2013 Quarterly Report

TEXAS
LAND BANK
FARM CREDIT

For the 2nd quarter ended June 30, 2013

REPORT OF MANAGEMENT

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

Charles P. Gant
Chief Executive Officer/President
August 8, 2013

Burt S. Richards
Chairman, Board of Directors
August 8, 2013

Sharla Chambers
Chief Financial Officer
August 8, 2013

The following commentary reviews the financial performance of the Texas Land Bank, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended June 30, 2013. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2012 Annual Report to Stockholders.

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

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

SIGNIFICANT EVENTS:

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

LOAN PORTFOLIO:

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

Total loans outstanding at June 30, 2013, including nonaccrual loans and sales contracts, were $497,113,730 compared to $480,461,990 at December 31, 2012, reflecting an increase of 3.5 percent.

For the producers in the Association's portfolio, demand for agricultural commodities has remained stable to improving as conditions improve in the global economy. Local agricultural conditions in the 16-county area served by the Association were considered fairly good during the crop-growing season in the first half of 2013, with rainfall that resulted in average to above average yields on wheat and is expected to result in average yields on row crops. Pasture conditions are considered fair as they have continued to recover from the 2011 drought. Pastures and hay crops are average to below average during the first half of 2013 due to the timing of critical rainfall. Operators continue to be concerned about production cost volatility, particularly fuel, fertilizer, feed and chemical costs. Grain prices have continued to trade above average historical ranges; however, prices remain below their previous higher levels. Prices continue to affect feed costs, negatively impacting livestock and poultry producers. Economists are predicting grain prices to continue trading within above average ranges during much of the 2013 production cycle and could continue to be a concern for meat protein producers. However, cattle prices continue to be strong, and the lower than normal cow herd numbers should continue to maintain a favorable supply/demand environment for ranchers in the near term as consumer demand for meat and meat protein products remains good. Cotton prices have been trading within somewhat higher price ranges and still within profitable levels. The upcoming weather patterns and potential continuing impact on yields and production is the highest concern for producers in our growing area at this time and into the remainder of 2013.

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

RISK EXPOSURE:

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

	June 30, 2013		December 31, 2012	
	Amount	**%**	Amount	%
Nonaccrual	**$ 2,524,669**	**76.2%**	$ 2,689,055	77.1%
90 days past due and still accruing interest	**-**	**0.0%**	-	0.0%
Formally restructured	**439,654**	**13.3%**	448,062	12.9%
Other property owned, net	**347,430**	**10.5%**	347,430	10.0%
Total	**$ 3,311,753**	**100.0%**	$ 3,484,547	100.0%

Total high-risk assets as of June 30, 2013, were $3,311,753, as compared to $3,484,547 as of December 31, 2012, which represented a 5.0 percent decrease, as a result of pay downs of principal on loans classified as nonaccrual and formally restructured as well as a partial charge-off of an existing nonaccrual loan.

Nonaccrual loans as a percentage of total loans outstanding were 0.5 percent at June 30, 2013, compared to 0.6 percent at December 31, 2012. The decrease in nonaccrual loan volume was the result of the pay down of principal of nonaccrual loans in the portfolio in addition to the partial charge-off of a nonperforming nonaccrual capital markets participation loan in the ethanol industry, offset by an additional $273,804 that was moved into nonaccrual during the second quarter.

Formally restructured loans are comprised of a capital markets participation loan in the ethanol industry which was transferred back to accrual status during the second quarter of 2011 when warranted by improved performance and operating conditions. Although the loan was transferred back to accrual status and was a performing loan as of June 30, 2013, the conditions and structure of the loan mandated it being classified as formally restructured.

Other property owned remained unchanged as of June 30, 2013, as compared to December 31, 2012. The amount consisted of a capital markets participation loan in the ethanol industry that went into foreclosure whose collateral was acquired by the lender group in June 2010. The Association, along with other participating lenders, received an equity position in the borrowing entity in exchange for concession of a portion of the debt. The equity was valued at $347,430, and an acquired property was recognized for this amount.

The Association recorded $0 in recoveries and $405,358 in charge-offs for the quarter ended June 30, 2013, and $0 in recoveries and $0 in charge-offs for the same period in 2012. As noted above, the charge-off taken during the second quarter of 2013 was related to a nonaccrual capital markets participation loan in the ethanol industry. The Association's allowance for loan losses was 0.2 percent and 0.3 percent of total loans outstanding as of June 30, 2013, and December 31, 2012, respectively. Management and the Association Audit Committee have reviewed the composition of the loan portfolio and feel that loans that could present a problem have been satisfactorily identified and adjustments have been appropriately made in order to ensure that the allowance for loan loss balance is adequate at this time.

The overall quality of the loan portfolio remained strong through the second quarter of 2013, with loans classified under Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" at 97.99 percent of total loans and accrued interest as of June 30, 2013.

