


2013 Quarterly Report



For the 1st Quarter Ended March 31, 2013

REPORT OF MANAGEMENT

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



Charles P. Gant
Chief Executive Officer/President
May 3, 2013



Burt S. Richards
Chairman, Board of Directors
May 3, 2013



Sharla Chambers
Chief Financial Officer
May 3, 2013

TEXAS LAND BANK, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Texas Land Bank, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended March 31, 2013. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2012 Annual Report to Stockholders.

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's Audit Committee.

SIGNIFICANT EVENTS:

Effective February 27, 2013, the Association entered into a Letter of Intent in order to memorialize its intent to pursue a mutually beneficial merger transaction with Lone Star, ACA, pending completion of due diligence on each other's operations. This is the first step in a process developing definitive terms and conditions for a plan of merger. The proposed effective date for the merger is January 1, 2014, as soon as practicable thereafter. Additional disclosures will be provided to stockholders during 2013 under timelines dictated by Farm Credit regulations.

LOAN PORTFOLIO:

The Association makes and services loans to farmers, ranchers, rural homeowners, and certain farm-related businesses, primarily in the 16-county Central Texas trade area located in the I-35 Corridor between the metropolitan areas of Dallas/Fort Worth and Austin. The Association's total loan volume consists of long-term rural real estate mortgage loans, production and intermediate-term loans, farm-related business loans and rural home loans.

Total loans outstanding at March 31, 2013, including nonaccrual loans and sales contracts, were \$490,172,138 compared to \$480,461,990 at December 31, 2012, reflecting an increase of 2.0 percent.

The primary commodity source for the Association's portfolio is livestock, excluding dairy and poultry. Cattle prices continue to be strong, and the lower than normal cow herd numbers should continue to maintain a favorable supply/demand environment for ranchers in the near term as consumer demand for meat and meat protein products remains good. For the producers in the Association's portfolio, demand for agricultural commodities has remained stable despite some continuing strains in the global economy.

For the producers in the Association's portfolio, demand for agricultural commodities has remained stable despite ongoing strains in the global economy. Local agricultural conditions in the 16 county area served by the Association were considered good during the crop-growing season in 2012, with adequate rainfall that resulted in above average yields on row crops. Pasture conditions are considered fair, as they have continued to recover from the 2011 drought. Operators continue to be concerned about production cost volatility, particularly fuel, fertilizer, feed, and chemical costs. Grain prices have continued to trade above average historical ranges; however, prices have now backed off of their previous higher levels. Prices continue to affect feed costs, negatively impacting livestock and poultry producers. While economists are predicting grain prices to continue trading within above average ranges during much of the 2013 production cycle, overall grain prices are predicted to soften some and will be a positive for meat protein producers. Cattle prices continue to be strong, and the lower than normal cow herd numbers should continue to maintain a favorable supply/demand environment for ranchers in the near term as consumer demand for meat and meat protein products remains good. Cotton prices have been trading within stable to somewhat higher price ranges and still within profitable levels. The upcoming weather patterns and potential continuing impact on yields and production is the highest concern for producers in our growing area at this time and into 2013.

The vast majority of the Association's loan portfolio, however, is not dependent upon ag income. Thus, the Association does not experience large fluctuations due to seasonal characteristics. The overall general regional economy presently continues to outperform the national economy and has provided stability for off-farm income sources, and the overall outlook for stable debt repayment and asset quality remains good; however, lingering effects of the financial market crisis and weakened overall economy continues to have some impact on the local economy. Local rural real estate/land values/sales data continue to be relatively stable. Area realtors are continuing to report that although actual sales transactions for rural property are still below where they were several years ago, the number of sales transactions and overall prices did increase some during 2012. While there remains some threat to the quality of the Association's core loan portfolio, no significant threat has been detected as of yet.

RISK EXPOSURE:

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

	March 31, 2013		December 31, 2012	
	Amount	%	Amount	%
Nonaccrual	\$ 2,674,865	77.1%	\$ 2,689,055	77.2%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Formally restructured	446,540	12.9%	448,062	12.9%
Other property owned, net	347,430	10.0%	347,430	10.0%
Total	<u>\$ 3,468,835</u>	<u>100.0%</u>	<u>\$ 3,484,547</u>	<u>100.1%</u>

Total high-risk assets as of March 31, 2013, were \$3,468,835, as compared to \$3,484,547 as of December 31, 2012, which represented a .5 percent decrease, as a result of pay downs of principal on loans classified as nonaccrual and formally restructured.

