



2012 ANNUAL REPORT

December 31, 2012



Part of the Farm Credit System

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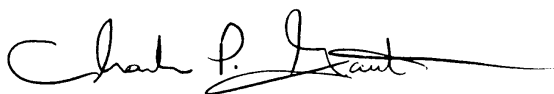
REPORT OF MANAGEMENT

The consolidated financial statements of Texas Land Bank, ACA (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 annual 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' 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 consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, 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 board of directors has overall responsibility for the Association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously.

The undersigned certify that we have reviewed this annual 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 or belief.



Charles P. Gant
Chief Executive Officer/President
March 6, 2013



Burt S. Richards
Chairman, Board of Directors
March 6, 2013



Sharla Chambers
Chief Financial Officer
March 6, 2013

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of directors David W. Conrad, Gary R. Murphy, Paul H. Young and Linda C. Floerke. In 2012, eight Committee meetings were held. The Committee oversees the scope of Texas Land Bank, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Texas Land Bank, ACA's website. The Committee approved the appointment of PricewaterhouseCoopers LLP for 2012.

Management is responsible for Texas Land Bank, ACA's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the Committee. PricewaterhouseCoopers LLP is responsible for performing an independent audit of Texas Land Bank, ACA's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The Committee's responsibilities include monitoring and overseeing the processes.

In this context, the Committee reviewed and discussed Texas Land Bank, ACA's audited consolidated financial statements for the year ended December 31, 2012 (audited consolidated financial statements) with management and PricewaterhouseCoopers LLP. The Committee also reviews with PricewaterhouseCoopers LLP the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PricewaterhouseCoopers LLP's and Texas Land Bank, ACA's internal auditors directly provide reports on significant matters to the Committee.

The Committee discussed with PricewaterhouseCoopers LLP its independence from Texas Land Bank, ACA. The Committee also reviewed the nonaudit services provided by PricewaterhouseCoopers LLP and concluded that these services were not incompatible with maintaining the independent accountant's independence. The Committee has discussed with management and PricewaterhouseCoopers LLP such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the board of directors include the audited consolidated financial statements in Texas Land Bank, ACA's Annual Report to Stockholders for the year ended December 31, 2012.

Audit Committee Members

David W. Conrad, Chairman
Gary R. Murphy
Paul H. Young
Linda C. Floerke

March 6, 2013

TEXAS LAND BANK, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2012	2011	2010	2009	2008
<u>Balance Sheet Data</u>					
<u>Assets</u>					
Cash	\$ 658	\$ 415	\$ 755	\$ 688	\$ 60
Loans	480,462	465,897	437,292	433,149	408,271
Less: allowance for loan losses	1,319	1,054	843	1,139	369
Net loans	479,143	464,843	436,449	432,010	407,902
Investment in and receivable from the Farm Credit Bank of Texas	7,636	7,165	7,149	6,896	6,606
Other property owned, net	347	347	347	-	-
Other assets	4,800	4,954	5,207	6,055	5,412
Total assets	<u>\$ 492,584</u>	<u>\$ 477,724</u>	<u>\$ 449,907</u>	<u>\$ 445,649</u>	<u>\$ 419,980</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 8,288	\$ 6,625	\$ 6,016	\$ 5,817	\$ 5,170
Obligations with maturities greater than one year	381,114	373,293	352,223	354,870	335,096
Total liabilities	<u>389,402</u>	<u>379,918</u>	<u>358,239</u>	<u>360,687</u>	<u>340,266</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	2,793	2,731	2,664	2,623	2,621
Allocated retained earnings	14,254	15,754	15,754	14,254	12,765
Unallocated retained earnings	86,604	79,445	73,356	67,793	64,072
Accumulated other comprehensive income (loss)	(469)	(124)	(106)	292	256
Total members' equity	103,182	97,806	91,668	84,962	79,714
Total liabilities and members' equity	<u>\$ 492,584</u>	<u>\$ 477,724</u>	<u>\$ 449,907</u>	<u>\$ 445,649</u>	<u>\$ 419,980</u>
<u>Statement of Income Data</u>					
Net interest income	\$ 15,044	\$ 13,751	\$ 13,105	\$ 12,340	\$ 11,891
(Provision for loan losses) or loan loss reversal	(265)	(172)	(2)	(1,047)	(2,089)
Income from the Farm Credit Bank of Texas	1,884	1,725	2,024	1,639	1,287
Other noninterest income	890	528	931	1,333	1,189
Noninterest expense	(6,077)	(5,750)	(5,142)	(6,044)	(5,409)
Net income (loss)	<u>\$ 11,476</u>	<u>\$ 10,082</u>	<u>\$ 10,916</u>	<u>\$ 8,221</u>	<u>\$ 6,869</u>
<u>Key Financial Ratios for the Year</u>					
Return on average assets	2.4%	2.2%	2.5%	1.9%	1.7%
Return on average members' equity	11.1%	11.7%	12.3%	9.9%	8.6%
Net interest income as a percentage of average earning assets	3.2%	3.1%	3.0%	2.9%	3.0%
Net charge-offs (recoveries) as a percentage of average loans	0.00%	-0.01%	0.07%	0.07%	0.40%

TEXAS LAND BANK, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Key Financial Ratios at Year End</u>					
Members' equity as a percentage of total assets	20.9%	20.5%	20.4%	19.1%	19.1%
Debt as a percentage of members' equity	377.4%	388.4%	390.8%	424.5%	426.9%
Allowance for loan losses as a percentage of loans	0.3%	0.2%	0.2%	0.3%	0.1%
Permanent capital ratio	20.4%	19.6%	19.1%	17.7%	18.0%
Core surplus ratio	19.4%	19.0%	18.5%	17.1%	17.3%
Total surplus ratio	19.8%	19.0%	18.5%	17.1%	17.3%
<u>Net Income Distribution</u>					
Cash dividends paid	\$ 5,514	\$ 3,853	\$ 3,000	\$ 2,762	\$ 3,007
Patronage dividends:					
Allocated retained earnings	-	-	1,500	1,500	4,127

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Texas Land Bank, ACA, including its wholly-owned subsidiaries, Texas PCA and Texas Land Bank, FLCA (Association) for the years ended December 31, 2012, 2011 and 2010, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's Audit Committee.

Forward-Looking Information:

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will" or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease-related and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Significant Events:

In 2012, the global, national and local economies continued to feel the lingering effects of an economic cycle that economists, business and government leaders classified as the worst business environment, liquidity problems and recession since the Great Depression. Although the Association did experience some of the impact of this cycle due to the national and international connections affecting current business and agriculture, the economic diversity found in Texas and, in particular, the 16-county Central Texas area serviced by the Association, was not affected as severely as compared to other regions of the country. Current leading economic indicators are showing continued slow improvement in the health of the national economy in general, with projections toward further improvement and opportunities during 2013. At this point, management continues to be cautiously optimistic about the continued strength of the local economy during 2013 while keeping an eye on developments regarding governmental budget cuts and a heightened regulatory environment, as well as global political and financial unrest that could potentially trickle down and have a negative impact on the area serviced by the Association.

In December 2012, the Association received a direct loan patronage of \$1,711,295 from the Farm Credit Bank of Texas (Bank), representing 43 basis points on the average daily balance of the Association's direct loan with the Bank. During 2012, the Association received \$172,877 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a participations' patronage of \$68,306 from the Bank, representing 65 basis points on the Association's average balance of participations in the Bank's patronage pool program.

Following the restructuring of the Association into an ACA in 2006, a revised patronage plan was created in order to provide additional value to the stockholders of the Association. Patronage distributions may be paid to patrons of the Association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by FCA and the Association's Capital Plan. From 2006 through 2011, the Association paid cash patronage totaling \$19.3 million and allocated an additional \$15.8 million in nonqualified patronage that may be paid out in future years. In the fall of 2012, the board of directors began distribution of previously allocated nonqualified patronage with a disbursement to eligible stockholders in the amount of \$1.5 million. In addition, for the year ended December 31, 2012, the board of directors approved a cash patronage in the amount of \$4.3 million to be paid out in April 2013.

For over 95 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

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 area located in the I-35 Corridor between the metropolitan areas of Dallas/Fort Worth and Austin. The Association's loan volume consists of long-term rural real estate mortgage loans, production and intermediate-term loans, farm-related business loans and rural home loans. These loan products are available to eligible borrowers with competitive fixed, adjustable and index-based interest rates. Loan maturities range from one to 30 years, with annual operating loans comprising the majority of the commercial loans and seven to 20-year maturities comprising the majority of the mortgage loans, with an average portfolio maturity of less than 15 years. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower. It should be noted, however, that a significant number of borrowers have monthly installment payment cycles that coincide with their nonfarm income and are not as vulnerable to seasonal fluctuations.

Livestock, excluding dairy and poultry, makes up approximately 68.4 percent of the Association's loan portfolio commodity source. Cattle prices have been stable and are being aided with an improving economy and lower inventory numbers creating a demand/supply imbalance. While export sales are below normal due to the overall slower global economy, ongoing demand for meat protein and supply management in meat production have continued to provide support for meat prices. As the United States continues to seek expansion of export sales, markets will likely find ongoing support internationally, depending on the state of the international economy, particularly those in emerging markets. While livestock producers have experienced volatility in market and weather conditions, much of the repayment risk to the Association related to this industry is mitigated through the off-farm income of these producers in the loan portfolio.

Fuel and fertilizer costs, which are impacted by changes in fuel oil and natural gas prices, continue to be a major consideration in producers' planning processes. Fuel oil and natural gas continue to experience market volatility and could continue to put upward pressure on these prices. Grain prices have also strengthened and are near historically high prices as a result of supply/demand imbalance created by the recent drought in the Midwest. Cotton prices are at profitable levels; however, they are below historical highs due to a more balanced supply/demand environment. The commodity markets in general have experienced a significant upward trend due to supply/demand imbalances, the overall improvement in the financial markets and global economies and some investment funds seeking a higher rate of return.

It should be noted, however, that a significant amount of the Association's new loan business in 2012 continued to be to part-time operators with significant levels of off-farm income. Because of the demographics of the Association's territory, this trend is expected to continue during 2013 and beyond. However, while the overall economy in our area has been impacted to some extent by the overall economic downturn, it has continued to remain more stable and has grown at a faster pace than the national average.

Although the Association did experience some growth in its portfolio during 2012, demand for production and mortgage loans was stable but continued to be lower than previous years, as the number of land sales transactions remained at lower levels than those experienced three to five years ago.

The overall credit quality of the loan portfolio remained strong through the end of 2012 with loans classified under Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" at 97.79 percent of total loans and accrued interest as compared to 97.5 percent at December 31, 2011.

The composition of the Association's loan portfolio, including principal less funds held of \$480,461,990, \$465,896,604 and \$437,291,603 as of December 31, 2012, 2011 and 2010, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

Purchase and Sales of Loans:

During 2012, 2011 and 2010, the Association was participating in loans with other lenders. As of December 31, 2012, 2011 and 2010, these participations totaled \$54,886,526, \$50,517,850 and \$50,137,473, or 11.4 percent, 10.8 percent and 11.5 percent of loans, respectively. None of these loans were purchased from entities outside the District in 2012, 2011, or 2010. The Association has also sold participations of \$18,962,435, \$5,233,676 and \$6,048,474 as of December 31, 2012, 2011 and 2010, respectively.

