



**REPORT TO SHAREHOLDERS
THIRD QUARTER
2011**

WESTERN AGCREDIT

Discussion and Analysis of Financial Condition and Results of Operations:

Statement of Condition: As of September 30, 2011, total loan volume was \$563.9 million, an increase of \$16.9 million from the comparative period for 2010, and an increase of \$3.4 million or 1% from December 31, 2010, both primarily due to the Association obtaining new good quality loan volume. The allowance for loan losses decreased \$516 thousand since September 30, 2010, and \$294 thousand since December 31, 2010. The decrease since year-end is due primarily to the reversal of loan losses, largely resulting from improved credit quality and collateral positions on the PCA loan portfolio.

The Association's cash position decreased compared to year-end 2010 due to a smaller deposit being made at the end of September 2011 than at year-end. The accrued interest receivable decreased \$404 thousand from September 2010, due primarily to the decreased interest rates. The \$202 thousand decrease in premises and equipment from September 2010 is primarily due to normal depreciation. Other property owned decreased from September 2010 and year-end 2010 due to the sale of all property partially offset by the recent acquisition of some equipment. Other assets increased \$109 thousand or 14% since September 2010, primarily due to increased prepaid income taxes partially offset by the decreased prepaid pension.

Note payable to AgBank increased \$7.0 million from a year earlier primarily due to increased loan volume, which is funded by the note payable, partially offset by payments to the note payable from net income. The note payable decreased \$6.4 million from year-end 2010 largely due to payments from year-to-date net income. Funds held at September 30, 2011 were \$1.2 million lower than September 30, 2010 and \$1.9 million higher than year-end 2010. These amounts result from borrowers' utilization of the Association's funds held account program. Accrued interest payable decreased \$135 thousand or 13% from September 30, 2010 primarily as a result of the decreased average cost of funds. The \$2.2 million of patronage distributions payable at December 31, 2010 is the accrued 2010 patronage paid to borrowers in February 2011. Deferred tax liability, net increased \$205 thousand since September 2010 due primarily to the decreased deferred tax asset attributed to the PCA's decreased allowance for loan losses. Other liabilities increased \$342 thousand when compared to September 2010 primarily due to the increased income tax payables.

Capital stock and participation certificates decreased \$28 thousand from September 2010 primarily due to stock and participation certificates retired on paid off customers. Unallocated retained earnings increased \$10.3 million from year-end 2010, attributed to the Association's net income, while the \$10.7 million increase from September 2010 resulted from the Association's net income less the \$2.2 million in patronage payments accrued at the end of 2010.

Statement of Income: 2011 year-to-date net interest income increased \$1.3 million or 10% when compared to the same period in 2010. Total interest income decreased \$178 thousand primarily due to the decreased interest rates while total interest expense decreased \$1.5 million largely attributable to a decrease in the average cost of funds and decreased average volume. The year-to-date reversal of loan losses is primarily due to the improved credit quality and collateral positions of the PCA loan portfolio. The Association's allowance for loan losses remained adequate at .28% of loans at September 30, 2011.

The \$1.4 million increase in year-to-date total noninterest income was due to a \$1.9 million increase in the patronage distribution from AgBank, a \$57 thousand increase in loan fees and a \$30 thousand increase in other noninterest income partially offset by the 2010 Farm Credit Insurance Fund distribution and a \$13 thousand decrease in financially related services income.

Total year-to-date noninterest expense decreased \$82 thousand, or 1%. The decrease resulted from a \$201 thousand decrease in losses on other property owned, net; a \$69 thousand decrease in salaries and employee benefits largely attributed to decreased pension expense; and an \$18 thousand increase in gain on sale of premises and equipment as a result of the sale of vehicles; partially offset by a \$170 thousand increase in other operating expense primarily due to increased director, advertising, public/member relations, purchased services, and supervision and exam expenses; a \$21 thousand increase in the Farm Credit Insurance Fund premium, and a \$15 thousand increase in occupancy and equipment. The year-to-date provision for income taxes increased \$381 thousand primarily due to increased taxable income in 2011.

The Association's \$10.3 million 2011 year-to-date net income is \$3.0 million higher than projected in the Association's business plan largely due to the higher than projected patronage distribution from AgBank, the reversal of loan losses, and lower than budgeted operating expenses partially offset by the increased provision for income taxes.

Please refer to "Notes to the Association Consolidated Financial Statements" and the Association's 2010 Annual Report for additional information. The financial statements were prepared under the oversight of the Association's Audit Committee.