Nonaccrual loans as a percentage of total loans outstanding were .5 percent at March 31, 2013, compared to .6 percent at December 31, 2012. The decrease in nonaccrual loan volume was primarily the result of the pay down of principal of loans classified as nonaccrual with no new additions to nonaccrual volume.

Formally restructured loans are comprised of a capital markets participation loan in the ethanol industry which was transferred back to accrual status during the second quarter of 2011 when warranted by improved performance and operating conditions. Although the loan was transferred back to accrual status and was a performing loan as of March 31, 2013, the conditions and structure of the loan mandated it being classified as formally restructured.

Other property owned remained unchanged as of March 31, 2013, as compared to December 31, 2012. The amount consisted of a capital markets participation loan in the ethanol industry that went into foreclosure whose collateral was acquired by the lender group in June 2010. The Association, along with other participating lenders, received an equity position in the borrowing entity in exchange for concession of a portion of the debt. The equity was valued at \$347,430, and an acquired property was recognized for this amount.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ended March 31, 2013, and \$0 in recoveries and \$0 in charge-offs for the same period in 2012. The Association's allowance for loan losses was 0.3 percent and 0.3 percent of total loans outstanding as of March 31, 2013, and December 31, 2012, respectively. Management and the Association Audit Committee have reviewed the composition of the loan portfolio and feel that loans that could present a problem have been satisfactorily identified and adjustments have been appropriately made in order to ensure that the allowance for loan loss balance is adequate at this time.

The overall quality of the loan portfolio remained strong through the first quarter of 2013, with loans classified under Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" at 97.84 percent of total loans and accrued interest as of March 31, 2013.

RESULTS OF OPERATIONS:

Net Income

The Association had net income of \$2,679,069 for the three months ended March 31, 2013, as compared to net income of \$2,876,004 for the same period in 2012, reflecting a decrease of 6.9 percent, respectively. The decrease in net income is primarily related to a combination of a decrease in interest and noninterest income as well as an increase in noninterest expenses.

Net Interest Income

Net interest income was \$3,744,689 for the three months ended March 31, 2013, compared to \$3,626,422 for the same period in 2012, reflecting an increase of \$118,267. Interest income for the three months ended March 31, 2013, decreased by \$262,765, or 4.3 percent, respectively, from the same period of 2012. The decrease is primarily the result of declines in yields on earning assets offset by an increase in average loan volume, as average loan volume for the first quarter of 2013 was \$483,455,516 compared to

\$465,473,117 in the first quarter of 2012. In spite of an increase in average loan volume for the first quarter of 2013, interest expense

for the three months ended March 31, 2013, decreased by \$381,032, or 15.6 percent, from the same period of 2012 due to a decrease in interest rates offset by an increase average debt volume. The factors impacting interest income and interest expense produced an average spread on the loan portfolio for the first quarter of 2013 equal to 2.69 percent, compared to 2.60 percent in the first quarter of 2012.

Noninterest Income and Expense

Noninterest income was \$420,533 for the three months ended March 31, 2013, as compared to \$427,345 for the same period in 2012, reflecting a decrease of \$6,812, or 1.59 percent. The decrease is primarily the result of a decrease in loan fees and financially related services income, offset by an increase in the accrual of patronage income from the Farm Credit Bank of Texas as a result of a higher direct note balance in addition to the increase of other noninterest income, which resulted from an increase in appraisal income.

Noninterest expenses were \$1,499,563 for the quarter ended March 31, 2013, as compared to \$1,284,922 for the same period in 2012, reflecting an increase of \$214,641, or 16.70 percent, primarily as a result of an increase in salaries and benefits and occupancy and equipment. Salaries and benefits increased with the increase in staff needed by the Association as a result of loan portfolio growth and increased regulatory and reporting expectations. In addition, occupancy and equipment expenses increased for the period in 2013 versus 2012 due to an increase in property taxes on existing facilities as well as the leasing of expanded office space to accommodate additional staff. Further, insurance fund premiums paid into the Farm Credit System Insurance Corporation (FCSIC) increased by \$45,270, or 103.03 percent, due to an increase in loan volume as well as a rate increase from 5 basis points to 9 basis points on accrual loan volume.