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, net. The following table illustrates the Association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2012		2011		2010	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 2,689,055	77.1%	\$ 2,481,342	73.7%	\$ 1,127,210	76.4%
90 days past due and still accruing interest	-	0.0%	75,805	2.3%	-	0.0%
Formally restructured	448,062	12.9%	459,885	13.7%	-	0.0%
Other property owned, net	347,430	10.0%	347,430	10.3%	347,430	23.6%
Total	\$ 3,484,547	100.0%	\$ 3,364,462	100.0%	\$ 1,474,640	100.0%

Impaired loans consist of all high-risk assets except other property owned, net. At December 31, 2012, 2011 and 2010, loans that were considered impaired were \$3,137,117, \$3,017,032 and \$1,127,210, representing 0.7 percent, 0.6 percent and 0.3 percent of loan volume, respectively. Impaired loan volume at December 31, 2012, increased by \$120,085 as compared to the same period in 2011. The increase in impaired loan volume is primarily the result of a nonperforming capital markets participation loan to a borrower in the ethanol industry that was moved to nonaccrual status at the end of the third quarter, offset by the payoff of two loans to a single borrower that had been in nonaccrual status since the end of 2011. Formally restructured accrual loans are comprised of capital markets participation loans to a single borrower in the ethanol industry that was transferred out of nonaccrual status, but the conditions and structure of the loan mandated it being classified as formally restructured.

Other property owned as of December 31, 2012, remained unchanged from December 31, 2011. This amount exists as a result of a participation loan in the ethanol industry in which the participants 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 has significant monthly payment loan volume and loans to borrowers that are not dependent solely upon farm income for repayments. Thus, the Association does not experience large fluctuations due to seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender.

Allowance for Loan Losses:

The following table provides relevant information regarding the allowance for loan losses as of, or for the year ended, December 31:

	2012	2011	2010
Allowance for loan losses	\$ 1,318,682	\$ 1,053,922	\$ 842,968
Allowance for loan losses to total loans	0.3%	0.2%	0.2%
Allowance for loan losses to nonaccrual loans	49.0%	42.5%	74.8%
Allowance for loan losses to impaired loans	42.0%	34.9%	74.8%
Net charge-offs to average loans	0.0%	0.0%	0.1%

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including the general financial strength of the business and agricultural economies; loan portfolio composition; collateral values; portfolio quality; current production conditions, including commodity prices, exports, government assistance programs and weather related influences; and prior loan loss experience.

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of \$1,318,682, \$1,053,922 and \$842,968 at December 31, 2012, 2011 and 2010, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. Due to a historically low loss history experienced by the Association, the consideration that the majority of the loan portfolio is collateralized by first-lien real estate with stable values, and the Association's implementation of enhanced loan portfolio monitoring to more efficiently and effectively detect and mitigate risk, the allowance value at December 31, 2012, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates.

Results of Operations:

The Association's net income for the year ended December 31, 2012, was \$11,475,839 as compared to \$10,081,556 for the year ended December 31, 2011, reflecting an increase of \$1,394,283, or 13.8 percent. The Association's net income for the year ended December 31, 2010, was \$10,915,727. Net income decreased \$834,171, or 7.6 percent, in 2011 versus 2010. From 2010 through 2012, net interest income continued to increase, as did noninterest expenses. The primary driver of the decrease in net income in 2011 as compared to 2010 and 2012 was a decreased amount of noninterest income from the refund of excess premiums from the Farm Credit System Insurance Corporation (FCSIC) in 2011 as compared to 2010 and 2012.

Net interest income for 2012, 2011 and 2010 was \$15,043,803, \$13,751,467 and \$13,104,529, respectively, reflecting increases of \$1,292,336, or 9.4 percent, for 2012 versus 2011 and \$646,938, or 4.9 percent, for 2011 versus 2010. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2012		2011		2010	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 476,596,378	\$ 24,330,931	\$ 447,292,346	\$ 24,648,350	\$ 437,801,258	\$ 25,580,809
Total interest-earning assets	476,596,378	24,330,931	447,292,346	24,648,350	437,801,258	25,580,809
Interest-bearing liabilities	382,165,274	9,287,128	360,096,681	10,896,883	357,315,217	12,476,280
Impact of capital	\$ 94,431,104		\$ 87,195,665		\$ 80,486,041	
Net interest income		\$ 15,043,803		\$ 13,751,467		\$ 13,104,529

	2012	2011	2010
	Average Yield	Average Yield	Average Yield
Yield on loans	5.11%	5.51%	5.84%
Total yield on interest-earning assets	5.11%	5.51%	5.84%
Cost of interest-bearing liabilities	2.43%	3.03%	3.49%
Interest rate spread	2.68%	2.48%	2.35%

	2012 vs. 2011			2011 vs. 2010		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ 1,614,828	\$ (1,932,247)	\$ (317,419)	\$ 554,564	\$ (1,487,023)	\$ (932,459)
Total interest income	1,614,828	(1,932,247)	(317,419)	554,564	(1,487,023)	(932,459)
Interest expense	667,818	(2,277,573)	(1,609,755)	97,120	(1,676,517)	(1,579,397)
Net interest income	\$ 947,010	\$ 345,326	\$ 1,292,336	\$ 457,444	\$ 189,494	\$ 646,938

Interest income for 2012 decreased by \$317,419, or 1.3 percent, compared to 2011, primarily due to decreases in yields on earning assets fueled by a low interest rate environment. Interest expense for 2012 decreased by \$1,609,755, or 14.8 percent, compared to 2011 due to a decrease in the cost of funds to the Association. The net effect of these two trends is the increase of the interest rate spread by 20 basis points to 2.68 percent in 2012 from 2.48 percent in 2011, primarily because interest expense associated with cost of funds to the Association decreased by a larger percentage than interest income on those loans. The trend of increasing net interest margins experienced by the Association from 2010 through 2012 is a result of continued emphasis by Association management and

the board of directors to effectively utilize favorable interest rate conditions in order to provide borrowers with competitive pricing while placing appropriate consideration on relevant market and risk factors.

Noninterest income for 2012 increased by \$521,152, or 23.1 percent, compared to 2011, due primarily to an increase in patronage income from the Farm Credit Bank of Texas, a refund of excess premiums from FCSIC in the amount of \$377,591, and a gain on sale of premises and equipment, net primarily related to the sale of the Association's owned office space in 2012. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs was implemented during 2010. The continued implementation of this guidance during 2012 resulted in the capitalization of \$605,215 in origination fees, which will be amortized over the life of the loans as an adjustment to yield in net interest income. Noninterest income for 2011 decreased by \$702,042, or 23.8 percent, compared to 2010, due primarily to a decrease in patronage income from the Farm Credit Bank of Texas as well as no refunds of premiums from FCSIC in 2011 as compared to a refund of \$421,242 in 2010. The distributions from the FCSIC included reserves it held in excess of its secure base amount in 2003 which had been previously allocated to its Allocated Insurance Reserves Accounts, and also included reserves in excess of its secure base amount in 2009 which were likewise allocated. The 2008 Farm Bill amended the Farm Credit Act and simplified the formula for payments from the Allocated Insurance Reserves Accounts to allow more immediate distribution of excess Insurance Fund balances to System Banks.

Provisions for loan losses increased by \$92,392, or 53.6 percent, compared to 2011, due primarily to an increase in specific allowance provisions in 2012 as well as no charge-offs or recoveries in 2012 as compared to 2011.

Operating expenses consist primarily of salaries, employee benefits, advertising and public/member relations, and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. Noninterest expenses for 2012, 2011 and 2010 were \$6,077,250, \$5,750,437 and \$5,141,619 respectively. Operating expenses increased by \$326,813 compared to 2011, primarily as a result of an increase in salaries and benefits and occupancy and equipment, offset by a decrease of \$17,857 in premiums to the Insurance Fund. Salaries and benefits increased proportionally with an increase in staff needed by the Association as a result of loan portfolio growth and increased regulatory and reporting mandates. In addition, occupancy and equipment expenses increased in 2012 due to an increase in property taxes on existing facilities as well as the leasing of expanded office space to accommodate additional staff. In addition, the defined benefit plan contribution was higher in 2011 as compared to 2010, and the Association funded a nonqualified defined contribution 401(k) plan during 2011. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the amortization of \$459,477, \$705,234 and \$590,342 for 2012, 2011 and 2010, respectively, in origination costs including salaries and benefits, which will be amortized over the life of the loans as an adjustment to yield in net interest income.

For the year ended December 31, 2012, the Association's return on average assets was 2.4 percent, as compared to 2.2 percent and 2.5 percent for the years ended December 31, 2011 and 2010, respectively. For the year ended December 31, 2012, the Association's return on average members' equity was 12.9 percent, as compared to 11.7 percent and 12.2 percent for the years ended December 31, 2011 and 2010, respectively. The fluctuations in these performance ratios are primarily the result of fluctuations in net income as discussed above.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank would have a similar effect on the operations of the Association.

Liquidity and Funding Sources:

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

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$380,391,555, \$372,411,673 and \$351,233,934 as of December 31, 2012, 2011 and 2010, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.13 percent, 2.65 percent and 3.15 percent at December 31, 2012, 2011 and 2010, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2011, is due to increased Association loan volume, offset by the use of the Association's own funds generated by earnings. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$100,090,702, \$93,365,085 and \$86,052,974 at December 31, 2012, 2011 and 2010, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2012, was \$475,971,015 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2015, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the

Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days prior written notice, or in all other circumstances, upon giving the Bank 120 days prior written notice.

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 2013. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year.

Capital Resources:

The Association's capital position remains strong, with total members' equity of \$103,181,688, \$97,805,427 and \$91,668,128 at December 31, 2012, 2011 and 2010, respectively. 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 permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2012, 2011 and 2010 was 20.4 percent, 19.6 percent and 19.1 percent, respectively.

The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio at December 31, 2012, 2011 and 2010 was 19.4 percent, 19.0 percent and 18.5 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent.

The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's total surplus ratio at December 31, 2012, 2011 and 2010 was 19.8 percent, 19.0 percent and 18.5 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

The Association has established its minimum capital requirements to match those of the FCA's regulations. Based on the results noted above, the Association does not anticipate a circumstance in which it would be forced to require additional stock purchases, delay retirement of stock or fail to distribute earnings.

In 2012, 2011 and 2010, the Association paid patronage distributions of \$4,013,507, \$3,853,197 and \$3,000,370, from unallocated surplus, related to the years ended December 31, 2011, 2010, and 2009 respectively. In October 2012, the Association also paid \$1,500,393 from allocated surplus related to 2006 earnings. In addition, in December 2012, the board of directors approved a \$4,295,072 cash patronage distribution from unallocated surplus to be paid in April 2013. See Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Relationship with the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank."

The Bank'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 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 12 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank bills

District expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums. As of April 2011, the Bank only bills associations for direct pass-through expenses and no longer bills for allocated expenses.

Summary:

Over the past 95 years, regardless of the state of the agricultural economy, your association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.



