Strength • Dependability • Service

Quarterly Report
To Stockholders

Quarter Ended March 31, 2012

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA (the Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (FCB) and the Association's accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The annual consolidated financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the board of directors has oversight responsibility for the Association's systems of internal control and financial reporting. The Audit Committee consults regularly with management and meets periodically with the independent auditors and the internal auditors to review the scope and results of their work. The independent auditors and the internal auditors have direct access to the Audit Committee.

The undersigned certify that this quarterly report has been reviewed and 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 knowledge and belief.

Ben R. Novosad
Ben R. Novosad,
Chief Executive Officer

Phillip Munden
Phillip Munden,
Chairman, Board of Directors

Don VandeVanter
Don VandeVanter,
Chief Financial Officer

May 4, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in thousands)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Capital Farm Credit, ACA including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively referred to as the Association) for the quarter ended March 31, 2012. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2011 Annual Report of the Association. Results for interim periods are not necessarily indicative of results to be expected for future periods.

The general economy continues to show steady improvement with positive growth in the national gross domestic product, small declines in the unemployment rates, and continued improvements in other leading economic indicators over the last several quarters. The agricultural economy continues to be strengthened with favorable beef and grain prices, and although cotton prices are down from the record highs of 2011, they continue to be relatively strong as well. Recent rains over large parts of the state have improved planting and pasture conditions considerably. The improved planting conditions and pastures has stimulated loan growth for the Association for the first quarter of 2012.

Significant Events:

The board of directors approved a $126,602 patronage distribution for 2011. $38,400 of this distribution was paid in cash in March 2012. $88,202 of this distribution was made in the form of nonqualified allocated equity distributions, which means the owners of these distributions do not pay federal income taxes until the equities are retired. It is the board's intention with this allocation and future allocations to assign ownership of the earnings of the Association, allowing the stockholders to benefit more fully from the earnings of the Association and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of these equities can be made.

In November 2011, as part of the evaluation of its capital position, the Association retired $50 million in non-qualified allocated equities. These equities represented $10,295, $18,805, and $20,900 from those allocated in 2006, 2007 and 2008. These equity retirements came at a time when many were confronting extra expenses and difficult decisions in a record drought.

For 2010 the board of directors approved a $105,723 patronage distribution. $32,061 of this distribution was paid in cash in April 2011. $73,662 of this distribution was made in the form of nonqualified allocated equity distributions. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of these equities can be made.

Loan Portfolio:

Total loan volume was $4,959,790 at March 31, 2012. This compares with loan volume owned by the Association at December 31, 2011 of $4,932,437. This represents an increase of $27,353, or approximately 0.5 percent. This increase is attributable to some new agribusiness loans made in the first quarter as well as an increase in production volume as farmers in the southern half of the Association's territory begin to plant their crops.

The following table summarizes the Association's components and trends of high-risk assets:

	March 31, 2012	%	December 31, 2011	%
Nonaccrual loans	**$ 134,451**	**86.5**	$ 138,105	86.1
Loans 90 days past due and still accruing interest	**2,295**	**1.5**	4,925	3.1
Formally restructured loans	**11,107**	**7.1**	11,127	6.9
Other property owned, net	**7,571**	**4.9**	6,220	3.9
Total	**$ 155,424**	**100.0**	$ 160,377	100.0

The quality of the Association's loan portfolio improved with a $4,953 decrease in high-risk assets since the previous year's end. The Association experienced a $3,654 decrease in nonaccrual loans during the first three months of 2012. This decrease related to the repayment of some nonaccrual loans and the transfer to other property owned of other nonaccrual loans.

The decrease of $2,630 in loans that are 90 or more days past due and still accruing interest is evidence that loans are moving through the servicing and collection process. Loans that remain in this category are to customers that have a documented plan that details how and when the amount owed will be paid.

Formally restructured loans decreased $20 during the first three months of 2012. The Association is cooperating with distressed borrowers to work through temporary repayment problems, where possible. These restructurings may include a modification of loan terms to accommodate the financial difficulties of the customer.

Other property owned increased $1,351 during the first three months of 2012. The Association is actively working with local realtors to ensure properties are accurately valued on the Association's books and that proactive marketing activities are in place.