The Association continued with the utilization of the authoritative accounting guidance that was implemented in the fourth quarter of 2010, requiring the capitalization and amortization of loan origination fees and costs for loans closed, resulting in the capitalization of \$156,506 in loan origination fees and \$126,833 in salaries and benefits for the three months ended March 31, 2013, which will be amortized over the life of the loans as an adjustment to yield in net interest income.

Financial Performance Ratios

The Association’s return on average assets for the three months ended March 31, 2013, was 2.19 percent compared to 2.42 percent for the same period in 2012. The Association’s return on average equity for the three months ended March 31, 2013, was 10.41 percent, compared to 11.67 percent for the same period in 2012. These changes are the result of a decrease in net income as discussed above.

LIQUIDITY AND FUNDING SOURCES:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association’s borrowings:

	March 31, 2013	December 31, 2012
Note payable to the Bank	\$ 388,925,011	\$ 380,391,555
Accrued interest on note payable	707,272	722,225
Total	\$ 389,632,283	\$ 381,113,780

The Association experienced a 2.24 percent increase in notes and accrued interest payable to the Bank through the three months ended March 31, 2013, due to an increase in loan volume experienced by the Association since December 31, 2012.

CAPITAL RESOURCES:

The Association’s capital position increased by \$2,671,718 at March 31, 2013, compared to December 31, 2012. The Association’s debt as a percentage of members’ equity was 3.75:1 as of March 31, 2013, compared to 3.77:1 as of December 31, 2012.

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, 2013, was 19.74 percent, which is in compliance with the FCA’s minimum permanent capital

standard. The Association's core surplus ratio and total surplus ratio at March 31, 2013, were 18.84 and 19.18 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS:

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 offset 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. 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 financial condition or results of operations, but will result in additional disclosures.

In February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for non-public entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2012 Annual Report of Texas Land Bank, ACA more fully describe the Association's relationship with the Bank.

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

The Association's quarterly stockholder reports are also available free of charge, upon request 45 days after the close of the quarter. These reports can be obtained by writing to Texas Land Bank, ACA, P. O. Box 20997, Waco, Texas 76702 or calling (254) 772-6905. Copies of the Association's quarterly stockholder reports can also be requested by emailing sharla.chambers@texaslandbank.com or accessed on the Association's website at www.texaslandbank.com.

TEXAS LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2013 (unaudited)	December 31, 2012
<u>ASSETS</u>		
Cash	\$ 129,103	\$ 657,738
Loans	490,172,138	480,461,990
Less: allowance for loan losses	1,305,272	1,318,682
Net loans	<u>488,866,866</u>	<u>479,143,308</u>
Accrued interest receivable	3,327,179	2,749,878
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	7,635,765	7,635,765
Other	288,004	68,306
Other property owned, net	347,430	347,430
Premises and equipment	1,580,240	1,599,926
Other assets	851,877	382,114
Total assets	<u><u>\$ 503,026,464</u></u>	<u><u>\$ 492,584,465</u></u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 388,925,011	\$ 380,391,555
Advance conditional payments	2,903	3,905
Accrued interest payable	707,273	722,225
Drafts outstanding	794,817	1,480,153
Patronage distributions payable	4,295,072	4,295,072
Other liabilities	2,447,982	2,509,866
Total liabilities	<u><u>397,173,058</u></u>	<u><u>389,402,776</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,793,375	2,793,160
Allocated retained earnings	14,253,895	14,253,895
Unallocated retained earnings	89,282,987	86,603,918
Accumulated other comprehensive income (loss)	(476,851)	(469,285)
Total members' equity	<u>105,853,406</u>	<u>103,181,688</u>
Total liabilities and members' equity	<u><u>\$ 503,026,464</u></u>	<u><u>\$ 492,584,464</u></u>