Independent Auditor's Report

To the Board of Directors and Members of
Texas Land Bank, ACA:

We have audited the accompanying consolidated financial statements of Texas Land Bank, ACA and its subsidiaries (the Association), which comprise the consolidated balance sheets as of December 31, 2012, 2011 and 2010, and the related consolidated statements of comprehensive income, of changes in members' equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Texas Land Bank, ACA and its subsidiaries at December 31, 2012, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 6, 2013

TEXAS LAND BANK, ACA

CONSOLIDATED BALANCE SHEETS

	December 31,		
	2012	2011	2010
<u>Assets</u>			
Cash	\$ 657,737	\$ 415,313	\$ 754,776
Loans	480,461,990	465,896,604	437,291,603
Less: allowance for loan losses	1,318,682	1,053,922	842,968
Net loans	479,143,308	464,842,682	436,448,635
Accrued interest receivable	2,749,878	3,141,007	3,563,905
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	7,635,765	7,164,690	7,148,785
Other	68,306	-	-
Other property owned, net	347,430	347,430	347,430
Premises and equipment	1,599,926	1,356,907	1,473,212
Other assets	382,114	455,708	170,317
Total assets	<u>\$ 492,584,464</u>	<u>\$ 477,723,737</u>	<u>\$ 449,907,060</u>
<u>Liabilities</u>			
Note payable to the Farm Credit Bank of Texas	\$ 380,391,555	\$ 372,411,673	\$ 351,233,934
Advance conditional payments	3,905	-	-
Accrued interest payable	722,225	881,422	989,246
Drafts outstanding	1,480,153	528,074	371,770
Patronage distributions payable	4,295,072	3,992,254	3,852,577
Other liabilities	2,509,866	2,104,887	1,791,405
Total liabilities	<u>389,402,776</u>	<u>379,918,310</u>	<u>358,238,932</u>
<u>Members' Equity</u>			
Capital stock and participation certificates	2,793,160	2,730,590	2,664,165
Allocated retained earnings	14,253,895	15,754,288	15,753,946
Unallocated retained earnings	86,603,918	79,444,404	73,356,064
Accumulated other comprehensive income (loss)	(469,285)	(123,855)	(106,047)
Total members' equity	<u>103,181,688</u>	<u>97,805,427</u>	<u>91,668,128</u>
Total liabilities and members' equity	<u>\$ 492,584,464</u>	<u>\$ 477,723,737</u>	<u>\$ 449,907,060</u>

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2012	2011	2010
<u>Interest Income</u>			
Loans	\$ 24,330,931	\$ 24,648,350	\$ 25,580,809
Total interest income	24,330,931	24,648,350	25,580,809
<u>Interest Expense</u>			
Note payable to the Farm Credit Bank of Texas	9,287,126	10,896,883	12,476,280
Advance conditional payments	2	-	-
Total interest expense	9,287,128	10,896,883	12,476,280
Net interest income	15,043,803	13,751,467	13,104,529
Provision for Loan Losses	264,760	172,368	2,119
Net interest income after provision for losses	14,779,043	13,579,099	13,102,410
<u>Noninterest Income</u>			
Income from the Farm Credit Bank of Texas:			
Patronage income	1,884,172	1,724,785	2,024,433
Loan fees	396,994	483,606	465,012
Refunds from Farm Credit System Insurance Corporation	377,591	-	421,242
Financially related services income	9,441	11,440	13,969
Gain on other property owned, net	-	-	26,557
Gain (loss) on sale of premises and equipment, net	98,207	(2,615)	(3,205)
Other noninterest income	7,641	35,678	6,928
Total noninterest income	2,774,046	2,252,894	2,954,936
<u>Noninterest Expenses</u>			
Salaries and employee benefits	3,754,558	3,604,932	2,876,534
Directors' expense	222,899	225,511	248,160
Purchased services	398,745	385,153	547,991
Travel	166,241	165,001	129,570
Occupancy and equipment	369,199	289,615	280,651
Communications	106,782	96,241	102,073
Advertising	290,884	288,188	314,763
Public and member relations	164,297	118,463	120,128
Supervisory and exam expense	175,523	173,334	160,381
Insurance Fund premiums	241,941	259,798	221,994
Other noninterest expense	186,181	144,201	139,374
Total noninterest expenses	6,077,250	5,750,437	5,141,619
Income before income taxes	11,475,839	10,081,556	10,915,727
Benefit from income taxes	-	-	-
NET INCOME	11,475,839	10,081,556	10,915,727
Other comprehensive income (loss):			
Change in postretirement benefit plans	(345,430)	(17,808)	(397,786)
Other comprehensive income, net of tax	(345,430)	(17,808)	(397,786)
COMPREHENSIVE INCOME (LOSS)	\$ 11,130,409	\$ 10,063,748	\$ 10,517,941

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2009	\$ 2,623,015	\$ 14,254,258	\$ 67,792,972	\$ 291,739	\$ 84,961,984
Comprehensive income	-	-	10,915,727	(397,786)	10,517,941
Capital stock/participation certificates issued	328,070	-	-	-	328,070
Capital stock/participation certificates and allocated retained earnings retired	(286,920)	-	-	-	(286,920)
Patronage dividends:					
Cash	-	-	(3,852,577)	-	(3,852,577)
Capital stock/participation certificates and allocated retained earnings	-	1,500,000	(1,500,000)	-	-
Change in estimated patronage declared in 2009 and paid in 2010	-	(312)	(58)	-	(370)
Balance at December 31, 2010	2,664,165	15,753,946	73,356,064	(106,047)	91,668,128
Comprehensive income	-	-	10,081,556	(17,808)	10,063,748
Capital stock/participation certificates issued	347,640	-	-	-	347,640
Capital stock/participation certificates and allocated retained earnings retired	(281,215)	-	-	-	(281,215)
Patronage dividends:					
Cash	-	-	(3,992,254)	-	(3,992,254)
Change in estimated patronage declared in 2010 and paid in 2011	-	342	(962)	-	(620)
Balance at December 31, 2011	2,730,590	15,754,288	79,444,404	(123,855)	97,805,427
Comprehensive income (loss)	-	-	11,475,839	(345,430)	11,130,409
Capital stock/participation certificates issued	417,745	-	-	-	417,745
Capital stock/participation certificates and allocated retained earnings retired	(355,175)	-	-	-	(355,175)
Patronage dividends:					
Cash	-	(1,500,393)	(4,295,072)	-	(5,795,465)
Change in estimated patronage declared in 2011 and paid in 2012	-	-	(21,253)	-	(21,253)
Balance at December 31, 2012	\$ 2,793,160	\$ 14,253,895	\$ 86,603,918	\$ (469,285)	\$ 103,181,688

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income	\$ 11,475,839	\$ 10,081,556	\$ 10,915,727
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	264,760	172,368	2,119
Gain on sale of other property owned, net	-	-	(26,557)
Depreciation	(84,991)	149,091	150,939
(Gain) loss on sale of premises and equipment, net	(98,207)	2,615	3,205
Decrease in accrued interest receivable	391,129	422,898	288,942
Increase in other receivables from the Farm Credit Bank of Texas	(68,306)	-	-
Decrease (increase) in other assets	73,594	(285,391)	624,975
Decrease in accrued interest payable	(159,197)	(107,833)	(101,425)
Increase (decrease) in other liabilities	59,549	295,674	(431,182)
Net cash provided by operating activities	<u>11,854,170</u>	<u>10,730,978</u>	<u>11,426,743</u>
Cash flows from investing activities:			
Increase in loans, net	(14,565,386)	(28,679,131)	(4,924,635)
Cash recoveries of loans previously charged off	-	125,035	-
Purchase of investment in the Farm Credit Bank of Texas	(471,075)	(15,905)	(252,315)
Purchases of premises and equipment	(456,202)	(47,720)	(221,199)
Proceeds from sales of premises and equipment	396,381	-	-
Proceeds from sales of other property owned	-	-	163,090
Net cash used in investing activities	<u>(15,096,282)</u>	<u>(28,617,721)</u>	<u>(5,235,059)</u>

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
Cash flows from financing activities:			
Net draws on (repayment of) note payable to the Farm Credit Bank of Texas	7,979,882	21,177,739	(2,545,707)
Increase (decrease) in drafts outstanding	952,079	156,304	(619,730)
Increase (decrease) in advance conditional payments	3,905	9	(646)
Issuance of capital stock and participation certificates	417,745	347,640	328,070
Retirement of capital stock and participation certificates	(355,175)	(281,215)	(286,920)
Patronage distributions paid	(5,513,900)	(3,853,197)	(3,000,370)
Net cash provided by (used in) financing activities	3,484,536	17,547,280	(6,125,303)
Net increase (decrease) in cash	242,424	(339,463)	66,381
Cash at the beginning of the year	415,313	754,776	688,395
Cash at the end of the year	\$ 657,737	\$ 415,313	\$ 754,776

Supplemental schedule of noncash investing and financing activities:

Loans transferred to other property owned	-	-	483,963
Loans charged off	-	86,449	298,497
Patronage distributions declared	4,295,072	3,992,254	3,852,577

Supplemental cash information:

Cash paid during the year for:			
Interest	\$ 9,446,325	\$ 11,004,707	\$ 12,578,351

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

TEXAS LAND BANK, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION, RESTRUCTURING AND OPERATIONS:

- A. Organization: Texas Land Bank, ACA, including its wholly-owned subsidiaries, Texas PCA and Texas Land Bank, FLCA (collectively called “the Association”), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in 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 (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2012, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation), and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the “District.” The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2012, the District consisted of the Bank, one FLCA and 16 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System associations to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2 percent level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

- B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services that can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The Association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank.

The Association also serves as an intermediary in offering credit life insurance.

The Association’s financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders’ investments in the Association. Upon request, stockholders of the

Association will be provided with the Farm Credit Bank of Texas and District Associations' Annual Report to Stockholders, which includes the combined financial statements of the Bank 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 Bank 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 Insurance Fund.

The lending and financial services offered by the Bank are described in Note 1, "Organization and Operations," of the District's annual report to stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation. The consolidated financial statements include the accounts of Texas PCA and Texas Land Bank, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted 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 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. 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 Association's financial condition or its results of operations, but will result in additional disclosures.

In September 2011, the FASB issued guidance entitled "Compensation – Retirement Benefits – Multi-employer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multi-employer 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 nonpublic entities. The amendments should be applied retrospectively for all prior periods presented. The adoption did not impact the Association's financial condition or results of operations.

In June and December 2011, the 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 main provisions of the guidance provide 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. This guidance did not change the items that must be reported in other comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). The December 2011 guidance deferred the effective date for the presentation of reclassification adjustments.

This guidance is applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact financial condition or results of operations, but resulted in changes to the presentation of comprehensive income.

B. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.

- C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. Prior to 2010, this guidance was not implemented due to its immaterial effect on the Association's financial position or results of operation for any year presented. The guidance was implemented in 2010 for loans closed in 2010, resulting in the capitalization of \$542,072 in origination fees and \$590,342 in origination costs, primarily salaries and benefits related to the origination of loans. The net adjustment to yield on loans for 2010 was a decrease of \$3,247.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

Impaired 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. Additionally, all loans over 180 days past due are placed in nonaccrual status. 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). Loans are charged off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the Association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restricted in a troubled debt restructuring is an impaired loan.

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, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs, and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The Bank and related associations use a two-dimensional loan rating model based on an internally generated combined system risk-rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan, assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) rating indicates that the probability of default is almost certain.

The credit risk-rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is

maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including the general financial strength of the business and agricultural economies; loan portfolio composition; collateral values; portfolio quality; current production conditions, including commodity prices, exports, government assistance programs, and weather related influences; and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

- D. **Capital Stock Investment in the Farm Credit Bank of Texas:** The Association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the Association's proportional utilization of the Bank compared to other District associations. The Bank requires a minimum stock investment of 2 percent of the Association's average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Bank may increase the percentage of stock held by an association from 2 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5 percent of the average outstanding balance of borrowings from the Bank.

- E. **Other Property Owned, Net:** Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the Statement of Condition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the statements of comprehensive income.
- F. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.
- G. **Advance Conditional Payments:** The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors.
- H. **Employee Benefit Plans:** Employees of the Association participate in either the District defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. The Association also sponsors a nonqualified defined contribution 401(k) plan. The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB Plan.

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2012, made on their behalf into various investment alternatives.

The structure of the District's DB Plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the

associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC Plan of \$106,575, \$87,582 and \$71,593 for the years ended December 31, 2012, 2011 and 2010, respectively. For the DB Plan, the Association recognized pension costs of \$664,008, \$729,797 and \$562,023 for the years ended December 31, 2012, 2011 and 2010, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were \$100,014, \$94,969 and \$83,269 for the years ended December 31, 2012, 2011 and 2010, respectively.