WESTERN AGCREDIT

NOTES TO THE ASSOCIATION CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and \$ amounts in thousands)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Western AgCredit, ACA and wholly-owned subsidiaries, Western AgCredit, PCA (PCA) and Western AgCredit, FLCA (FLCA) (collectively called the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2010 are contained in the 2010 Annual Report to Stockholders (2010 Annual Report). These unaudited third quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report.

In December 2010, U.S. AgBank, FCB (AgBank), the Association's funding bank, and CoBank, ACB (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 2011. 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 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 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 (TDR) 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 TDR disclosures 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, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. The disclosures are effective for interim and annual reporting periods ending on or after December 15, 2010, for public entities, and year-end 2011 (first quarter 2012 for activity level disclosures) for non-public entities. The adoption of this Standard should have no impact on the Association's financial condition or results of operations, but will result in additional disclosures. As a non-public entity, the Association intends to add the additional disclosures beginning with the 2011 Annual Report.

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 changes will provide for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures 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.

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 of operations for the six-month period ended Jun 30, 2011, are not necessarily indicative of the results to be expected for the full year.

NOTE 2 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the allowance for loan losses follows:

	September 30, 2011	September 30, 2010
Balance at beginning of year	\$1,873	\$2,123
(Reversal of) / provision for loan losses	(197)	278
Net charge-offs	(97)	(306)
Balance at end	<u>\$1,579</u>	<u>\$2,095</u>

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.

	September 30, 2011	September 30, 2010
Impaired loans with related allowance	\$18	\$357
Impaired loans with no related allowance	3,284	400
Total impaired loans	\$3,302	\$757
Allowance on impaired loans	\$18	\$295

The following table summarizes impaired loan information for the nine months ended September 30:

	2011	2010
Average impaired loans	\$2,475	\$988
Interest income recognized on nonaccrual loans	\$13	\$19

NOTE 3 - CAPITAL

In accordance with the Farm Credit Act, each borrower is required to invest in capital stock (in the case of agricultural loans) or participation certificates (in the case of rural home and farm-related business loans) as a condition of borrowing. Borrowers purchase an amount of stock equal to the lesser of 2% or \$1,000. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment; the aggregate par value is added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. In accordance with the Farm Credit Act, such equities are unprotected and at risk.

Retirement of at-risk equities will be solely at the discretion of the Board of Directors at the lower of par or book value, and repayment of a loan cannot automatically result in retirement of the corresponding stock or participation certificates. The Board of Directors may adjust the required level of capitalization as necessary to meet the Association's long-term capital goals.

As discussed in the 2010 Annual Report, the Farm Credit Administration (FCA) regulations require the Association to maintain a minimum permanent capital and total surplus ratio of 7% and core surplus ratio of 3.5% (as defined in the regulations). The Association's capital ratios at September 30, 2011 were 17.22%, 16.98%, and 15.91%, respectively. The Association exceeds the regulatory minimum for the three capital ratios.

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 15 to the 2010 Annual Report for a more complete description.

Assets and liabilities measured at fair value on a non-recurring basis for the applicable fair value hierarchy values are summarized below:

	<u>September 30, 2011</u>		<u>December 31, 2010</u>	
	Total Fair Value	Year-to-date Gains (losses)	Total Fair Value	Total Gains (losses)
LEVEL 3 – Assets:				
Impaired loans	\$3,285	\$45	\$481	(\$268)
Other property owned	\$10	-	\$390	-

Valuation Techniques

As more fully discussed in Note 2 to the 2010 Annual Report, the FASB established 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 by the Association for assets and liabilities subject to fair value measurement: For a more complete description, see Notes to the 2010 Annual Report.

Loans - For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are 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 and the net loan is reported at its fair value.

Other Property Owned - Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. As a result, these fair value measurements fall within Level 3 of the hierarchy. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 5 - INVESTMENT IN AGBANK

The Association is required to maintain a minimum at-risk investment in AgBank stock based on a percentage of the Association's average borrowings from AgBank. The required stock investment, when added to the Association's attributed share of AgBank surplus, equals the required investment in AgBank, which changes from time to time. The minimum required investment in AgBank is 5.00%.

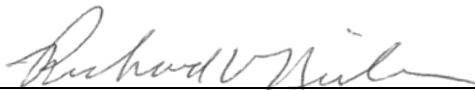
The stockholder's investment in the Association is materially affected by the financial condition and results of operation of AgBank. AgBank's Third Quarter 2011 Report to Shareholders can be obtained free of charge from their website (www.usagbank.com) or by contacting AgBank Administrative Office at PO Box 2940, Wichita, KS 67201-2940 or telephone (800) 322-9880.