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter and Year Ended	
	March 31,	
	2013	2012
<u>INTEREST INCOME</u>		
Loans	\$ 5,802,403	\$ 6,065,168
Total interest income	5,802,403	6,065,168
<u>INTEREST EXPENSE</u>		
Note payable to the Farm Credit Bank of Texas	2,057,707	2,438,746
Advance conditional payments	7	-
Total interest expense	2,057,714	2,438,746
Net interest income	3,744,689	3,626,422
<u>PROVISION FOR LOAN LOSSES</u>		
	(13,410)	(107,159)
Net interest income after provision for loan losses	3,758,099	3,733,581
<u>NONINTEREST INCOME</u>		
Income from the Farm Credit Bank of Texas:		
Patronage income	327,586	325,517
Loan fees	88,634	98,373
Financially related services income	3,053	3,155
Gain (loss) on sale of premises and equipment, net	10	-
Other noninterest income	1,250	300
Total noninterest income	420,533	427,345
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	921,127	768,596
Directors' expense	66,893	67,509
Purchased services	80,418	82,145
Travel	39,694	36,145
Occupancy and equipment	73,428	64,571
Communications	19,852	20,327
Advertising	64,119	66,417
Public and member relations	31,003	31,808
Supervisory and exam expense	42,986	44,179
Insurance Fund premiums	89,208	43,938
Other noninterest expense	70,835	59,287
Total noninterest expenses	1,499,563	1,284,922
Income before income taxes	2,679,069	2,876,004
NET INCOME	2,679,069	2,876,004
Other comprehensive income:		
Change in postretirement benefit plans	(7,566)	(6,010)
Other comprehensive income, net of tax	(7,566)	(6,010)
COMPREHENSIVE INCOME	\$ 2,671,503	\$ 2,869,994

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2011	\$ 2,730,590	\$ -	\$ 15,754,288	\$ 79,444,404	\$ (123,855)	\$ 97,805,427
Comprehensive income	-	-	-	2,876,004	(6,010)	2,869,994
Capital stock/participation certificates and allocated retained earnings issued	103,655	-	-	-	-	103,655
Capital stock/participation certificates and allocated retained earnings retired	(89,545)	-	-	-	-	(89,545)
Balance at March 31, 2012	\$ 2,744,700	\$ -	\$ 15,754,288	\$ 82,320,408	\$ (129,865)	\$ 100,689,531
Balance at December 31, 2012	\$ 2,793,160	\$ -	\$ 14,253,895	\$ 86,603,918	\$ (469,285)	\$ 103,181,688
Comprehensive income	-	-	-	2,679,069	(7,566)	2,671,503
Capital stock/participation certificates and allocated retained earnings issued	91,165	-	-	-	-	91,165
Capital stock/participation certificates and allocated retained earnings retired	(90,950)	-	-	-	-	(90,950)
Balance at March 31, 2013	\$ 2,793,375	\$ -	\$ 14,253,895	\$ 89,282,987	\$ (476,851)	\$ 105,853,406

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

TEXAS LAND BANK, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Texas Land Bank, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Bell, Bosque, Burnet, Coryell, Dallas, Ellis, Falls, Freestone, Hamilton, Hill, Lampasas, Limestone, McLennan, Milam, Navarro, and Williamson in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The significant accounting policies followed and the financial condition and results of operations of the Association as of and for the year ended December 31, 2012, are contained in the 2012 Annual Report to Stockholders. These unaudited first quarter 2013 financial statements should be read in conjunction with the 2012 Annual Report to Stockholders.

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 offset 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. 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 financial condition or results of operations, but will result in additional disclosures.

In February 2013, the FASB issued guidance, “Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income.” The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012, and for non-public entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures.

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 reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended March 31, 2013, are not necessarily indicative of the results to be expected for the year ended December 31, 2013. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	March 31,	December 31,
	2013	2012
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 417,163,412	\$ 408,640,139
Production and intermediate term	25,683,452	25,842,040
Agribusiness:		
Loans to cooperatives	1,982,060	1,398,198
Processing and marketing	16,793,712	17,867,787
Farm-related business	5,589,040	3,535,708
Communication	729,960	764,984
Energy	12,281,251	12,000,562
Rural residential real estate	9,949,251	10,412,572
Total	<u>\$ 490,172,138</u>	<u>\$ 480,461,990</u>

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2013:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 14,097,132	\$ 15,626,469	\$ -	\$ -	\$ 14,097,132
Production and intermediate term	7,740,418	3,335,966	-	-	7,740,418	3,335,966
Agribusiness	20,283,429	-	-	-	20,283,429	-
Communication	764,984	-	-	-	764,984	-
Energy	12,000,562	-	-	-	12,000,562	-
Total	<u>\$ 54,886,525</u>	<u>\$ 18,962,435</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,886,525</u>	<u>\$ 18,962,435</u>