In addition to the DB Plan, the DC Plan and the Farm Credit Benefits Alliance 401(k) plans above, the Association implemented a defined contribution supplemental retirement plan. This plan is a nonqualified defined contribution 401(k) plan; therefore, the associated liabilities are included in the Association's consolidated balance sheets in other liabilities. The expenses of the nonqualified defined contribution 401(k) plan included in the Association's employee benefit costs were \$0, \$200,000 and \$0 for the years ended December 31, 2012, 2011 and 2010, respectively.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. In 2004, the District discontinued its multi-employer health and welfare plan, which provided substantially all employees with health care, life insurance and postretirement benefits during their working lives and after retirement if they reached normal retirement age and met the years of service criteria while working for the Association. At that time, the Association adopted a new plan to provide the same benefits to its retirees and employees. Under the new plan, the Association no longer participates in the joint and several liability with any other entities, which was intrinsic to the multi-employer plan. For employers providing these benefits outside of a multi-employer plan, FASB guidance "Employers Accounting for Postretirement Benefits Other than Pensions" requires the liability for the contractual obligation of these benefits to be recognized as employees render the services necessary to earn the benefits. Accordingly, in December 2004, the Association recognized as an expense the unfunded liability for these postretirement benefits. Since that time, the net periodic expense for these benefits has been accrued in accordance with this guidance.

- I. **Income Taxes:** The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income. Deferred taxes are recorded on 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 (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.
- J. **Patronage Refunds From the Farm Credit Bank of Texas:** The Association records patronage refunds from the Bank on an accrual basis.
- K. **Fair Value Measurement:** The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and our supplemental retirement plan. The trust funds include

investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

The fair value disclosures are presented in Note 13, "Fair Value Measurements."

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2012		2011		2010	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 408,640,139	85.0%	\$ 403,207,304	86.6%	\$ 377,910,701	86.4%
Production and Agribusiness:						
Intermediate term	25,842,040	5.4%	20,705,844	4.4%	19,144,244	4.4%
Processing and marketing	17,867,787	3.7%	15,154,388	3.3%	9,889,469	2.3%
Energy	12,000,562	2.5%	9,534,144	2.1%	10,984,405	2.5%
Rural residential real estate	10,412,572	2.2%	11,281,318	2.4%	11,247,054	2.6%
Farm-related business	3,535,708	0.7%	3,767,207	0.8%	1,682,310	0.4%
Loans to cooperatives	1,398,198	0.3%	208,572	0.0%	1,884,412	0.4%
Communication	764,984	0.2%	2,037,827	0.4%	4,549,008	1.0%
Total	<u>\$ 480,461,990</u>	<u>100.0%</u>	<u>\$ 465,896,604</u>	<u>100.0%</u>	<u>\$ 437,291,603</u>	<u>100.0%</u>

In addition, the Association may purchase or sell 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 participations purchased and sold as of December 31, 2012:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations	Participations	Participations	Participations	Participations	Participations
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 14,097,132	\$ 15,626,469	\$ -	\$ -	\$ 14,097,132	\$ 15,626,469
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>

Geographic Distribution

County	2012	2011	2010
Bosque	11.4%	11.2%	9.2%
Navarro	7.9%	7.2%	7.0%
Hill	7.4%	7.7%	7.7%
Bell	6.9%	7.7%	8.0%
McLennan	6.7%	5.8%	5.7%
Lampasas	5.9%	5.6%	5.9%
Hamilton	5.0%	4.9%	5.2%
Williamson	4.8%	5.6%	6.0%
Falls	4.4%	5.1%	5.3%
Ellis	4.0%	4.2%	4.1%
Coryell	3.9%	4.2%	4.0%
Limestone	3.9%	4.4%	4.5%
Milam	3.7%	0.0%	0.0%
Burnet	3.3%	3.2%	3.4%
Other	20.8%	23.2%	24.0%

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized, and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

Operation/Commodity	2012		2011		2010	
	Amount	%	Amount	%	Amount	%
Livestock, except dairy and poultry	\$ 328,688,185	68.4%	\$ 325,966,105	70.0%	\$ 303,335,120	69.4%
Cash grains	37,786,096	7.9%	32,367,806	6.9%	50,458,517	11.5%
Hunting, trapping and game propagation	24,704,088	5.1%	12,541,895	2.7%	9,099,399	2.1%
Field crops except cash grains	17,918,968	3.7%	25,087,600	5.4%	7,105,622	1.6%
Timber	13,719,688	2.9%	13,015,363	2.8%	13,115,206	3.0%
Electric services	12,184,543	2.5%	9,581,390	2.1%	10,984,405	2.5%
Rural home loans	11,018,964	2.3%	11,125,112	2.4%	10,453,037	2.4%
Paper and allied products	5,861,986	1.2%	3,671,330	0.8%	363,662	0.1%
Poultry and eggs	3,922,081	0.8%	6,700,468	1.4%	5,558,110	1.3%
Landlords	3,065,234	0.6%	3,608,024	0.8%	3,918,327	0.9%
Dairy farms	1,386,617	0.3%	1,147,567	0.2%	1,312,341	0.3%
Farm and garden machinery equipment	1,323,231	0.3%	1,545,295	0.3%	1,049,598	0.2%
Agricultural services	1,075,351	0.2%	946,587	0.2%	1,055,938	0.2%
Public warehousing and storage	953,902	0.2%	-	0.0%	-	0.0%
Fruit and tree nuts	864,627	0.2%	1,167,603	0.3%	1,240,219	0.3%
Communication	729,960	0.2%	2,037,827	0.4%	4,549,008	1.0%
General farms, primarily livestock	695,293	0.1%	-	0.0%	-	0.0%
Horticultural specialties	365,808	0.1%	1,171,007	0.3%	1,560,301	0.4%
Animal specialties	75,391	0.0%	123,426	0.0%	129,002	0.0%
General farms, primarily crops	-	0.0%	952,427	0.2%	1,036,135	0.2%
Other	14,121,977	3.0%	13,139,772	2.8%	10,967,656	2.6%
Total	<u>\$ 480,461,990</u>	<u>100.0%</u>	<u>\$ 465,896,604</u>	<u>100.0%</u>	<u>\$ 437,291,603</u>	<u>100.0%</u>

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (or 97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan-to-value ratios in excess of the regulatory maximum.

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

	December 31, 2012	December 31, 2011	December 31, 2010
Nonaccrual loans:			
Real estate mortgage	\$ 789,349	\$ 2,481,342	\$ 1,127,210
Agribusiness	1,890,354	-	-
Rural residential real estate	9,352	-	-
Total nonaccrual loans	<u>2,689,055</u>	<u>2,481,342</u>	<u>1,127,210</u>
Accruing restructured loans:			
Real estate mortgage	448,062	459,885	-
Total accruing restructured loans	<u>448,062</u>	<u>459,885</u>	<u>-</u>
Accruing loans 90 days or more past due:			
Real estate mortgage	-	75,805	-
Total accruing loans 90 days or more past due	<u>-</u>	<u>75,805</u>	<u>-</u>
Total nonperforming loans	<u>3,137,117</u>	<u>3,017,032</u>	<u>1,127,210</u>
Other property owned	<u>347,430</u>	<u>347,430</u>	<u>347,430</u>
Total nonperforming assets	<u>\$ 3,484,547</u>	<u>\$ 3,364,462</u>	<u>\$ 1,474,640</u>

One credit quality indicator utilized by the Bank and Association is the Farm Credit Administration's 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 December 31:

	2012	2011	2010
Real estate mortgage			
Acceptable	96.63 %	94.80 %	94.93 %
OAEM	1.82	3.18	3.59
Substandard/doubtful	1.54	2.02	1.48
	100.00	100.00	100.00
Production and intermediate term			
Acceptable	100.00	71.36	83.47
OAEM	-	27.67	16.53
Substandard/doubtful	-	0.97	-
	100.00	100.00	100.00
Loans to cooperatives			
Acceptable	100.00	100.00	100.00
	100.00	100.00	100.00
Processing and marketing			
Acceptable	83.52	77.78	56.13
OAEM	5.91	9.30	22.68
Substandard/doubtful	10.57	12.92	21.19
	100.00	100.00	100.00
Farm-related business			
Acceptable	100.00	100.00	100.00
	100.00	100.00	100.00
Communication			
Acceptable	100.00	100.00	100.00
	100.00	100.00	100.00
Energy			
Acceptable	80.10	73.99	100.00
OAEM	-	12.45	-
Substandard/doubtful	19.90	13.56	-
	100.00	100.00	100.00
Rural residential real estate			
Acceptable	99.06	98.74	92.26
OAEM	0.29	0.32	6.50
Substandard/doubtful	0.65	0.94	1.24
	100.00	100.00	100.00
Total Loans			
Acceptable	96.00	92.90	93.70
OAEM	1.80	4.60	4.50
Substandard/doubtful	2.20	2.50	1.80
	100.00 %	100.00 %	100.00 %

The following tables provide an age analysis of past due loans (including accrued interest) as of December 31, 2012 and 2011:

December 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	Recorded Investment >90 Days and Accruing
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	\$ -

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	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 142,622	\$ 75,805	\$ 218,427	\$ 405,931,700	\$ 406,150,127	\$ 75,805
Production and intermediate-term	-	-	-	20,819,406	20,819,406	-
Loans to cooperatives	-	-	-	209,190	209,190	-
Processing and marketing	-	-	-	15,170,533	15,170,533	-
Farm-related business	-	-	-	3,772,051	3,772,051	-
Communication	-	-	-	2,051,486	2,051,486	-
Energy	-	-	-	9,544,338	9,544,338	-
Rural residential real estate	122,912	-	122,912	11,197,568	11,320,481	-
Total	\$ 265,534	\$ 75,805	\$ 341,339	\$ 468,696,271	\$ 469,037,611	\$ 75,805

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 December 31, 2012, the total recorded investment of troubled debt restructured loans was \$782,652, including \$334,590 classified as nonaccrual and \$448,062 classified as accrual, with specific allowance for loan losses of \$135,132. 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 December 31, 2012, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were \$0.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the year ended December 31, 2012 and December 31, 2011. The pre-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. Loans formally restructured prior to January 1, 2012, were \$782,652.

December 31, 2012:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Total	\$ -	\$ -
December 31, 2011:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 382,937	\$ 387,196
Total	\$ 382,937	\$ 387,196

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). Charge-offs recorded at the modification date were \$0 for the year ending December 31, 2012.

The predominate form of concession granted for troubled debt restructuring includes modification of repayment terms, including extension of the term, interest rate decreases, or delayed payments, among others. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table:

	Loans Modified as TDRs		TDRs on Nonaccrual Status*	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Troubled debt restructurings:				
Real estate mortgage	\$ 782,652	\$ 818,322	\$ 334,590	\$ 358,437
Total	\$ 782,652	\$ 818,322	\$ 334,590	\$ 358,437

* represents the portion of loans modified as TDRs (first column) that are in nonaccrual status

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2012	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 587,528	\$ 600,272	\$ 136,366	\$ 613,558	\$ -
Processing and marketing	1,890,354	1,890,354	594,100	1,487,491	-
Total	\$ 2,477,882	\$ 2,490,626	\$ 730,466	\$ 2,101,049	\$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 649,883	\$ 650,211	\$ -	\$ 662,101	\$ 23,136
Rural residential real estate	9,352	9,352	-	7,895	-
Total	\$ 659,235	\$ 659,563	\$ -	\$ 669,996	\$ 23,136
Total impaired loans:					
Real estate mortgage	\$ 1,237,411	\$ 1,250,483	\$ 136,366	\$ 1,275,659	\$ 23,136
Processing and marketing	1,890,354	1,890,354	594,100	1,487,491	-
Rural residential real estate	9,352	9,352	-	7,895	-
Total	\$ 3,137,117	\$ 3,150,189	\$ 730,466	\$ 2,771,045	\$ 23,136

^a Unpaid principal balance represents the contractual obligation of the loan.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2012.