Management continues to be alert to portfolio trends and has attempted to identify and report problem loans as quickly as possible. Management strives to implement proactive steps and allocate resources to work with distressed borrowers to either work through temporary repayment problems or to orderly liquidate collateral to repay the loan when the borrower's operation is no longer viable. 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's net income for the three months ended March 31, 2012 was $35,671 as compared to $28,011 for the three months ended March 31, 2011, an increase of $7,660, or 27.3 percent.

The improvement in net income was primarily affected by a decrease in operating expenses and a decrease in the provision for loan losses. The Association reversed provision for loan losses in the amount of $1,212 for the three months ended March 31, 2012, as compared to provision expense of $4,280 for the same period in 2011. The reduction in loan losses is a result of the Association's improving loan portfolio quality, as discussed above.

Net interest income increased by $350 during the first three months of 2012 as compared to the same time period for 2011. Interest margins on loans continue to improve as market rates and the Association's cost of funds decrease as well as the impact of capital. This improvement has been somewhat offset by a decline in average accrual loan volume between the first quarter of 2011 and the first quarter of 2012. The effects of changes in average volume and interest rates on net interest income in the three months ended March 31, 2012, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the three months ended March 31, 2012		For the three months ended March 31, 2011	
	Average Balance	**Interest**	Average Balance	Interest
Loans and investments	**$ 4,802,230**	**$ 64,169**	$ 4,862,341	$ 68,929
Interest-bearing liabilities	**4,107,893**	**23,343**	4,299,069	28,453
Impact of capital	**$ 694,337**		$ 563,272	
Net interest income		**$ 40,826**		$ 40,476

	Average Yield	Average Yield
Yield on loans	**5.37%**	5.75%
Cost of interest-bearing liabilities	**2.29%**	2.68%
Net interest margin	**3.08%**	3.07%

	2012 vs. 2011		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ (3,901)**	**$ (859)**	**$ (4,760)**
Interest expense	**3,834**	**1,276**	**5,110**
Net interest income	**$ (67)**	**$ 417**	**$ 350**

The Association's noninterest income increased from $5,538 in the first three months of 2011 to $6,473 in the first three months of 2012. The Association has received a patronage refund over the last several years from the Farm Credit Bank of Texas (FCB). This refund is paid annually to the Association in December by a direct reduction in its Note Payable to FCB. For the first quarter of 2011, the Association accrued 0.30 percent of its average Note Payable balance. In its 2012 Capital plan, the FCB has declared its intention to pay 0.40 percent of the average Note Payable. Therefore, the Association's patronage income is $786 more in the first quarter 2012 than the same period in 2011. In addition, due to the increase in demand in loan volume during 2012, loan fees are $317, or 30 percent higher than the first quarter 2011.

Noninterest expenses decreased $897 in the first three months of 2012 as compared to the same time period in 2011. This decrease is attributable to a decrease in salaries and employee benefits of $348 for the first three months of 2012, compared to the same time period in 2011, a decrease in pension plan funding expense of $393, and a decrease of $398 in purchased services and allocations. The Association is anticipating the difference in salaries and benefits to dissipate over the course of 2012. However, the decline in the pension plan funding expense and purchased services should be sustained. The Association also had notable increases in advertising and public and member relations as the Association is placing additional emphasis on loan growth in 2012.

Liquidity and Funding Sources:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the FCB. The FCB manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the Association is a direct loan from the FCB. The Association had an outstanding balance of $4,146,926 at March 31, 2012, as compared to $4,104,831 at December 31, 2011. This increase in note payable to the Bank since December 2011 is the result of the increase in the Association's loan portfolio and the payment of the patronage distributions payable that was outstanding at December 31, 2011. The direct loan carried a weighted average interest rate of 2.29 percent for the three months ended March 31, 2012, compared to 2.56 percent for the year ended December 31, 2011. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the FCB and is governed by a financing agreement.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2012. As borrower payments are received they are applied to the Association's note payable with the FCB.

The Association will continue to fund its operations through direct borrowings from the FCB, retained earnings, member stock and funds held in trust. It is management's opinion that funds available to the Association are sufficient to fund its operations for the next twelve months. See Note 5 to the consolidated financial statements, "Note payable to the Farm Credit Bank of Texas" for a discussion on the Association's borrowing obligations and limitations with FCB.