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

	March 31,	December 31,
	2013	2012
Nonaccrual loans:		
Real estate mortgage	\$ 776,126	\$ 789,349
Agribusiness	1,890,354	1,890,354
Rural residential real estate	8,385	9,352
Total nonaccrual loans	<u>2,674,865</u>	<u>2,689,055</u>
Accruing restructured loans:		
Real estate mortgage	446,540	448,062
Total accruing restructured loans	<u>446,540</u>	<u>448,062</u>
Accruing loans 90 days or more past due:		
Total accruing loans 90 days or more	<u>-</u>	<u>-</u>
Total nonperforming loans	3,121,405	3,137,117
Other property owned	347,430	347,430
Total nonperforming assets	<u>\$ 3,468,835</u>	<u>\$ 3,484,547</u>

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

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

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

	March 31, 2013		December 31, 2012	
Real estate mortgage				
Acceptable	96.28	%	96.64	%
OAEM	2.21		1.82	
Substandard/doubtful	1.51		1.54	
	100.00		100.00	
Production and intermediate term				
Acceptable	100.00		100.00	
	100.00		100.00	
Agribusiness				
Acceptable	87.80		87.09	
OAEM	4.45		4.63	
Substandard/doubtful	7.75		8.28	
	100.00		100.00	
Energy and water/waste water				
Acceptable	80.73		80.10	
Substandard/doubtful	19.27		19.90	
	100.00		100.00	
Communication				
Acceptable	100.00		100.00	
	100.00		100.00	
Rural residential real estate				
Acceptable	99.06		99.06	
OAEM	0.29		0.29	
Substandard/doubtful	0.65		0.65	
	100.00		100.00	
Total loans				
Acceptable	95.73		96.00	
OAEM	2.11		1.80	
Substandard/doubtful	2.16		2.20	
	100.00	%	100.00	%

The following tables provide an age analysis of past due loans (including accrued interest) as of:

<u>March 31, 2013</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Not Past Due or Less Than 30 Days Past Due</u>	<u>Total Loans</u>	<u>Recorded Investment >90 Days and Accruing</u>
Real estate mortgage	\$ 349,935	\$ 330,261	\$ 680,196	\$ 419,571,331	\$ 420,251,527	\$ -
Production and intermediate term	-	-	-	25,840,728	25,840,728	-
Loans to cooperatives	-	-	-	1,983,342	1,983,342	-
Processing and marketing	-	1,890,354	1,890,354	14,917,544	16,807,898	-
Farm-related business	-	-	-	5,606,525	5,606,525	-
Communication	-	-	-	740,510	740,510	-
Energy	-	-	-	12,288,595	12,288,595	-
Rural residential real estate	-	-	-	9,980,192	9,980,192	-
Total	\$ 349,935	\$ 2,220,615	\$ 2,570,550	\$ 490,928,767	\$ 493,499,317	\$ -

<u>December 31, 2012</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Not Past Due or Less Than 30 Days Past Due</u>	<u>Total Loans</u>	<u>Recorded Investment >90 Days and Accruing</u>
Real estate mortgage	\$ 183,280	\$ 334,590	\$ 517,870	\$ 410,657,525	\$ 411,175,395	\$ -
Production and intermediate term	-	-	-	25,998,708	25,998,708	-
Loans to cooperatives	-	-	-	1,399,070	1,399,070	-
Processing and marketing	-	1,890,354	1,890,354	15,993,656	17,884,010	-
Farm-related business	-	-	-	3,540,329	3,540,329	-
Communication	-	-	-	776,293	776,293	-
Energy	-	-	-	12,003,594	12,003,594	-
Rural residential real estate	-	-	-	10,434,469	10,434,469	-
Total	\$ 183,280	\$ 2,224,944	\$ 2,408,224	\$ 480,803,644	\$ 483,211,868	\$ -

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

A restructuring of a debt constitutes a troubled debt restructuring 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, 2013, the total recorded investment of troubled debt restructured loans was \$776,801, including \$330,261 classified as nonaccrual and \$446,541 classified as accrual, with specific allowance for loan losses of \$130,802 on the nonaccrual loan. During the quarter ended March 31, 2013, there were no restructured loans designated as troubled debt restructurings. All troubled debt restructurings in the loan portfolio were restructured prior to January 1, 2012. Allowance for loan loss for troubled debt restructurings with a probability of default of 11 or less are included in the general allowance pool. Those with a probability of default of 12 or greater are calculated on a specific allowance basis. As of March 31, 2013, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were \$0.