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	2012	2011	2010
Interest income which would have been recognized under the original terms	\$ 173,305	\$ 222,272	\$ 176,134
Less: interest income recognized	(23,136)	(58,883)	(67,880)
Foregone interest income	<u>\$ 150,169</u>	<u>\$ 163,389</u>	<u>\$ 108,254</u>

A summary of the changes in the allowance for credit losses and the ending balance of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
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	(183,622)	(5,127)	434,212	(4,462)	26,854	(3,095)	264,760
Adjustment due to merger	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Balance at							
December 31, 2012	<u>\$ 507,204</u>	<u>\$ 30,783</u>	<u>\$ 624,166</u>	<u>\$ 2,232</u>	<u>\$ 145,558</u>	<u>\$ 8,739</u>	<u>\$ 1,318,682</u>
Ending Balance:							
individually evaluated for impairment	<u>\$ 136,366</u>	<u>\$ -</u>	<u>\$ 594,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 730,466</u>
Ending Balance:							
collectively evaluated for impairment	<u>\$ 370,838</u>	<u>\$ 30,783</u>	<u>\$ 30,066</u>	<u>\$ 2,232</u>	<u>\$ 145,558</u>	<u>\$ 8,739</u>	<u>\$ 588,216</u>
Ending Balance: loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Recorded Investment in Loans Outstanding:							
Ending Balance at							
December 31, 2012	<u>\$ 411,175,395</u>	<u>\$ 25,998,708</u>	<u>\$ 22,823,409</u>	<u>\$ 776,293</u>	<u>\$ 12,003,594</u>	<u>\$ 10,434,469</u>	<u>\$ 483,211,868</u>
Ending balance for loans individually evaluated for impairment	<u>\$ 587,528</u>	<u>\$ -</u>	<u>\$ 1,890,354</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,477,882</u>
Ending balance for loans collectively evaluated for impairment	<u>\$ 410,587,867</u>	<u>\$ 25,998,708</u>	<u>\$ 20,933,055</u>	<u>\$ 776,293</u>	<u>\$ 12,003,594</u>	<u>\$ 10,434,469</u>	<u>\$ 480,733,986</u>
Ending balance for loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

A summary of the allowance for loan losses as of December 31 follows:

	2012	2011	2010
Beginning balance	\$ 1,053,922	\$ 842,968	\$ 1,139,346
Provision for loan losses	264,760	172,368	2,119
Loans charged off	-	(86,449)	(298,497)
Recoveries	-	125,035	-
Allowance for loan losses	\$ 1,318,682	\$ 1,053,922	\$ 842,968

Based upon ongoing risk assessment, the allowance for loan losses of \$1,318,682, \$1,053,922 and \$842,968 at December 31, 2012, 2011 and 2010, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. Due to a historically low loss history experienced by the Association, the consideration that the majority of the loan portfolio is collateralized by first-lien real estate with stable values, and the Association's implementation of enhanced loan portfolio monitoring to more efficiently and effectively detect and mitigate risk, the allowance value at December 31, 2012, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates.

NOTE 4 – INVESTMENT IN THE FARM CREDIT BANK OF TEXAS:

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities, not fair value, in the accompanying balance sheet. Estimating the fair value of the Association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The Association owns 3.56 percent of the issued stock of the Bank as of December 31, 2012. As of that date, the Bank's assets totaled \$15.40 billion and members' equity totaled \$1.27 billion. The Bank's earnings were \$174.6 million during 2012.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2012	2011	2010
Land and improvements	\$ 356,230	\$ 191,766	\$ 191,766
Building and improvements	1,697,260	1,806,377	1,810,105
Furniture and equipment	213,052	197,723	183,300
Computer equipment and software	152,087	131,108	128,401
Automobiles	290,731	224,358	225,678
	2,709,360	2,551,332	2,539,250
Accumulated depreciation	(1,109,434)	(1,194,425)	(1,066,038)
Total	\$ 1,599,926	\$ 1,356,907	\$ 1,473,212

The Association leases office space in Temple and Waco, and it leases office equipment for the offices in Waco, Lampasas, Temple, Corsicana and Hillsboro. Lease expense was \$92,832, \$52,091 and \$41,335 for 2012, 2011 and 2010, respectively. Minimum annual lease payments for the next five years are as follows:

	Operating
2013	\$ 84,985
2014	55,216
2015	13,026
2016	-
2017	-
Thereafter	-
Total	\$ 183,983

NOTE 6 – OTHER PROPERTY OWNED, NET:

Net gain (loss) on other property owned, net consists of the following for the years ended December 31:

	2012	2011	2010
Gain (loss) on sale, net	\$ -	\$ (195)	\$ 26,557
Carrying value adjustments	-	-	-
Operating income (expense), net	-	195	-
Net gain (loss) on other property owned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,557</u>

Other property owned as of December 31, 2012, was \$347,430, which was unchanged from December 31, 2011. This amount exists as a result of a participation loan in the ethanol industry in which the participants 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. There was no related specific allowance for loan loss.

NOTE 7 – OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2012	2011	2010
Other accounts receivable	\$ 166,711	\$ 164,812	\$ 161,052
Prepaid expenses	13,971	7,600	9,195
Other assets	201,432	283,296	70
Total	<u>\$ 382,114</u>	<u>\$ 455,708</u>	<u>\$ 170,317</u>

Other liabilities comprised the following at December 31:

	2012	2011	2010
Other accounts payable	\$ 2,224,501	\$ 1,849,493	\$ 1,543,017
Other liabilities	285,365	255,394	248,388
Total	<u>\$ 2,509,866</u>	<u>\$ 2,104,887</u>	<u>\$ 1,791,405</u>

Other assets and liabilities are typically immaterial to the Association and carried in the normal course of business. The increase in Other assets in 2011 as compared to 2010 is primarily related to the funding of the nonqualified defined contribution 401(k) plan in the amount of \$200,000. Other accounts payable is primarily related to postretirement benefits as discussed in Note 11, “Employee Benefit Plans.”

NOTE 8 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the Association’s loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association’s indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association’s assets, and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank’s cost of funding the loans the Association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2015, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days prior written notice, or in all other circumstances, upon giving the Bank 120 days prior written notice.

The total amount and the weighted average interest rate of the Association’s direct loan from the Bank at December 31, 2012, 2011 and 2010, was \$380,391,555 at 2.13 percent, \$372,411,673 at 2.65 percent and \$351,233,934 at 3.15 percent, respectively.

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, 2012, 2011 and 2010, the Association’s note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2012, was \$475,971,015, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2012, 2011 and 2010, the Association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 9 — MEMBERS' EQUITY:

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities is provided below.

Protection of certain borrower equity is provided under the Act that requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class A capital stock (for farm loans) or participation certificates (for rural home and farm-related business loans) is equal to 2 percent of the loan amount, up to a maximum amount of \$1,000. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

Each owner of Class A capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class A to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the Association's board of directors. At December 31, 2012, 2011 and 2010, the Association did not have Class C stock.

All borrower stock is at risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A capital stock and participation certificates. In the event of liquidation of the Association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the Association's obligations to external parties and to the Bank would be distributed to the holders of common stock and participation certificates, pro rata, in proportion to the number of shares or units of participation certificates then outstanding until an amount equal to the aggregate par value or unit value of all shares of such stock and participation certificates issued and outstanding has been distributed to stockholders.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. As of December 31, 2011, the Association had allocated retained earnings in the amount of \$15,754,288. During 2012, the board of directors approved a distribution of \$1,500,393 related to 2006 earnings that were paid out of allocated retained earnings. This distribution brought the level of allocated retained earnings down to \$14,253,895 as of December 31, 2012. The following dividends and patronage distributions were declared and paid in 2012, 2011 and 2010, respectively:

Date Declared	Date Paid	Patronage
December 2012	April 2013	\$4,295,072
December 2011	April 2012	3,992,254
December 2010	April 2011	3,852,577

The FCA's capital adequacy regulations require the Association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. As of December 31, 2012, the Association is not prohibited from retiring stock or distributing earnings; furthermore, neither the board nor senior management knows of any such prohibitions that may apply during the subsequent fiscal year. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2012, were 20.4 percent, 19.4 percent and 19.8 percent, respectively.

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected patronage distributions, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting 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 the 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 to monitor the actual results of operations as compared to those outlined in the Capital Adequacy Plan.

An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

At December 31, the Association had the following shares of Class A capital stock and participation certificates outstanding at a par value of \$5 per share:

	2012	2011	2010
Class A stock	524,270	511,046	499,782
Participation certificates	34,362	35,072	33,051
Total	558,632	546,118	532,833

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes as follows:

December 31, 2012	Before Tax	Deferred Tax	Net of Tax
Nonpension post retirement benefits	\$ (469,285)	\$ -	\$ (469,285)
Unrealized gains on investments, net available for sale	\$ -	-	\$ -
Total	\$ (469,285)	\$ -	\$ (469,285)
December 31, 2011	Before Tax	Deferred Tax	Net of Tax
Nonpension post retirement benefits	\$ (123,855)	\$ -	\$ (123,855)
Unrealized gains on investments, net available for sale	\$ -	-	\$ -
Total	\$ (123,855)	\$ -	\$ (123,855)
December 31, 2010	Before Tax	Deferred Tax	Net of Tax
Nonpension post retirement benefits	\$ (106,047)	\$ -	\$ (106,047)
Unrealized gains on investments, net available for sale	\$ -	-	\$ -
Total	\$ (106,047)	\$ -	\$ (106,047)

NOTE 10 — INCOME TAXES:

The provision for (benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	2012	2011	2010
Federal tax at statutory rate	\$ 3,901,785	\$ 3,427,729	\$ 3,711,347
Effect of nontaxable FLCA subsidiary	(3,844,049)	(3,380,828)	(3,656,259)
Patronage distributions	(57,736)	(46,901)	(55,137)
Other	-	-	49
Provision for (benefit from) income taxes	\$ -	\$ -	\$ -

Deferred tax assets and liabilities in accordance with accounting guidance “Accounting for Income Taxes” are comprised of the following at December 31:

	2012	2011	2010
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 4,226	\$ 4,455	\$ 4,276
FAS 91	6,617	4,071	-
Gross deferred tax assets	10,843	8,526	4,276
Deferred tax asset valuation allowance	(10,843)	(8,526)	(4,276)

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings.

The Association recorded valuation allowances of \$10,843, \$8,526 and \$4,276 during 2012, 2011 and 2010, respectively. Deferred taxes are recorded on 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 (over 50 percent probability), based on management’s estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association’s expected patronage program, which reduces taxable earnings. The Association will continue to evaluate the reliability of the deferred tax assets and adjust the valuation allowance accordingly.

Upon adoption of FASB guidance “Accounting for Uncertainty in Income Taxes” on January 1, 2007, the Association did not need to recognize a tax liability for any uncertain tax positions and at December 31, 2012, did not need to recognize a tax liability for any uncertain tax positions.

NOTE 11 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contributions plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Also, the Association sponsors a nonqualified defined contribution 401(k) plan.

These plans are described more fully in section H of Note 2, “Summary of Significant Accounting Policies.” The structure of the District’s DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon District combination only. The Association records current contributions to the DB plan as an expense in the current year.

The DB plan is noncontributory, and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan’s funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by a percentage approved by the plan sponsor. The plan sponsor is the board of the Farm Credit Bank of Texas. The “projected unit credit” actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. Actuarial information regarding the DB pension plan accumulated benefit obligation and plan asset is calculated for the District as a whole and is presented in the District’s Annual Report to Stockholders. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2012.