Capital Resources:

The Association's capital position remains strong, with total capital of $907,144 at March 31, 2012. This represents an increase of $35,546 from the December 31, 2011 total capital level of $871,598. This increase in capital is a direct result of the Association's net income for the period. 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 March 31, 2012 was 16.26 percent. The Association's core surplus ratio and total surplus ratio at March 31, 2012 were 13.53 percent and 15.83 percent, respectively, which is in compliance with the FCA's minimum ratio requirements of 3.5 percent and 7.0 percent, respectively.

Relationship with the Farm Credit Bank of Texas:

The Association's statutory obligation to borrow only from the FCB is discussed in Note 5 to the consolidated financial statements, "Note Payable to the Farm Credit Bank of Texas," included in this quarterly report.

The FCB's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 5 to the consolidated financial statements, "Note Payable to the Farm Credit Bank of Texas," included in this quarterly report.

The FCB provides computer systems to support the critical operations of the Association. The Association also has operating systems and facility-based systems that are not supported by the FCB. The FCB also provides other services the Association can utilize.

The Association's financial condition may be impacted by factors that affect the FCB as discussed in Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly report. The financial condition and results of operations of the FCB may materially affect the stockholders' investment in the Association.

The Tenth 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 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The District's annual and quarterly stockholder reports are also available on its Website at *www.farmcreditbank.com*.

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Capital Farm Credit, ACA, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the Association's quarterly and annual stockholder reports are also available on its Website at *www.capitalfarmcredit.com* or can be requested by e-mailing *isela.morales@capitalfarmcredit.com*.

CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEET
(Dollars in thousands)

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
Loans	**$ 4,959,790**	$ 4,932,437
Less: Allowance for losses	**(33,139)**	(37,023)
Net loans	**4,926,651**	4,895,414
Cash	**269**	1,286
Accrued interest receivable - loans	**43,341**	44,386
Accrued interest receivable - investments	**223**	194
Investments – held-to-maturity	**19,001**	19,523
Investment in and receivable from the FCB:		
Capital stock	**84,404**	84,404
Receivable	**8,824**	11,960
Other property owned, net	**7,571**	6,220
Premises and equipment, net	**10,935**	10,875
Other assets	**8,939**	4,097
Total assets	**$ 5,110,158**	$ 5,078,359
LIABILITIES		
Notes payable to the FCB	**$ 4,146,926**	$ 4,104,831
Advanced conditional payments	**9,100**	9,580
Accrued interest payable	**7,824**	8,262
Drafts outstanding	**1,505**	6,272
Patronage distributions payable	**3**	38,402
Unfunded post retirement medical obligation	**17,944**	17,730
Other liabilities	**19,712**	21,684
Total liabilities	**4,203,014**	4,206,761
MEMBERS' EQUITY		
Capital stock and participation certificates	**21,811**	21,856
Non-qualified allocated retained earnings	**281,676**	281,671
Unallocated retained earnings	**602,701**	567,030
Accumulated other comprehensive income	**956**	1,041
Total members' equity	**907,144**	871,598
Total liabilities and members' equity	**$ 5,110,158**	$ 5,078,359

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Dollars in thousands)
(UNAUDITED)

	For the three months ended March 31, 2012	For the three months ended March 31, 2011
INTEREST INCOME		
Loans	**$ 63,930**	$ 68,623
Investments	**239**	306
Total interest income	**64,169**	68,929
INTEREST EXPENSE		
Note payable to the FCB and others	**23,343**	28,453
Net interest income	**40,826**	40,476
PROVISION FOR LOAN LOSSES		
Provision for (reversal of) loan losses	**(1,212)**	4,280
Net interest income after provision for losses	**42,038**	36,196
NONINTEREST INCOME		
Patronage income from the FCB	**4,560**	3,774
Loan fees	**1,375**	1,058
Other income	**538**	706
Total noninterest income	**6,473**	5,538
NONINTEREST EXPENSES		
Salaries and employee benefits	**6,716**	7,064
Pension plan funding expense	**1,230**	1,623
Occupancy and equipment	**867**	826
Public and member relations	**589**	456
Farm Credit System insurance premium	**515**	661
Travel	**451**	373
Purchased services and allocations	**435**	833
Advertising	**434**	287
FCA supervisory and exam expense	**341**	346
Communications	**210**	185
Directors' expense	**165**	187
Loss (gain) on other property owned, net	**(39)**	205
Other expense	**912**	677
Total noninterest expenses	**12,826**	13,723
Income before federal income tax	**35,685**	28,011
Federal income tax	**14**	-
NET INCOME	**$ 35,671**	$ 28,011
Other comprehensive loss:		
Change in postretirement benefit plans	**(85)**	(105)
Income tax expense related to items of other comprehensive income	**-**	-
Other comprehensive loss, net of tax	**(85)**	(105)
COMPREHENSIVE INCOME	**$ 35,586**	$ 27,906