During the period, there were no payment defaults on loans that were restructured during the previous 12 months. 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:

	March 31, 2013			At December 31, 2012		
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ 330,261	\$ 342,979	\$ 130,802	\$ 587,528	\$ 600,272	\$ 136,366
Processing and marketing	1,890,354	1,890,355	594,100	1,890,354	1,890,354	594,100
Total	<u>\$ 2,220,615</u>	<u>\$ 2,233,334</u>	<u>\$ 724,902</u>	<u>\$ 2,477,882</u>	<u>\$2,490,626</u>	<u>\$ 730,466</u>
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 892,405	\$ 893,198	\$ -	\$ 649,883	\$ 650,211	\$ -
Rural residential real estate	8,385	8,385	-	9,352	9,352	-
Total	<u>\$ 900,790</u>	<u>\$ 901,583</u>	<u>\$ -</u>	<u>\$ 659,235</u>	<u>\$ 659,563</u>	<u>\$ -</u>
Total impaired loans:						
Real estate mortgage	\$ 1,222,666	\$ 1,236,177	\$ 130,802	\$ 1,237,411	\$1,250,483	\$ 136,366
Processing and marketing	1,890,354	1,890,355	594,100	1,890,354	1,890,354	594,100
Rural residential real estate	8,385	8,385	-	9,352	9,352	-
Total	<u>\$ 3,121,405</u>	<u>\$ 3,134,917</u>	<u>\$ 724,902</u>	<u>\$ 3,137,117</u>	<u>\$3,150,189</u>	<u>\$ 730,466</u>

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

	March 31, 2013		December 31, 2012	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	\$ 332,425	\$ -	\$ 613,558	\$ -
Processing and marketing	1,890,354	-	1,487,491	-
Total	<u>\$ 2,222,779</u>	<u>\$ -</u>	<u>\$ 2,101,049</u>	<u>\$ -</u>
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 898,570	\$ 4,628	\$ 662,101	\$ 23,136
Rural residential real estate	8,740	-	7,895	-
Total	<u>\$ 907,310</u>	<u>\$ 4,628</u>	<u>\$ 669,996</u>	<u>\$ 23,136</u>
Total impaired loans:				
Real estate mortgage	\$ 1,230,995	\$ 4,628	\$ 1,275,659	\$ 23,136
Processing and marketing	1,890,354	-	1,487,491	-
Rural residential real estate	8,740	-	7,895	-
Total	<u>\$ 3,130,089</u>	<u>\$ 4,628</u>	<u>\$ 2,771,045</u>	<u>\$ 23,136</u>

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at							
December 31, 2012	\$ 507,204	\$ 30,783	\$ 624,166	\$ 2,232	\$ 145,558	\$ 8,739	\$ 1,318,682
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(22,561)	3,738	5,440	(101)	1,510	(1,436)	(13,410)
Adjustment due to merger	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Balance at							
March 31, 2013	\$ 484,643	\$ 34,521	\$ 629,606	\$ 2,131	\$ 147,068	\$ 7,303	\$ 1,305,272
Ending Balance:							
Individually evaluated for impairment	\$ 130,802	\$ -	\$ 594,100	\$ -	\$ -	\$ -	\$ 724,902
Collectively evaluated for impairment	353,841	34,521	35,506	2,131	147,068	7,303	580,370
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Balance at							
March 31, 2013	\$ 484,643	\$ 34,521	\$ 629,606	\$ 2,131	\$ 147,068	\$ 7,303	\$ 1,305,272
Balance at							
December 31, 2011	\$ 690,826	\$ 35,910	\$ 189,954	\$ 6,694	\$ 118,704	\$ 11,834	\$ 1,053,922
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(124,564)	(1,160)	3,684	8,173	6,252	456	(107,159)
Adjustment due to merger	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Balance at							
March 31, 2012	\$ 566,262	\$ 34,750	\$ 193,638	\$ 14,867	\$ 124,956	\$ 12,290	\$ 946,763
Ending Balance:							
Individually evaluated for impairment	\$ 282,979	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 282,979
Collectively evaluated for impairment	283,283	34,750	193,638	14,867	124,956	12,290	663,784
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Balance at							
March 31, 2012	\$ 566,262	\$ 34,750	\$ 193,638	\$ 14,867	\$ 124,956	\$ 12,290	\$ 946,763
Recorded Investments in Loans Outstanding:							
Ending Balance at							
March 31, 2013	\$ 420,251,527	\$ 25,840,728	\$ 24,397,765	\$ 740,510	\$ 12,288,595	\$ 9,980,192	\$ 493,499,317
Individually evaluated for impairment	\$ 330,261	\$ -	\$ 1,890,354	\$ -	\$ -	\$ -	\$ 2,220,615
Collectively evaluated for impairment	\$ 419,921,266	\$ 25,840,728	\$ 22,507,411	\$ 740,510	\$ 12,288,595	\$ 9,980,192	\$ 491,278,702
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Balance at							
December 31, 2012	\$ 411,175,395	\$ 25,998,708	\$ 22,823,409	\$ 776,293	\$ 12,003,594	\$ 10,434,469	\$ 483,211,868
Individually evaluated for impairment	\$ 587,528	\$ -	\$ 1,890,354	\$ -	\$ -	\$ -	\$ 2,477,882
Collectively evaluated for impairment	\$ 410,587,867	\$ 25,998,708	\$ 20,933,055	\$ 776,293	\$ 12,003,594	\$ 10,434,469	\$ 480,733,986
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