The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

- a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the Association chooses to stop participating in some of its multi-employer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan, the Association’s contributions and the percentage of Association contribution to total plan contributions for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Funded status of plan	65.0%	64.9%	71.6%
Association's contribution	\$ 664,008	\$ 729,797	\$ 562,023
Percentage of Association's contribution to total contributions	4.2%	3.2%	2.8%

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 72.7 percent, 72.6 percent and 78.8 percent at December 31, 2012, 2011 and 2010, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. Until December 2004, the Association participated in the District’s multi-employer health and welfare plan, which provided substantially all employees with postretirement health care and life insurance benefits. Neither the assets, liabilities nor cost of the multi-employer plan were segregated or separately accounted for by participating associations. Costs were recognized only to the extent of the contributions to the plan. In December 2004, the District discontinued its multi-employer health and welfare plan, and the Association adopted a new plan to provide for the same benefits to its retirees and employees. Under the new plan, the Association will no longer be jointly and severally liable with any other employers.

In September 2006, the FASB issued guidance, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of this guidance were adopted at December 31, 2007. The guidance also required that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, the System used a September 30 measurement date

for pension and other postretirement benefit plans. The guidance provided two approaches for an employer to transition to a fiscal year-end measurement date. The System has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and postretirement benefit income measured for the three-month period October 1, 2007, to December 31, 2007, (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the Association decreased retained earnings by \$8,665, net of taxes, and increased the pension and other postretirement benefit liabilities by \$8,665.

The following table reflects the benefit obligation, cost and actuarial assumptions for the Association's other postretirement benefits:

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	2012	2011	2010
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	\$ 1,373,352	\$ 1,326,733	\$ 939,667
Service cost	28,984	33,514	29,087
Interest cost	68,862	74,150	56,176
Plan participants' contributions	24,011	15,084	12,131
Plan amendments	-	-	-
Special termination benefits	-	-	-
Actuarial loss (gain)	321,392	(8,894)	346,613
Benefits paid	(99,548)	(67,235)	(56,941)
Accumulated postretirement benefit obligation, end of year	\$ 1,717,053	\$ 1,373,352	\$ 1,326,733
Change in Plan Assets			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Company contributions	75,537	52,151	44,810
Plan participants' contributions	24,011	15,084	12,131
Benefits paid	(99,548)	(67,235)	(56,941)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (1,717,053)	\$ (1,373,352)	\$ (1,326,733)
Amounts Recognized in Statement of Financial Position			
Other liabilities	\$ (1,717,053)	\$ (1,373,352)	\$ (1,326,733)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	\$ 643,853	\$ 342,303	\$ 374,469
Prior service cost (credit)	(174,568)	(218,448)	(268,422)
Net transition obligation (asset)	-	-	-
Total	\$ 469,285	\$ 123,855	\$ 106,047
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	12/31/2012	12/31/2011	12/31/2010
Discount rate	4.40%	5.10%	5.70%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.25%/6.50%	8.5%/6.75%	7.5%/6.5%
Health care cost trend rate assumed for next year - Rx	7.75%	8.00%	10.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2023	2018	2017

Total Cost	2012	2011	2010
Service cost	\$ 28,984	\$ 33,514	\$ 29,087
Interest cost	68,862	74,150	56,176
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(43,880)	(49,974)	(51,173)
Unrecognized net loss (gain)	19,842	23,272	-
Net postretirement benefit cost	\$ 73,808	\$ 80,962	\$ 34,090
Accounting for settlements/curtailments/special termination benefits	\$ -	\$ -	\$ -

Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income

Net actuarial loss (gain)	\$ 321,392	\$ (8,894)	\$ 346,613
Amortization of net actuarial loss (gain)	(19,842)	(23,272)	-
Prior service cost (credit)	-	-	-
Amortization of prior service cost	43,880	49,974	51,173
Recognition of prior service cost	-	-	-
Amortization of transition liability (asset)	-	-	-
Total recognized in other comprehensive income	\$ 345,430	\$ 17,808	\$ 397,786

AOCI Amounts Expected to be Amortized Into Expense in 2013

Unrecognized net transition obligation (asset)	\$ -	\$ -	\$ -
Unrecognized prior service cost	(39,415)	(43,880)	(49,974)
Unrecognized net loss (gain)	36,602	19,842	-
Total	\$ (2,813)	\$ (24,038)	\$ (49,974)

Weighted-Average Assumptions Used to Determine Benefit Cost

Measurement date	12/31/2011	12/31/2010	12/31/2009
Discount rate	5.10%	5.70%	6.05%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	8.5%/6.75%	7.50%/6.50%	8.0%/7.0%
Health care cost trend rate assumed for next year - Rx	8.00%	10.00%	10.50%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2018	2017	2017

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)

Fiscal 2013	\$ 90,979
Fiscal 2014	94,925
Fiscal 2015	89,378
Fiscal 2016	82,650
Fiscal 2017	82,184
Fiscal 2018–2022	479,470

Expected Contributions

Fiscal 2013	\$ 90,979
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NOTE 12 — RELATED PARTY TRANSACTIONS:

Directors of the Association, except for any director-elected directors, are required to be borrowers/stockholders of the Association. Also, in the ordinary course of business, the Association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors, or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons for the Association amounted to \$14,402,078, \$11,280,349 and \$11,996,765 at December 31, 2012, 2011 and 2010, respectively. During 2012, \$11,887,074 of new loans were made, and repayments totaled \$6,036,662. In the opinion of management, no such loans outstanding at December 31, 2012, 2011 and 2010 involved more than a normal risk of collectibility.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$64,758, \$126,639 and \$295,434 in 2012, 2011 and 2010, respectively. As of April 2011, the Bank only bills associations for direct pass-through expenses and no longer bills for allocated expenses. The impact of the change is a reduction of allocated expenses of \$60,881, which are included in purchased services on the statements of comprehensive income.

The Association received patronage payments from the Bank totaling \$1,884,172, \$1,724,785 and \$2,024,433 during 2012, 2011 and 2010, respectively.

NOTE 13 — 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 an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," for additional information.

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as, income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Other Financial Instrument Fair Value Measurements:

	<u>Valuation Technique(s)</u>	<u>Input</u>
Cash	Carrying value	Par/principal and appropriate interest yield
Mission-related and other investments held-to-maturity	Discounted cash flow	Prepayment rates Probability of default Loss severity
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Systemwide debt securities, subordinated debt and other bonds	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk
Other interest bearing liabilities	Carrying value	Par/principal and appropriate interest yield

Assets and liabilities measured at fair value on a recurring basis at December 31, 2012, 2011 and 2010 for each of the fair value hierarchy values are summarized below:

December 31, 2012	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments available-for-sale*	\$ -	\$ -	\$ -	\$ -
Assets held in nonqualified benefit trusts	200,828	-	-	200,828
Total assets	\$ 200,828	\$ -	\$ -	\$ 200,828
December 31, 2011	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments available-for-sale*	\$ -	\$ -	\$ -	\$ -
Assets held in nonqualified benefit trusts	200,811	-	-	200,811
Total assets	\$ 200,811	\$ -	\$ -	\$ 200,811
December 31, 2010	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments available-for-sale*	\$ -	\$ -	\$ -	\$ -
Assets held in nonqualified benefit trusts	-	-	-	-
Total assets	\$ -	\$ -	\$ -	\$ -

*Accounting guidance requires that the fair value measurement for investments be broken out by the different types of investments held.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2012, 2011 and 2010 for each of the fair value hierarchy values are summarized below:

December 31, 2012	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 1,747,416	\$ 1,747,416
Other property owned	-	-	347,430	347,430
December 31, 2011	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 996,551	\$ 996,551
Other property owned	-	-	347,430	347,430
December 31, 2010	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 425,255	\$ 425,255
Other property owned	-	-	347,430	347,430

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the balance sheet for each of the fair value hierarchy values are summarized as follows:

	December 31, 2012				December 31, 2011		December 31, 2010		
	Fair Value Measurement Using								
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount	Total Fair Value	Total Carrying Amount	Total Fair Value
Assets:									
Cash	\$ 657,737	\$ 657,737	\$ -	\$ -	\$ 657,737	\$ 415,313	\$ 415,313	\$ 754,776	\$ 754,776
Net loans	477,395,892	-	-	479,803,042	479,803,042	464,842,682	468,675,944	436,448,635	438,542,761
Total Assets	<u>\$ 478,053,629</u>	<u>\$ 657,737</u>	<u>\$ -</u>	<u>\$ 479,803,042</u>	<u>\$ 480,460,779</u>	<u>\$ 465,257,995</u>	<u>\$ 469,091,257</u>	<u>\$ 437,203,411</u>	<u>\$ 439,297,537</u>
Liabilities:									
Note payable to Farm Credit Bank of Texas	\$ 380,391,555	\$ -	\$ -	\$ 382,297,345	\$ 382,297,345	\$ 372,411,673	\$ 375,494,533	\$ 351,233,934	\$ 352,934,959
Total Liabilities	<u>\$ 380,391,555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 382,297,345</u>	<u>\$ 382,297,345</u>	<u>\$ 372,411,673</u>	<u>\$ 375,494,533</u>	<u>\$ 351,233,934</u>	<u>\$ 352,934,959</u>

Valuation Techniques

As more fully discussed in Note 2, “Summary of Significant Accounting Policies,” accounting 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 by the Bank and associations for assets and liabilities:

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

Other Property Owned

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

NOTE 14 — COMMITMENTS AND CONTINGENCIES:

In addition to those commitments and contingencies discussed in Note 2, “Summary of Significant Accounting Policies,” the Association is involved in various legal proceedings in the ordinary 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.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2011, \$34,618,096 of commitments and \$1,266,631 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 (in thousands) follow:

	2012				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,626	\$ 3,716	\$ 3,950	\$ 3,752	\$ 15,044
(Provision for) reversal of loan losses	107	24	(398)	2	(265)
Noninterest income (expense), net	(857)	(462)	(768)	(1,216)	(3,303)
Net income	\$ 2,876	\$ 3,278	\$ 2,784	\$ 2,538	\$ 11,476

	2011				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,387	\$ 3,380	\$ 3,513	\$ 3,471	\$ 13,751
(Provision for) reversal of loan losses	(121)	87	94	(232)	(172)
Noninterest income (expense), net	(1,346)	(942)	(959)	(250)	(3,497)
Net income	\$ 1,920	\$ 2,525	\$ 2,648	\$ 2,989	\$ 10,082

	2010				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,204	\$ 3,278	\$ 3,278	\$ 3,345	\$ 13,105
(Provision for) reversal of loan losses	(50)	(77)	126	(7)	(8)
Noninterest income (expense), net	(1,028)	(587)	(832)	266	(2,181)
Net income	\$ 2,126	\$ 2,614	\$ 2,572	\$ 3,604	\$ 10,916

The Association received a refund of premiums from FCSIC in the first quarter of 2012, contributing to higher net income. The Association included the nonqualified defined contribution 401(k) plan contribution in the amount of \$200,000 in noninterest expense during the first quarter of 2011. In addition, there were reversals of provisions for loan loss and charge-offs in the second and third quarters of 2011 that subsequently increased net income. The Association once again received its patronage from the Bank, which offset a significant portion of fourth quarter expenses.

NOTE 16 — SUBSEQUENT 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 of each other's operations. This is the first step in a process for developing definitive terms and conditions for a plan of merger. The proposed effective date for merger is January 1, 2014, or as soon as practicable thereafter. Additional disclosures will be provided to stockholders during 2013 under timelines dictated by Farm Credit regulations.

As of March 6, 2013, which is the date the financial statements were issued or available to be issued, there were no additional significant events requiring disclosure in the 2012 Annual Stockholder Report.

DISCLOSURE INFORMATION AND INDEX

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the consolidated financial statements, "Organization, Restructuring and Operations," included in this annual report.