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(Dollars in thousands)
(UNAUDITED)

	Capital Stock/ Participation Certificates	Retained Earnings: Non-qualified Allocated	Retained Earnings: Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2010	$ 22,399	$ 243,561	$ 566,822	$ 1,672	834,454
Net income	-	-	28,011	-	28,011
Other comprehensive loss	-	-	-	(105)	(105)
Capital stock/participation certificates issued	658	-	-	-	658
Capital stock/participation certificates/					-
allocated equities retired	(885)	(95)	-	-	(980)
Balance at March 31, 2011	$ 22,172	$ 243,466	$ 594,833	$ 1,567	$ 862,038
Net income	-	-	98,799	-	98,799
Other comprehensive loss	-	-	-	(526)	(526)
Capital stock/participation certificates issued	1,905	-	-	-	1,905
Capital stock/participation certificates retired	(2,221)	(50,000)	-	-	(52,221)
Patronage distributions declared:					
Cash	-	-	(38,400)	-	(38,400)
Other	-	3	-	-	3
Nonqualified allocations	-	88,202	(88,202)	-	-
Balance at December 31, 2011	$ 21,856	$ 281,671	$ 567,030	$ 1,041	871,598
Net income	-	-	35,671	-	35,671
Other comprehensive loss	-	-	-	(85)	(85)
Capital stock/participation certificates issued	739	-	-	-	739
Capital stock/participation certificates/					
allocated equities retired	(784)	-	-	-	(784)
Other adjustments	-	5	-	-	5
Balance at March 31, 2012	**$ 21,811**	**$ 281,676**	**$ 602,701**	**$ 956**	**$ 907,144**

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

CAPITAL FARM CREDIT, ACA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Capital Farm Credit, ACA including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively referred to as the "Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders (farmers, ranchers, rural home owners and certain farm-related businesses) for qualified agricultural purposes in 192 counties in the state of Texas.

The Association is a lending institution of the Farm Credit System (System) which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act.)

A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of December 31, 2011 are contained in the 2011 Annual Report to Stockholders. These unaudited first quarter 2012 consolidated financial statements should be read in conjunction with the 2011 Annual Report to Stockholders.

The accompanying consolidated 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 that reports 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 the 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 consolidated financial statements.

The Farm Credit Bank of Texas (FCB) and its related associations are collectively referred to as the "District." The Association's financial condition may be affected by factors that affect the FCB. The financial condition and results of operations of the FCB may materially affect stockholders' investment in the Association. Upon request, stockholders of the Association will be provided the Tenth Farm Credit District's Annual Report to Stockholders, which includes the combined financial statements of the FCB and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the FCB and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Farm Credit System Insurance Corporation.

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. It is the Association's policy to not participate in the use of derivatives, but the Association will have some financial instruments that are affected by these disclosure requirements. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact the financial condition or results of operations, but will result in additional disclosures.

In September 2011, the 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, 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. The adoption will not impact the District combined financial condition or results of operations.

In June 2011, 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 does not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In December 2011, the FASB issued guidance to defer the new requirement to present components of reclassifications of other comprehensive income on the face of the statement. All other requirements in the guidance for comprehensive income are required to be adopted as set forth in the June 2011 guidance. The deferral is effective at the same time the new standard on comprehensive income is adopted.

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, as more fully outlined in the 2011 Annual Report to shareholders. The amendments are to be applied prospectively and were effective beginning the first quarter of 2012.

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 adoption of this guidance did not have an impact on the Association’s financial condition or results of operations, but did result in additional disclosures.