NOTE 3 — CAPITAL:

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

NOTE 4 — INCOME TAXES:

Texas Land Bank, ACA and its subsidiary are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During the three months ended March 31, 2013, the Association participated in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the three months ended March 31, 2013, and 2012, net income for tax purposes did not warrant the recognition of tax expense due to the implemented patronage program.

The subsidiary, Texas Land Bank, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

Upon adoption of ASC 740-10-50-15(FIN 48) on January 1, 2007, the Association did not recognize a tax liability for any unrecognized tax benefits. Since that time, there have not been any changes in tax positions.

NOTE 5 — 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 13 to the 2012 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

<u>March 31, 2013</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Investments available-for-sale*	\$ -	\$ -	\$ -	\$ -
Assets held in nonqualified benefit trusts	<u>200,835</u>	-	-	<u>200,835</u>
Total assets	<u>200,835</u>	-	-	<u>200,835</u>
<u>December 31, 2012</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Investments available-for-sale*	\$ -	\$ -	\$ -	\$ -
Assets held in nonqualified benefit trusts	<u>200,828</u>	-	-	<u>200,828</u>
Total assets	<u>200,828</u>	-	-	<u>200,828</u>

The table below presents significant transfers in and out of Level 1 for all assets and liabilities measured at fair value on a recurring basis:

	<u>Total Fair Value Measurement Level 1 Assets</u>
	<u>Assets held in nonqualified benefit</u>
Transfers into Level 1	\$ 200,835
Transfers out of Level 1	-

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

<u>March 31, 2013</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 1,495,713	\$ 1,495,713
Other property owned	-	-	347,430	347,430
<u>December 31, 2012</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 1,747,416	\$ 1,747,416
Other property owned	-	-	347,430	347,430

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

Valuation Techniques

As more fully discussed in Note 2 to the 2012 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the association's assets and liabilities. For a more complete description, see Notes to the 2012 Annual Report to Stockholders.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

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

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

	Other Benefits	
	<u>2013</u>	<u>2012</u>
Service cost	\$ 8,269	\$ 7,246
Interest cost	18,377	17,216
Amortization of prior service (credits) costs	(9,854)	(10,970)
Amortizations of net actuarial (gain) loss	9,151	4,960
Net periodic benefit cost	<u>\$ 25,943</u>	<u>\$ 18,452</u>

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2013, was \$1,720,803 and is included in "Other Liabilities" in the balance sheet.

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. As of March 31, 2013, contributions of \$588,654 have been made to the defined benefit plan. The Association does not anticipate contributing any additional money to the plan during 2013.

The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive income (loss) for the three months ended March 31:

	<u>2013</u>	<u>2012</u>
Accumulated other comprehensive income (loss) at January 1	\$ (469,285)	\$(123,855)
Amortization of prior service credit (costs) included		
in net periodic postretirement benefit cost	1,585	(10,970)
Amortization of actuarial gain (loss) included		
in net periodic postretirement benefit cost	(9,151)	4,960
Other comprehensive income (loss), net of tax	<u>(7,566)</u>	<u>(6,010)</u>
Accumulated other comprehensive income at March 31	<u>\$ (476,851)</u>	<u>\$ (129,865)</u>

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 3, 2013, which is the date the financial statements were issued. There are no other significant events requiring disclosure in the first quarter stockholder report as of May 3, 2013.