The descriptions of significant developments that had or could have a material impact on earnings, interest rates to borrowers, patronage, or dividends and acquisitions or dispositions of material assets, changes in the reporting entity, changes in patronage policies or practices and financial assistance provided by or to the Association through loss sharing or capital preservation agreements or from any other source, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

Texas Land Bank, ACA (Association) serves its 16-county territory through its main administrative office at 13525 Sandalwood Drive, Waco, Texas 76712. Additionally, there are five branch lending offices located throughout the territory. The Association owns the office buildings in Waco, Corsicana, Hillsboro and Lampasas free of debt and leases office space for the Temple office as well as a Waco satellite office. During 2012, the Association purchased an approximately one-acre lot that adjoins the building and lot located at 13525 Sandalwood Drive in Waco, Texas. The intent of the purchase was to provide room for future expansion and the ability to provide separate credit and administration offices to accommodate increased human capital.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 7 to the consolidated financial statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 14 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The Association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (Bank), as discussed in Note 1 to the consolidated financial statements, "Organization, Restructuring and Operations," included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the Association.

The Farm Credit Bank of Texas and District Associations' (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 quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Texas Land Bank, ACA P. O. Box 20997, Waco, Texas 76702-0997 or calling (254) 772-6905. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing sharla.chambers@texaslandbank.com. The Association's annual stockholder report is available on its website at www.texaslandbank.com 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2012, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to stockholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis," which precedes the consolidated financial statements in this annual report, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The Association's member-elected and director-elected board of directors and senior officers are as follows:

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Barnett "Barney" Baker	Chairman, Retired	1977	2012*
Burt Richards	Chairman	1988	2013
Arthur Bancroft	Director	1990	2013
Derwood Cobb	Director	2000	2012*
Gary R. Murphy	Director	1988	2014
John R. Sawyer	Vice-Chairman	2006	2014
Paul H. Young	Director	2010	2014
Travis Dwayne Bates	Director	2011	2012**
Linda C. Floerke	Director	2012	2015
Steven Watson	Director	2012	2015
David W. Conrad	Director – Elected Director	2005	2013
Charles P. Gant	President/Chief Executive Officer	1981	-
J. Keith Finstad	Chief Credit Officer	1981	-
Sharla Chambers	Chief Financial Officer	2006	-
Justin L. Wiethorn	Regional President	1999	-
Kasey McGraw	Credit Office President	2006	-
Ryan Janek	Credit Office President	2004	-
Aaron Nors	Credit Office President	2006	-

*Retired from board in May 2012

**Not re-elected to board in May 2012

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

Barnett "Barney" Baker, age 74. Mr. Baker ranches in Burnet County near Burnet. He owns 2,969 acres and leases additional land and has approximately 200 cows and 350 goats. He was past president and is currently a director of Burnet County Farm Bureau. During the summer, he is director of food service and construction at Camp Longhorn. He served as a member of the Association Audit Committee. In addition, Mr. Baker served as the Association's representative on the District Stockholder's Advisory Committee. He retired from the board in May 2012 at the conclusion of the election of the board of directors.

Burt Richards, age 69. Mr. Richards is from Fairfield, Texas, and serves as the chairman of the Association's board of directors. He owns and operates 2,250 acres of land in Freestone County and leases additional land as well as maintaining an ownership interest in Diamond Cattle Feeders in the Texas Panhandle. He serves as a director of the Navasota Valley Electric Co-Op and a

member of the Freestone/Limestone County FSA Committee. He serves as chairman of the Association Compensation Committee and as the Association's representative on the District Farm Credit Council and the District Stockholder Advisory Committee.

Arthur Bancroft, age 74. Mr. Bancroft resides in Powell, Texas. He is a farmer, rancher and owner of Kerens Grain Elevator and Sonny's Farm Service. Mr. Bancroft owns 1,000 acres of land in Navarro County and leases 3,000 acres. He grows milo, corn, wheat and cotton. He is a director of the Texas Cotton Growers Association. He serves as a member of the Association Compensation Committee.

Derwood Cobb, age 78. Mr. Cobb farms and ranches near Cameron in Milam County. He owns 718 acres and leases 3,710 acres. His farming operation consists of corn, cotton, wheat and cattle. He is a director of the Milam County Farm Bureau. He serves as a member of the Association Compensation Committee. Mr. Cobb retired from the board in May 2012 at the conclusion of the election of directors.

Gary R. Murphy, age 64. Mr. Murphy resides in Hubbard, Texas. He is a farmer, rancher and owner of J.P.M., Inc. and Central Texas Cotton & Grain. He owns 5,535 acres of land and leases 2,959 acres on which he grows corn, milo and wheat, and has cattle. He is a director on the board of First Bank and Trust in Dawson, Texas, and the Texas Wheat Producers Board. In addition, he serves on the U.S. Wheat Board and Hubbard Community Affairs Board. He currently serves as a member of the Association Audit Committee.

John R. Sawyer, age 54. Mr. Sawyer resides in Hillsboro, Texas, and serves as the vice-chairman of the Association's board of directors. He is a farmer and rancher, and operates Sawyer Farms Partnership farming approximately 3500 acres. He owns 1,005 acres and leases another 2,595 acres. In addition, he is a partner in Apex Grain Co. LLC located in Hillsboro. He is a board member/chairman of the Hill County Blackland Soil & Water Conservation District, a member of the Hillsboro ISD School Board, and serves as a member of the Association Compensation Committee.

Paul H. Young, age 59. Mr. Young resides in the Lott area. He is self-employed as a partner/owner/operator of M.E. Young and Sons Partnership, operating in Coryell, Hamilton, Falls, Milam and Robertson counties. As a total his agricultural operation consists of approximately 8,000 acres of owned land and 14,000 acres of leased land. His farm/ranch operation consists of corn, milo, wheat, oats, soybeans, hay, cows, stockers, ewes, goats and broiler chickens. He presently serves on the board of the Coryell County Commission Company and the Falls County Row Crop Committee. He is a member of the Association Audit Committee.

Travis Dwayne Bates, age 65. Mr. Bates is from the Gatesville, Texas. He is a retired teacher. Dwayne owns and operates approximately 1,000 acres in Coryell County. He has a cow herd of 80 cows and also provides some custom hay baling services. Mr. Bates is a board member of the Coryell City Water Supply District, a member of the Advisory Board for the Coryell County Agent and is a member of the Coryell City /Osage Volunteer Fire Department, where he serves as a medical First Responder in that area. Mr. Bates was serving a one-year term and was not re-elected at the conclusion of the director elections in May 2012.

Linda C. Floerke, age 51. Mrs. Floerke lives near Lampasas in southern Lampasas County and has been involved in agriculture and business all of her life. She and her husband, Benton, raise cattle, whitetail deer and hay on 320 acres as well as own and manage Agro-Tech Services, Inc., a family business she has been involved in for 30 years, and has owned and managed for the past 16 years, providing services such as liquid fertilizer, crop chemicals, custom application and cattle protein supplements to area farmers and ranchers. Mrs. Floerke currently serves on the Lampasas I.S.D. Board of Trustees, the Lampasas United Methodist Church Trustee Board and the Agri-Life Extension Advisory Board. She also serves as a member of the Association's Audit Committee.

Steven Watson, age 50. Mr. Watson resides in Hamilton, Texas. He has been involved in production agriculture all his life and currently operates over 10,000 acres of land, including 3,000 acres of cropland, growing wheat, oats and hay. Steven also raises F-1 Wagyu Angus cattle for beef in the Kobe beef industry and runs a herd of approximately 500 mother cows and over 2,000 stocker calves annually. In addition, Mr. Watson owns and operates Watson's Ranch & Farm Supply, Inc., and he owns and operates a small trucking company he started in 1981, which operates in 42 states. He serves on the Hamilton ISD Site Base Committee and as vice president on the Hamilton Economic Development Corporation. He also serves as a member of the Association's Compensation Committee.

David W. Conrad, age 59. Mr. Conrad is from Round Rock, Texas. He is the owner of a professional accounting practice in Round Rock. He is a Certified Public Accountant. Early in his career he was employed by the Farm Credit Bank of Texas from 1982 to 1990 and served as internal auditor and director of Association Financial Operations. He is a member of the Texas Society of CPAs. He serves as chairman of the Association Audit Committee.

Charles P. Gant, age 62. Mr. Gant serves as president and chief executive officer. He has served as senior vice president of the Association, loan officer and director of credit at the Farm Credit Bank of Texas, and president of the Federal Land Bank Association of Stephenville. He has 31 years of experience with the Farm Credit System.

J. Keith Finstad, age 54. Mr. Finstad serves as chief credit officer of the Association. He has served as credit office president in the Waco credit office, a loan officer and director of credit at the Farm Credit Bank of Texas, vice president of the Federal Land Bank Association of Hillsboro and loan officer trainee of the Federal Land Bank Association of Waco. He has 31 years of experience with the Farm Credit System.

Sharla Chambers, age 36. Ms. Chambers serves as chief financial officer of the Association. She began her career with the Association as controller in 2006. In addition to being a Certified Public Accountant (CPA), she has experience in corporate accounting as well as retirement plan administration and compliance. She has six years of experience with the Farm Credit System.

Justin L. Wiethorn, age 35. Mr. Wiethorn serves as the regional president for the Association. He was previously credit office president in the Waco credit office, where he began as a loan officer trainee in June 1999. He has twelve years of experience with the Farm Credit System.

Kasey McGraw, age 37. Mr. McGraw serves as credit office president of the Corsicana credit office. He has six years of experience with the Farm Credit System in addition to considerable commercial lending experience, having previously served as a loan officer for a large commercial bank.

Ryan Janek, age 34. Mr. Janek serves as credit office president in the Hillsboro credit office. Mr. Janek has served as a credit office president for two years and prior to that was a vice president loan officer for Lone Star Ag Credit and a loan officer at a large commercial bank. He has eight years of experience with the Farm Credit System.

Aaron Nors, age 30. Mr. Nors serves as credit office president in the Waco credit office. He has served in that role since January 1, 2012. He has six years' experience with the Farm Credit System and began his career as a credit analyst prior to his promotion to loan officer and then credit office president.

COMPENSATION OF DIRECTORS

All directors other than the chairman of the board and chairman of the Audit Committee were compensated for their service to the Association in the form of an honorarium at the rate of \$700 per day for director meetings and committee meetings and \$350 per day if such meetings were held via conference call. The chairman of the board and chairman of the Audit Committee were compensated \$850 per day for director meetings and committee meetings and \$425 per day if such meetings were held via conference call. All members were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2012 was paid at the IRS-approved rate per mile. A copy of the travel policy is available to stockholders of the Association upon request.

Director	Number of Days Served Associated With		Total Compensation in 2012
	Board Meetings	Other Official Activities	
Barnett "Barney" Baker	5	11	\$ 11,900
Burt Richards	11	32	33,700
Arthur Bancroft	11	11	15,400
Derwood Cobb	5	7	8,400
Gary R. Murphy	10	13	15,750
John R. Sawyer	11	18	20,600
Paul H. Young	10	15	16,450
Travis Dwayne Bates	5	6	7,700
Linda C. Floerke	6	4	6,650
Steven Watson	6	5	7,700
David W. Conrad	11	11	18,275
			<u>\$ 162,525</u>

The aggregate compensation paid to directors in 2012, 2011 and 2010 was \$162,525 \$172,000 and \$178,650, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

Director	Committee		
	Audit	Compensation	Other Committees, if Any
Barnett Baker	\$ 850	\$ 0	\$ 6,800
Burt Richards	850	1,700	22,550
Arthur Bancroft	0	1,400	6,300
Derwood Cobb	0	700	4,200
Gary R. Murphy	1,050	0	7,700
John R. Sawyer	0	1,400	11,350
Paul H. Young	1,750	0	7,700
Travis Dwayne Bates	0	0	4,200
Linda C. Floerke	1,050	0	1,400
Steven Watson	0	700	2,800
David W. Conrad	2,125	0	6,800
	<u>\$ 7,675</u>	<u>\$ 5,900</u>	<u>\$ 81,800</u>

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$60,374, \$53,511 and \$69,039 in 2012, 2011 and 2010, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

The objective of the Association's salary administration plan is to attract, retain and motivate quality employees in a fair and uniform manner in order that the Association may accomplish its mission and achieve its strategic goals. The program ensures fair and equitable compensation opportunities for those who hold positions of comparable responsibility. Objective methods are used to measure the relative value of jobs and salary grade, and ranges are used that will position the Association to be competitive in the marketplace. The Compensation Committee of the board of directors and management utilize the services of independent third party providers to compile compensation market data annually that is used by the board and management in establishing salary and incentive levels. This data provides salary levels for similar sized institutions operating in the Association's trade area and market.