NOTE 2 — INVESTMENTS:

Investments Held-to-Maturity

The Association’s held-to-maturity investment consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

March 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 19,001	$ -	$ (13)	$ 18,988	4.98%	3.83

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 19,523	$ -	$ (88)	$ 19,435	4.92%	3.86

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitment to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. The Association continues to service the loans included in the transaction.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

Long-term real estate mortgage loans generally have maturities ranging up to 30 years. Short-term and intermediate-term production and equipment loans have maturities of 10 years or less. Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years.)

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, payments are recognized as current interest income. Nonaccrual loans may be transferred to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified as "doubtful" or "loss."

A summary of loans follows:

Industry	**March 31, 2012**	**%**	December 31, 2011	%
Production agriculture:				
Real estate mortgage	**$ 3,971,198**	**80.1**	$ 3,978,145	80.7
Production and term	**466,047**	**9.4**	452,870	9.2
Agribusiness	**363,515**	**7.3**	344,862	7.0
Rural residential real estate	**75,681**	**1.5**	75,392	1.5
Communication	**30,607**	**0.6**	28,269	0.6
Energy	**27,252**	**0.6**	25,335	0.5
Mission related investments	**19,348**	**0.4**	21,116	0.4
Lease receivables	**6,142**	**0.1**	6,290	0.1
Water and waste disposal	**-**	**-**	158	-
Total	**$ 4,959,790**	**100.0**	$ 4,932,437	100.0

At March 31, 2012, the Association held 7 transactions, which are reported as loans on the consolidated balance sheet totaling $10,363 and with $120 remaining commitments extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

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 as of March 31, 2012:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 85,744	$ 41,466	$ 16,143	$ -	$ 101,887	$ 41,466
Production and intermediate term	86,733	-	-	-	86,733	-
Agribusiness	229,251	16,051	1,810	-	231,061	16,051
Communication	30,607	-	-	-	30,607	-
Energy	27,253	-	-	-	27,253	-
Lease receivables	6,042	-	-	-	6,042	-
Mission Related	9,912	-	-	-	9,912	-
Total	$ 475,542	$ 57,517	$ 17,953	$ -	$ 493,495	$ 57,517

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

	March 31, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	**$ 88,876**	$ 104,009
Production and intermediate-term	**7,823**	7,538
Agribusiness	**33,666**	22,303
Communication	**783**	790
Residential Real Estate	**470**	504
Lease receivable	**2,833**	2,881
Mission related investments	**-**	80
Total nonaccrual loans	**$ 134,451**	$ 138,105
Accruing restructured loans:		
Real estate mortgage	**$ 5,832**	$ 5,843
Production and intermediate-term	**682**	680
Agribusiness	**4,603**	4,612
Total accruing restructured loans	**$ 11,117**	$ 11,135
Accruing loans 90 days or more past due:		
Real estate mortgage	**$ 648**	$ 172
Production and intermediate-term	**1,049**	2,144
Agribusiness	**640**	2,684
Residential Real Estate	**36**	-
Total accruing loans 90 days or more past due	**$ 2,373**	$ 5,000
Total nonperforming loans	**$ 147,941**	$ 154,240
Other property owned	**7,571**	6,220
Total nonperforming assets	**$ 155,512**	$ 160,460

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 classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	March 31, 2012	December 31, 2011
Real estate mortgage		
Acceptable	**93.7%**	92.8%
OAEM	**2.6%**	3.0%
Substandard/doubtful	**3.7%**	4.2%
	100.0%	100.0%
Production and intermediate-term		
Acceptable	**89.6%**	88.5%
OAEM	**7.1%**	8.2%
Substandard/doubtful	**3.3%**	3.3%
	100.0%	100.0%
Agribusiness		
Acceptable	**82.1%**	80.9%
OAEM	**6.7%**	7.8%
Substandard/doubtful	**11.2%**	11.3%
	100.0%	100.0%
Energy		
Acceptable	**61.5%**	80.5%
OAEM	**29.1%**	9.3%
Substandard/doubtful	**9.4%**	10.2%
	100.0%	100.0%
Water and waste disposal		
Acceptable	-	100.0%
OAEM	-	-
Substandard/doubtful	-	-
	-	100.0%
Communication		
Acceptable	**97.4%**	97.2%
OAEM	-	-
Substandard/doubtful	**2.6%**	2.8%
	100.0%	100.0%
Rural residential real estate		
Acceptable	**97.2%**	97.0%
OAEM	**1.7%**	1.8%
Substandard/doubtful	**1.1%**	1.2%
	100.0%	100.0%
Lease receivables		
Acceptable	**53.9%**	54.2%
OAEM	-	-
Substandard/doubtful	**46.1%**	45.8%
	100.0%	100.0%
Mission related investments		
Acceptable	**98.3%**	98.1%
OAEM	**1.7%**	1.5%
Substandard/doubtful	-	0.4%
	100.0%	100.0%
Total Loans		
Acceptable	**92.4%**	91.6%
OAEM	**3.5%**	3.8%
Substandard/doubtful	**4.1%**	4.6%
	100.0%	100.0%

