-2940; or call toll free (800)322-9880. The District's Annual report is available on its website, www.usagbank.com.

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CONDITION
September 30, 2011
(\$ in thousands)

	September 30, 2011	December 31, 2010
	(unaudited)	
ASSETS		
Loans	\$ 1,471,769	\$ 1,466,922
Less allowance for loan losses	4,858	4,766
Net loans	1,466,911	1,462,156
Cash	-	920
Investment securities - held to maturity	75,028	82,883
Accrued interest receivable	20,075	14,663
Investments in US AgBank, FCB	39,662	39,662
Premises and equipment, net	9,631	8,428
Other property owned	-	216
Other assets	945	1,015
Total assets	\$ 1,612,252	\$ 1,609,943
LIABILITIES		
Note payable to US AgBank, FCB	\$ 1,318,667	\$ 1,339,050
Cash management accounts	21,782	20,344
Accrued interest payable	2,177	2,405
Patronage distribution payable	-	7,433
Unfunded disbursements	653	-
Other liabilities	2,972	3,219
Total liabilities	1,346,251	1,372,451
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock and participation certificates	1,671	1,670
Unallocated retained earnings	264,346	235,840
Other comprehensive loss	(16)	(18)
Total shareholders' equity	266,001	237,492
Total liabilities and shareholders' equity	\$ 1,612,252	\$ 1,609,943

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

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF INCOME
September 30, 2011
(\$ in thousands)

	Quarter Ended 9/30/2011 <hr/> (unaudited)	Nine Months Ended 9/30/2011 <hr/> (unaudited)	Quarter Ended 9/30/2010 <hr/> (unaudited)	Nine Months Ended 9/30/2010 <hr/> (unaudited)
INTEREST INCOME				
Loans	\$ 16,672	\$ 50,197	\$ 18,175	\$ 53,898
Investment securities	999	3,114	1,213	3,726
Total interest income	<hr/> 17,671	<hr/> 53,311	<hr/> 19,388	<hr/> 57,624
INTEREST EXPENSE				
Note payable to US AgBank, FCB	6,270	19,400	7,471	22,398
Cash management accounts	22	59	16	41
Total interest expense	<hr/> 6,292	<hr/> 19,459	<hr/> 7,487	<hr/> 22,439
Net interest income	11,379	33,852	11,901	35,185
Provision for loan losses	136	88	448	1,245
Net interest income after provision for loan losses	<hr/> 11,243	<hr/> 33,764	<hr/> 11,453	<hr/> 33,940
NON-INTEREST INCOME				
Patronage distribution from US AgBank, FCB	-	6,392	-	1,076
Financially related services income	135	227	34	121
Other non-interest income	106	429	121	2,012
Total noninterest income	<hr/> 241	<hr/> 7,048	<hr/> 155	<hr/> 3,209
NON-INTEREST EXPENSE				
Salaries and employee benefits	2,722	8,552	2,803	8,442
Occupancy and equipment	171	554	198	629
Losses on other property owned, net	-	20	-	-
Farm Credit Insurance Fund premium	213	659	195	578
Other noninterest expense	779	2,521	748	2,293
Total non-interest expense	<hr/> 3,885	<hr/> 12,306	<hr/> 3,944	<hr/> 11,942
Income before income taxes	7,599	28,506	7,664	25,207
Provision for income taxes	-	-	-	62
Net income	<hr/> <hr/> \$ 7,599	<hr/> <hr/> \$ 28,506	<hr/> <hr/> \$ 7,664	<hr/> <hr/> \$ 25,145

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

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
September 30, 2011
(\$ in thousands)

	Capital Stock & Participation Certificates	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
DECEMBER 31, 2009	\$ 1,675	\$ 210,784	\$ (445)	\$ 212,014
Comprehensive income				
Net income		25,145		
Minimum pension liability adjustment			65	
Total comprehensive income				25,210
Capital stock/participation certificates issued	68			68
Capital stock/participation certificates retired	(75)			(75)
SEPTEMBER 30, 2010 (unaudited)	<u>\$ 1,668</u>	<u>\$ 235,929</u>	<u>\$ (380)</u>	<u>\$ 237,217</u>
DECEMBER 31, 2010	\$ 1,670	\$ 235,840	\$ (18)	\$ 237,492
Comprehensive income				
Net income		28,506		
Minimum pension liability adjustment			2	
Total comprehensive income				28,508
Capital stock/participation certificates issued	74			74
Capital stock/participation certificates retired	(73)			(73)
SEPTEMBER 30, 2011 (unaudited)	<u>\$ 1,671</u>	<u>\$ 264,346</u>	<u>\$ (16)</u>	<u>\$ 266,001</u>

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

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CASH FLOWS
September 30, 2011
(\$ in thousands)

	Nine months ended September 30,	
	2011	2010
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 28,506	\$ 25,145
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	443	439
Provision for loan losses	88	1,245
Loss on sale of other property owned	16	-
Net change in operating assets and liabilities:		
Increase in accrued interest receivable	(5,412)	(8,375)
Decrease (increase) in other assets	70	(124)
(Decrease) increase in accrued interest payable	(228)	150
Increase (decrease) in other liabilities	408	(5,337)
Net cash provided by operating activities	23,891	13,143
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in loans, net	(4,843)	(19,336)
Proceeds from sale of other property owned	200	-
Payments received on investment securities	7,855	6,511
Purchase of stock in US AgBank, FCB	-	(1,244)
Purchase of premises and equipment, net	(1,646)	(817)
Net cash provided by (used in) investing activities	1,566	(14,886)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net repayment of note payable to US AgBank, FCB	(20,383)	(5,729)
Increase in cash management account	1,438	7,479
Issuance (retirement) of capital stock & participation certificates, net	1	(7)
Patronage distributions	(7,433)	-
Net cash (used in) provided by financing activities	(26,377)	1,743
Net (decrease) in cash	(920)	-
Cash at beginning of period	920	-
Cash at end of period	\$ -	\$ -
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Net (recoveries) charge-offs	\$ (4)	\$ 87
Loan transferred to other property owned	\$ -	\$ 259

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011 and September 30, 2010
(unaudited)

Note 1 – Organization and Significant Accounting Policies

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

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, “Compensation – Retirement Benefits – Multiemployer Plans.” The guidance is intended to provide more information about an employer’s financial obligations to a multiemployer pension plan and postretirement benefits other than pensions, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012 for non-public entities. The amendments should be applied retrospectively for all prior periods presented.