NOTE 6 - SUBSEQUENT EVENTS


The Association has evaluated subsequent events through October 31, 2011, the date the financial statements were available to be issued, and no material subsequent events were identified.

CERTIFICATION


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



Richard Nielson, Chairman of the Board of Directors



Richard Weathered, President and CEO



Matthew Y. Jarrett, Sr. Vice President and CFO

WESTERN AGCREDIT CONSOLIDATED STATEMENT OF CONDITION

(Unaudited)
(Dollars in thousands)

	September 30,		December 31,	
	2011	2010	2010	2009
ASSETS				
Loans	\$ 563,930	\$ 547,044	\$ 560,534	\$ 560,805
Less: Allowance for loan losses	(1,579)	(2,095)	(1,873)	(2,123)
Net loans	562,351	544,949	558,661	558,682
Cash	2,354	1,969	4,031	951
Accrued interest receivable	11,013	11,417	8,544	8,547
Investment in AgBank	16,189	16,189	16,189	16,189
Premises and equipment, net	6,003	6,205	6,174	6,484
Other property owned	10	378	349	-
Other assets	910	801	913	989
Total assets	\$ 598,830	\$ 581,908	\$ 594,861	\$ 591,842
LIABILITIES				
Note payable to AgBank	\$ 471,228	\$ 464,213	\$ 477,598	\$ 483,493
Funds held	15,570	16,736	13,626	12,697
Accrued interest payable	886	1,021	863	961
Patronage distributions payable	-	-	2,151	1,212
Deferred tax liabilities, net	967	762	824	781
Other liabilities	2,276	1,934	2,123	2,771
Total liabilities	490,927	484,666	497,185	501,915
Commitments and contingencies				
MEMBERS' EQUITY				
Capital stock and participation certificates	1,360	1,388	1,385	1,429
Unallocated retained earnings	106,543	95,854	96,291	88,498
Total members' equity	107,903	97,242	97,676	89,927
Total liabilities and members' equity	\$ 598,830	\$ 581,908	\$ 594,861	\$ 591,842

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

WESTERN AGCREDIT

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(Dollars in thousands)

	For the quarter ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
INTEREST INCOME				
Loans	\$ 7,471	\$ 7,547	\$ 22,411	\$ 22,589
Total interest income	7,471	7,547	22,411	22,589
INTEREST EXPENSE				
Note payable to AgBank	2,606	3,095	7,924	9,411
Funds held	15	24	50	63
Total interest expense	2,621	3,119	7,974	9,474
Net interest income	4,850	4,428	14,437	13,115
Reversal of / (provision for) loan losses	35	(1)	197	(278)
Net interest income after reversal of / (provision for) loan losses	4,885	4,427	14,634	12,837
NONINTEREST INCOME				
Patronage distribution from AgBank	-	-	2,285	404
Financially related services income	51	45	103	116
Loan fees	23	5	92	35
Farm Credit Insurance Fund distribution	-	-	-	557
Other noninterest income	57	32	156	126
Total noninterest income	131	82	2,636	1,238
NONINTEREST EXPENSE				
Salaries and employee benefits	1,557	1,609	4,730	4,799
Occupancy and equipment	102	99	314	299
Other operating expense	371	341	1,254	1,084
Farm Credit Insurance Fund premium	71	66	221	200
Losses / (gains) on other property owned, net	-	20	24	225
Gain on sale of premises and equipment	(8)	-	(18)	-
Total noninterest expense	2,093	2,135	6,525	6,607
Income before income taxes	2,923	2,374	10,745	7,468
(Provision for) / benefit from income taxes	(76)	(63)	(493)	(112)
Net income	\$ 2,847	\$ 2,311	\$ 10,252	\$ 7,356

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

WESTERN AGCREDIT
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(Unaudited)
(Dollars in thousands)

	At-Risk Equity			Total Members' Equity
	Capital Stock and Participation Certificates	Unallocated Retained Earnings		
Balance at December 31, 2009	\$ 1,429	\$ 88,498	\$	89,927
Comprehensive income - Net income		7,356		7,356
Capital stock and participation certificates issued	41			41
Capital stock and participation certificates retired	(82)			(82)
Balance at September 30, 2010	\$ 1,388	\$ 95,854	\$	97,242
Balance at December 31, 2010	\$ 1,385	\$ 96,291	\$	97,676
Comprehensive income - Net income		10,252		10,252
Capital stock and participation certificates issued	58			58
Capital stock and participation certificates retired	(83)			(83)
Balance at September 30, 2011	\$ 1,360	\$ 106,543	\$	107,903

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



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