The following table provides an age analysis of past due loans (including accrued interest) as of March 31, 2012:

March 31, 2012	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	Loans >90 Days and Accruing
Real estate mortgage	$ 19,614	$45,672	$ 65,286	$ 3,939,072	4,004,358	$ 649
Production and intermediate term	2,404	5,310	7,714	465,454	473,168	1,049
Loans to cooperatives	-	-	-	5,242	5,242	-
Processing and marketing	6,064	5,902	11,966	319,264	331,230	640
Farm-related business	60	2,870	2,930	26,224	29,154	-
Communication	-	-	-	30,729	30,729	-
Energy	-	-	-	27,296	27,296	-
Rural residential real estate	156	309	465	75,705	76,170	36
Lease receivables	-	2,759	2,759	3,434	6,193	-
Mission related investments	10,102	-	10,102	9,489	19,591	-
Total	$ 38,400	$62,822	$ 101,222	$ 4,901,909	$5,003,131	$ 2,374

December 31, 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	Loans >90 Days and Accruing
Real estate mortgage	$ 21,948	$67,517	$ 89,465	$ 3,924,215	$4,013,680	$ 172
Production and intermediate term	3,377	4,706	8,083	451,262	459,345	2,144
Loans to cooperatives	-	-	-	2,303	2,303	-
Processing and marketing	2,449	8,281	10,730	304,683	315,413	2,684
Farm-related business	451	2,417	2,868	25,724	28,592	-
Communication	-	-	-	28,379	28,379	-
Energy	-	-	-	25,375	25,375	-
Water and waste disposal	-	-	-	159	159	-
Rural residential real estate	595	271	866	75,035	75,901	-
Lease receivables	-	2,759	2,759	3,634	6,393	-
Mission related investments	-	-	-	21,283	21,283	-
Total	$ 28,820	$85,951	$ 114,771	$ 4,862,052	$4,976,823	$ 5,000

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of March 31, 2012 the total troubled debt restructured loans was $13,215, including $2,098 classified as nonaccrual and $11,107 classified as accrual, with specific allowance for loan losses of $190. As of March 31, 2012 commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $433.

The Association had no loans with a troubled debt restructuring designation that occurred during the quarter ended March 31, 2012.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

The Association had no loans that met the accounting criteria as a troubled debt restructuring and that occurred from April 1, 2011 through March 31, 2012, and for which there was a payment default during that same period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Additional impaired loan information is as follows:

	At March 31, 2012			At December 31, 2011		
	Loan Balance	Unpaid Principal Balance[a]	Related Specific Allowance	Loan Balance	Unpaid Principal Balance[a]	Related Specific Allowance
Impaired loans with a related allowance for loan losses:						
Real estate mortgage	$ 43,878	$ 55,321	$ 4,047	$ 55,180	$ 67,170	$ 9,124
Production and intermediate term	2,431	4,022	976	2,402	4,017	935
Processing and marketing	20,958	21,189	7,758	11,729	11,961	6,274
Farm-related business	1,309	1,309	633	1,310	1,310	636
Communication	783	783	453	791	790	453
Rural residential real estate	26	40	3	25	39	3
Lease receivables	2,759	2,759	27	2,759	2,759	27
Mission related investments	-	-	-	-	-	-
Total	$ 72,144	$ 85,423	$ 13,897	$ 74,196	$ 88,046	$ 17,452
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	$ 51,463	$ 57,533	$ -	$ 54,762	$ 57,236	$ -
Production and intermediate term	7,061	11,529	-	7,960	12,436	-
Processing and marketing	15,024	32,326	-	14,954	31,939	-
Farm-related business	1,608	8,673	-	1,605	8,777	-
Communication	-	-	-	-	-	-
Rural residential real estate	479	569	-	478	568	-
Lease receivables	74	74	-	122	122	-
Mission related investments	-	18	-	80	95	-
Total	$ 75,709	$ 110,722	$ -	$ 79,961	$ 111,173	$ -
Total impaired loans:						
Real estate mortgage	$ 95,341	$ 112,854	$ 4,047	$ 109,942	$ 124,406	$ 9,124
Production and intermediate term	9,492	15,551	976	10,362	16,453	935
Processing and marketing	35,982	53,515	7,758	26,683	43,900	6,274
Farm-related business	2,917	9,982	633	2,915	10,087	636
Communication	783	783	453	791	790	453
Rural residential real estate	505	609	3	503	607	3
Lease receivables	2,833	2,833	27	2,881	2,881	27
Mission related investments	-	18	-	80	95	-
Total	$ 147,853	$ 196,145	$ 13,897	$ 154,157	$ 199,219	$ 17,452