In December 2010, U.S. AgBank, FCB (AgBank), Yosemite Farm Credit’s funding bank, and CoBank executed a Letter of Intent to merge. The merged bank will continue to do business under the CoBank name and be headquartered in Colorado but will maintain AgBank’s existing presence and operations in Wichita, Kansas, and Sacramento, California. In June 2011, the Farm Credit Administration (FCA) voted to grant preliminary approval of the proposed plan of merger between the two banks. The FCA serves as the independent regulator for both banks and the rest of the Farm Credit System. AgBank distributed disclosure and voting materials to its stockholder associations in July. On September 8, 2011, AgBank and CoBank announced that their voting stockholders have approved the proposed plan of merger between the two banks. Final approval from the FCA is expected following a statutorily required 35-day reconsideration period. The boards of the two banks have approved a merger effective date of January 1, 2012. The Association does not expect there to be any material negative impact to its operations as a result of the merger.

In January 2010, the FASB issued guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurements by increasing transparency in financial reporting. The changes will provide for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll-forward 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 guidance had no impact on the Association’s financial condition or results of operations but did result in additional disclosures.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles and prevailing practices within the banking industry.

Note 2 – Loans and Allowance for Loan Losses (\$ in thousands)

A summary of loans follows:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Real estate mortgage	\$ 1,200,801	\$ 1,168,685
Production and intermediate term	190,521	213,452
Agribusiness:		
Loans to cooperatives	4,845	4,713
Processing and marketing	46,786	49,919
Farm related business	14,709	16,999
Rural residential real estate	6,268	6,623
Lease receivables	<u>7,839</u>	<u>6,531</u>
Total	<u>\$ 1,471,769</u>	<u>\$ 1,466,922</u>

The Association purchases and 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 (\$ in thousands):

	<u>Other Farm Credit</u>		<u>Non-Farm Credit</u>		<u>Total</u>	
	<u>Institutions</u>		<u>Institutions</u>			
	<u>Participations</u> <u>Purchased</u>	<u>Participations</u> <u>Sold</u>	<u>Participations</u> <u>Purchased</u>	<u>Participations</u> <u>Sold</u>	<u>Participations</u> <u>Purchased</u>	<u>Participations</u> <u>Sold</u>
Real estate mortgage	\$ 31,858	\$ 17,998	\$ -	\$ -	\$ 31,858	\$ 17,998
Production and intermediate term		12,269	\$ 124	-	124	12,269
Agribusiness processing and marketing	<u>22,130</u>	<u>-</u>	<u>5,990</u>	<u>-</u>	<u>28,120</u>	<u>-</u>
Total	<u>\$ 53,988</u>	<u>\$ 30,267</u>	<u>\$ 6,114</u>	<u>\$ -</u>	<u>\$ 60,102</u>	<u>\$ 30,267</u>

An analysis of the allowance for loan losses follows (\$ in thousands):

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Beginning balance 12/31	\$ 4,766	\$ 2,831
Recoveries/(Charge-Offs)	4	(87)
Provision for loan loss	<u>88</u>	<u>1,245</u>
Balance at end of period	<u>\$ 4,858</u>	<u>\$ 3,989</u>

The following table presents information concerning impaired loans (\$ in thousands):

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Impaired loans with related allowance	\$ 1	\$ -
Impaired loans with no related allowance	<u>9,213</u>	<u>9,100</u>
Total impaired loans	<u>\$ 9,214</u>	<u>\$ 9,100</u>
Allowance on impaired loans	<u>\$ 11</u>	<u>\$ -</u>

The following table summarizes impaired loan information (\$ in thousands):

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Average impaired loans	\$ 8,675	\$ 9,900
Interest income recognized on impaired loans	\$ 288	\$ 79

Note 3 – Other Property Owned

Other property owned is real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure or other means. We had no other property owned at September 30, 2011 and \$216 thousand at December 31, 2010.

Note 4 – Capital

At September 30, 2011, the Association’s regulatory capital ratio was 13.81%, which exceeds the minimum 7.0% required by our regulators, the Farm Credit Administration.

Note 5 – Fair Value Measurements

Authoritative 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 Notes to the 2010 Annual Report to Stockholders for a more complete description.

There are no assets or liabilities measured at fair value on a recurring basis at September 30, 2011. Assets and liabilities measured at fair value on a non-recurring basis are summarized below (\$ in thousands):

	Total Fair Value <u>Level 3</u>	Total Gains <u>(Losses)</u>
September 30, 2011		
Assets:		
Loans	\$ 0	\$ (11)
December 31, 2010		
Assets:		
Loans	\$ 28	\$ (11)
Other Property Owned	\$ 230	\$ (51)

Valuation Techniques

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 represents a brief summary of the evaluation techniques used for the Association’s assets and liabilities.

Loans

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral for collateral-dependent loans and these loans are generally classified as Level 3.

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 6 – Subsequent Events

The Association has evaluated subsequent events through November 3, which is the date the financial statements were available to be issued.