In addition to market based salary administration, the Association's total compensation plan seeks to reward extraordinary performance and motivate employees to meet and exceed specific performance targets established in the Association's Annual Business Plan through an employee incentive plan that is open to all employees. The board, Compensation Committee and management recognize the value of experienced and skilled employees in order to meet the needs of stockholders while providing risk management and adequate returns to the Association. The incentive plan is a balanced, multi-dimensional plan that incorporates profitability as well as asset quality criteria. In addition, there are incentives for new business generation based on the employee's role in the organization and a team incentive based on the credit quality and profitability of the Association as a whole. For 2012, the Association paid bonus incentives to all eligible employees in the form of cash on December 31, 2012. There were no noncash incentives available.

Chief Executive Officer (CEO) Compensation Table and Policy

The CEO's salary is set by the Compensation Committee and board using the compensation market data of independent third party providers, as well as peer comparisons of CEO's of similar sized Farm Credit associations, as a guideline to determine a fair and competitive salary. Factors considered by Compensation Committee and board in determining the final compensation amounts for the CEO include personal performance evaluation, Association performance relative the goals established in the Business Plan, profitability, return on assets, credit quality, credit administration, ability to pay patronage to members and overall management abilities exhibited by the CEO.

Name of Individual	Year	Salary	Bonus	Change in Pension Value	Deferred/Perquisite	Other	Total
Charles P. Gant, CEO	2012	\$ 220,000	\$ 66,000	\$ 467,332	\$ 19,609	\$ -	\$ 772,941
	2011	\$ 210,000	\$ 73,500	\$ 384,399	\$ 18,779	\$ 200,000	\$ 886,678
	2010	\$ 200,000	\$ 72,500	\$ 347,554	\$ 16,105	\$ -	\$ 636,159

For 2012, the CEO's salary and bonus comprised 37.0 percent of the total compensation package summarized above. "Deferred/Perquisite" amounts include employer 401k contributions, term life insurance premiums, and auto fringe benefits received. "Other" includes the employer contribution to the nonqualified defined contribution 401(k) Plan. The "Change in Pension Value" column includes the aggregate increase in actuarial value of all defined benefit and actuarial plans accrued during the year, excluding defined contribution plans. The change in actuarial value is based on increases in value due to an additional year of service, compensation increases, plan amendments, and increases or decreases in value due to the discount interest rate utilized in the calculations. This amount does not reflect an actual cash payment.

Pension Benefits Table for the CEO

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2012:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2012
Charles P. Gant	Farm Credit Bank of Texas Pension Plan	33.83	\$ 2,510,072	\$ -

Pension Benefits Table Narrative Disclosure for the CEO

The CEO of the Association participates in the Farm Credit of Texas Pension Plan (the "Pension Plan"), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 ("FAC60"). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation items (ii) "Years of Benefit Service" (not to exceed 35). The present value of the CEO's accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 61. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the CEO is married on the date the annuity begins, that the spouse is exactly two years younger than the CEO, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions is incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to the five highest paid officers of the Association, excluding the CEO, during 2012, 2011 and 2010. This may include other non-senior officers if their total compensation is within the top five officers highest paid. Amounts reflected in the table are presented in the year the compensation was earned.

Number of Senior Officers, Excluding CEO	Year	Salary	Bonus	Deferred/ Perquisite	Total
5	2012	\$ 549,020	\$ 172,280	\$ 88,360	\$ 809,660
5	2011	\$ 522,520	\$ 200,625	\$ 78,518	\$ 801,663
5	2010	\$ 501,500	\$ 154,620	\$ 72,279	\$ 728,399

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate are available and will be disclosed to shareholders of the institution upon request.

Amounts shown in the "Salary" and "Bonus" columns reflect the dollar value of salary and bonus incentives earned by the senior officer during the fiscal year. Amounts contributed during the fiscal year by the senior officer pursuant to a plan established under section 401(k) of the Internal Revenue Code, or similar plan, are included in the salary column or bonus column, as appropriate. In addition, "Deferred/Perquisite" amounts include employer 401k and defined contribution plan contributions, term life insurance premiums, and auto fringe benefits received.

The Association's voting shareholders have the authority to cast a vote in an advisory vote on the Association's CEO and/or senior officer compensation if 5 percent of the total voting stockholders submit a petition to do so. The petition and the advisory vote will be conducted in accordance with the Association's policies and procedures. To date, no advisory votes on the Association's CEO and senior officer compensation have occurred as the authority to do so only became effective in December of 2012. If a vote were to occur in the future, the results would be shared with the shareholders. The results of any advisory vote are non-binding on the Association's Compensation Committee and the Association's board of directors.

Employees assigned Association automobiles reimburse the Association for personal miles at a board-established rate. Employees who use their personal automobiles for business purposes were reimbursed during 2012 at the IRS-approved rate.

Senior officers, including the CEO, are eligible for the cash incentive plan described above that is open to all employees. There is not a separate incentive plan for senior officers.

Neither the CEO nor any other senior officer received noncash compensation exceeding \$5,000 in 2012, 2011 or 2010.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting Association business. A copy of the Association's travel policy is available to shareholders upon request.

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 12 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

During the past five years, none of the Association's officers or directors has been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as a director or senior officer on January 1, 2013, or at any time during the fiscal year just ended.

RELATIONSHIP WITH INDEPENDENT AUDITOR

There were no changes in the relationship with the independent auditor during 2012. The Association's Audit Committee engaged the independent accounting firm of PricewaterhouseCoopers (PWC) to perform the annual audit of the Association's financial statements

included in this annual report, and the Association continues to utilize the audit and permissible tax return preparation services provided by PricewaterhouseCoopers LLP. The fees for professional services rendered for the Association by PwC during 2012 were \$36,000 for audit services and \$6,200 for tax return preparation services. No other services were performed by PWC during the reporting period.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP (PWC) dated March 4, 2013, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. Our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the Association or its members.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

As an agricultural lender in Central Texas, the Association board and management are aware that the average age of full-time agricultural operators in the area continues to grow. Board and management are also aware of the ongoing declining trend of family farms and a transition towards more of the land being owned and operated by part-time operators who seek to pursue agricultural interests to supplement off-farm income and/or lifestyle or recreational purposes. A significant number of the part-time farmers and ranchers are small and beginning operators and fall with the "small" and "beginning" YBS definitions. Many of the non-traditional operators also qualify under the YBS definitions. These trending demographics are illustrated in most recent USDA census surveys and are expected to continue because of the geographical location and the projected demographics of the local service area. The Association will strive to continue furnishing sound and constructive credit and related services to Young, Beginning, and Small farmers and ranchers, as further defined below, as well as all other agricultural operators within its loan servicing area (LSA).

The Association, having provided financing to agricultural interests in Central Texas for more than 95 years, recognizes the importance of having Young, Beginning and Small (YBS) farmers and ranchers to help sustain ongoing production agriculture in the LSA. Accordingly, the Association encourages entry into agriculture by providing competitively priced loan products and services tailored to fit the needs of present day operators.

In addition to competitively priced credit, the Association's New Generation Loan Program is available to Young and Beginning farmers and ranchers and provides ease for entry within this group through less stringent loan underwriting standards and reduced interest rate spreads for qualifying candidates.

The Association has established quantitative and qualitative goals with an action plan to accomplish its YBS goals. Included within the Association's action plan are coordination with other lenders and educational outreach.

Most recent USDA census data and management's knowledge of local markets in the LSA are used to establish and monitor YBS goals and action plans. Using collected information from the Association's loan accounting system, the following table provides the number and volume of YBS loans outstanding as a percentage to total number and volume of all loans outstanding in the portfolio as of December 31, 2012.

	Young		Beginning		Small	
	Number	Volume	Number	Volume	Number	Volume
Association Percentage Outstanding	18.65%	14.59%	57.87%	55.08%	77.52%	71.19%

Based on the 2007 USDA Census, there are 29,339 total farms in the LSA. The census also reports there are 2,450 operators who qualify as Young, 12,433 who qualify as Beginning and 28,706 who qualify as Small, under the YBS definitions. The percentage of reported YBS operators in the LSA to total farms is provided in the following YBS Populations table.

	Young	Beginning	Small
YBS Populations	8.35%	42.38%	97.84%

While the measurement in the tables above is not directly comparable, it provides quantitative information to Association board and management for setting and monitoring goals.

The results of the Association's YBS program are communicated to the board of directors quarterly and to the Bank on an annual basis. The board and management review goals and actual achievements in meeting its YBS targets on an annual basis. For 2012, the Association's YBS quantitative goals were:

1. to originate 80% of the new loan business (by number of loans) to borrowers meeting the definition(s) of YBS farmers and ranchers; and
2. to originate 80% of the new loan volume (by dollar amount) to borrowers meeting the definition(s) of YBS farmers and ranchers.

Often, borrowers will meet one or more of the YBS definitions. The above percentage goals are based on a borrower meeting at least one of the YBS definitions.

In 2012, goals set for both number and volume of new loans closed was exceeded. The table below demonstrates the actual Association results.

Number of New Loans Meeting Y, B or S Definition	378
<u>Number of All New Loans Closed</u>	<u>451</u>
Percent New Loans Meeting Y, B, or S Definition	83.8%
Volume of New Loans Closed Meeting Y, B or S Definition	\$80.7 million
<u>Volume of All New Loans Closed</u>	<u>\$91.2 million</u>
Percent Volume Meeting Y, B, or S Definition	88.5%

The Association coordinates with other lenders to make constructive use of programs offered through governmental entities. It also offers life and disability insurance services along with leasing products through outside providers and dealers which would assist YBS candidates in their operations.

Lastly, the Association, through its outreach efforts, provides financial support to agricultural youth programs and to Texas AgriLife Extension Service (TAES) programs. FFA chapters and 4-H clubs provide youth with excellent opportunities for agricultural experience and to develop leadership training which can be used later in adult life. These programs, both at local and state levels, are included within the Association's outreach program. TAES provides continued education programs for current producers, many of which are YBS farmers and ranchers. The Association, through its outreach program, fully supports TAES and its mission by making financial contributions and providing other forms of assistance.

Definitions for YBS farmers and ranchers

Young:	A farmer, rancher or producer or harvester of aquatic products is one who is age 35 or younger as of the loan transaction date.
Beginning:	A farmer, rancher or producer or harvester of aquatic products who has 10 years or less farming, ranching or aquatic experience as of the loan transaction date. (A loan or lease to a "young" or "beginning" borrower qualifies for reporting if the young or beginning borrower is either obligated on the note or is an owner of the closely-held entity financed. A loan to a publicly held entity or other entity that is not closely held does not qualify for reporting.)
Small:	A farmer, rancher or producer or harvester of aquatic products who normally generates less than \$250,000 in annual gross sales of agricultural or aquatic products.