[a]Unpaid principal balance represents the recorded principal balance of the loan.

	For the Quarted Ended March 31, 2012		For the Year Ended December 31, 2011	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Real estate mortgage	$ 46,122	$ -	$ 43,496	$ 625
Production and intermediate term	2,407	-	2,792	2
Processing and marketing	12,290	197	16,191	31
Farm-related business	1,309	-	1,356	-
Communication	788	-	1,012	-
Rural residential real estate	26	-	17	1
Lease receivables	2,759	-	2,800	-
Mission related investments	-	-	-	-
Total	$ 65,701	$ 197	$ 67,664	$ 659
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	$ 58,247	$ 198	$ 62,533	$ 1,603
Production and intermediate term	5,886	79	8,549	377
Processing and marketing	15,316	106	16,967	498
Farm-related business	1,606	-	1,019	14
Communication	-	-	-	-
Rural residential real estate	484	1	374	10
Lease receivables	77	-	47	8
Mission related investments	40	-	2	6
Total	$ 81,656	$ 384	$ 89,491	$ 2,516
Total impaired loans:				
Real estate mortgage	$ 104,369	$ 198	$ 106,029	$ 2,228
Production and intermediate term	8,293	79	11,341	379
Processing and marketing	27,606	303	33,158	529
Farm-related business	2,915	-	2,375	14
Communication	788	-	1,012	-
Rural residential real estate	510	1	391	11
Lease receivables	2,836	-	2,847	8
Mission related investments	40	-	2	6
Total	$ 147,357	$ 581	$ 157,155	$ 3,175

A summary of changes in the allowance for loan losses and the ending balance including accrued interest of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Lease Receivable	Mission Related Investments	Total
Allowance for loan losses:									
Balance at December 31, 2011	$ 22,598	$ 4,017	$ 9,585	$ 537	$ 111	$ 125	$ 35	$ 15	$ 37,023
Charge-offs	(3,519)	(5)	(410)	-	-	-	-	(4)	(3,938)
Recoveries	1,077	44	145	-	-	-	-	-	1,266
Provision for loan losses	(3,544)	129	1,861	49	280	10	-	3	(1,212)
Balance at March 31, 2012	$ 16,612	$ 4,185	$ 11,181	$ 586	$ 391	$ 135	$ 35	$ 14	$ 33,139
Allowance for loan losses:									
Individually evaluated for impairment	$ 3,983	$ 939	$ 8,492	$ 453	$ -	$ 3	$ 27	$ -	$ 13,897
Allowance for loan losses:									
Collectively evaluated for impairment	$ 12,629	$ 3,246	$ 2,689	$ 133	$ 391	$ 132	$ 8	$ 14	$ 19,242
Loans, including accrued interest:									
Ending Balance at March 31, 2012	$ 4,008,253	$ 477,419	$ 356,568	$ 31,119	$ 27,792	$ 76,195	$ 6,241	$ 19,544	$ 5,003,131
Ending balance for loans Individually evaluated for impairment	$ 91,069	$ 7,836	$ 34,452	$ 783	$ -	$ 486	$ 2,869	$ 4	$ 137,499
Ending balance for loans Collectively evaluated for impairment	$ 3,917,184	$ 469,583	$ 322,116	$ 30,336	$ 27,792	$ 75,709	$ 3,372	$ 19,540	$ 4,865,632

NOTE 4 — FAIR VALUE MEASUREMENTS:

Accounting 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 2 to the 2011 Annual Report to Stockholders for a more complete description.

Assets held in non-qualified benefits trusts related to deferred compensation and supplemental retirement plans are classified with Level 1. Level 1 valuation utilizes quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The trust funds include investments that are actually traded and have quoted net asset values that are quoted in the marketplace. The assets held in non-qualified benefits trusts are measured at fair value on a recurring basis and are summarized below:

	Total Fair Value March 31, 2012	**Total Fair Value December 31, 2011**
Beginning Balance	**$ 2,006**	**$ 1,702**
Transfers In	**643**	**473**
Transfers Out	**-**	**-**
Other Market Changes	**230**	**(169)**
Assets held in non-qualified benefits trusts	**$ 2,879**	**$ 2,006**

For certain loans evaluated for impairment, the fair value is based upon the underlying collateral since these 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 and judgment about current market conditions, specific issues related to collateral and other matters. These loans are generally classified as Level 3. Level 3 valuation utilizes unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Other property owned is also generally classified as Level 3. The fair value is based upon the value of the property. Cost to sell represents transaction costs and are not included as a component of the asset's fair value.

These assets are measured at fair value on a non-recurring basis and are summarized below:

	Total Fair Value March 31, 2012	Total Fair Value December 31, 2011
Impaired Loans	**$ 118,049**	$ 128,999
Investments Held-to-Maturity	**18,988**	19,435
Other property owned	**7,571**	6,220
Total	**$ 144,608**	$ 154,654

NOTE 5 — NOTE PAYABLE TO THE FARM CREDIT BANK OF TEXAS:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the FCB. The FCB manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the FCB, under a general financing agreement between the FCB and the Association, represents demand borrowings by the Association to fund the majority of its loan advances to Association members. The indebtedness is collateralized by a pledge of substantially all of the Association's assets.

The total amount and the weighted average interest rate of the Association's direct loan from the FCB were $4,146,926 at 2.29 percent, and $4,104,831 at 2.56 percent for the three months ended March 31, 2012 and year ended December 31, 2011, respectively. The FCB periodically reprices the rate on portions of the direct loan as the pricing terms expire.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2010, 2009 and 2008, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of September 30, 2011, was $4,880,111, as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans.

NOTE 6 — MEMBERS EQUITY:

The board of directors approved a $126,602 patronage distribution for 2011. $38,400 of this distribution was paid in cash in March 2012. $88,202 of this distribution was made in the form of nonqualified allocated earnings distributions. The owners of these distributions will not pay federal income taxes until the earnings are retired since the earnings distributed were nonqualified. It is the board's intention with this allocation and future allocations to assign ownership of the earnings of the Association, allow the stockholders to benefit more fully from the earnings of the Association, and to create a method to make future earnings distributions in the form of cash. While there is not a planned retirement of allocated earnings, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of any outstanding allocated earnings can be made.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The Association previously disclosed in its 2011 Annual Report, that it expected to contribute $4,920 to its pension plan in 2012, which will be $1,572 less than the 2011 contribution. Pension plan funding expense was $1,230 and $1,623 for the three months ended March 31, 2012 and 2011 respectively.

Comprehensive Income:

The new FASB standard for presentation of comprehensive income requires entities to present items of net income and other comprehensive income either in one continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The new standard eliminates the option to present items of other comprehensive income in the statement of changes in equity. The Association elected to present comprehensive income consistently in one continuous statement. The standard also requires disclosure of the changes in the accumulated balances for each component of other comprehensive income. For the periods reflected in the accompanying financial statements, the only component of accumulated other comprehensive income relates to postretirement benefit costs. The following table summarizes the changes in accumulated other comprehensive income (loss) for the three months ended March 31:

	2012	2011
Accumulated other comprehensive income at January 1	$ 1,041	$ 1,672
Amortization of prior service credit (costs) included in net period postretirement benefit cost	(85)	(105)
Amortization of actuarial gain included in net periodic postretirement benefit cost	-	-
Income tax expense related to items of other comprehensive income	-	-
Other comprehensive income (loss), net of tax	(85)	(105)
Accumulated other comprehensive income at March 31	$ 956	$ 1,567

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 4, 2012 which is the date the financial statements were issued and there are no significant events requiring disclosure as of this date.