RESULTS OF OPERATIONS:

Net Income
The Association had net income of $2,646,937 and $5,326,006 for the three and six months ended June 30, 2013, as compared to net income of $3,277,584 and $6,153,588 for the same period in 2012, reflecting a decrease of 19.2 and 13.5 percent, respectively. The decrease in net income is primarily related to a decrease in noninterest income and an increase in noninterest expenses.

Net Interest Income
Net interest income was $3,815,576 and $7,560,265 for the three and six months ended June 30, 2013, compared to $3,716,257 and $7,342,679 for the same period in 2012, reflecting increases of 2.7 and 3.0 percent, respectively. Interest income for the three and six months ended June 30, 2013, decreased by $169,489 and $432,254, or 2.8 and 3.6 percent, respectively, from the same period in 2012, primarily as a result of declines in yields on earning assets, offset by an increase in average loan volume, as average loan volume for the first six months of 2013 was $488,416,368 as compared to $471,014,588 for the same period in 2012. In spite of an increase in average loan volume for the first six months of 2013, interest expense for the three and six months ended June 30, 2013,

decreased by $268,808 and $649,840, or 11.5 and 13.6 percent, respectively, from the same period of 2012 due to a decrease in interest rates offset by an increase in average debt volume. The factors impacting interest income and interest expense produced an average net interest rate spread on the loan portfolio for the second quarter of 2013 equal to 2.68 percent, compared to 2.66 percent in the second quarter of 2012.

Noninterest Income and Expense

Noninterest income was $421,068 and $841,591 for the three and six months ended June 30, 2013, as compared to $810,353 and $1,237,699 for the same period in 2012, reflecting a decrease of 4.8 and 3.2 percent, respectively. The decrease is primarily the result of a decrease in loan fees and refunds from the Farm Credit System Insurance Corporation, offset by higher other noninterest income, which resulted from an increase in appraisal income.

Noninterest expenses were $1,499,072 and $2,998,625 for the three and six months ended June 30, 2013, as compared to $1,272,681 and $2,557,604 for the same period in 2012, reflecting an increase of 1.8 and 1.7 percent, respectively, primarily as a result of an increase in salaries and benefits, advertising and public/member relations, and insurance fund premiums. Salaries and benefits increased with the increase in staff needed by the Association as a result of loan portfolio growth and increased regulatory and reporting expectations. Advertising and public/member relations levels were increased in the 2013 budget in order to expand the Association's exposure in previously unreached markets and utilize additional methods for outreach. Further, insurance fund premiums paid into the Farm Credit System Insurance Corporation (FCSIC) increased by $46,702 and $91,971 for the three and six months ending June 30, 2013, as compared to the same period in 2012, reflecting an increase of 104.6 and 103.8 percent, respectively, due to an increase in loan volume as well as a rate increase from 5 basis points to 9 basis points on accrual loan volume.

The Association continued with the utilization of the authoritative accounting guidance that was implemented in the fourth quarter of 2010, requiring the capitalization and amortization of loan origination fees and costs for loans closed, resulting in the capitalization of $354,061 in loan origination fees and $267,898 in salaries and benefits through June 30, 2013, which will be amortized over the life of loans as an adjustment to yield on net interest income.

Financial Performance Ratios

The Association's return on average assets for the six months ended June 30, 2013, was 2.14 percent compared to 2.56 percent for the same period in 2012. The Association's return on average equity for the six months ended June 30, 2013, was 10.15 percent, compared to 12.29 percent for the same period in 2012. These changes are the result of a decrease in net income and increases in loan assets as discussed above.

LIQUIDITY AND FUNDING SOURCES:

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

	June 30, 2013	December 31, 2012
Note payable to the Bank	**$ 398,225,039**	$ 380,391,555
Accrued interest on note payable	**682,770**	722,225
Total	**$ 398,907,809**	$ 381,113,780

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2015. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $398,225,039 as of June 30, 2013, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.07 percent at June 30, 2013. 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 since December 31, 2012, is due to the increase in loan volume experienced by the Association during that time. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $98,937,323 at June 30, 2013. The maximum amount the Association may borrow from the Bank as of June 30, 2013, was $494,700,365 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.

Capital Resources:

The Association's capital position increased by $5,324,443 at June 30, 2013, compared to December 31, 2012. The Association's debt as a percentage of members' equity was 3.72:1 as of June 30, 2013, compared to 3.77:1 as of December 31, 2012.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at June 30, 2013, was 20.0 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at June 30, 2013, were 18.9 and 19.4 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

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

In February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012, and for nonpublic entities for annual periods beginning after December 15, 2013. The Association has adopted this guidance, which did not impact the financial condition or results of operations, but resulted in additional disclosures which are included in Note 6 – Employee Benefit Plans.

Relationship with the Farm Credit Bank of Texas:

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

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

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

TEXAS LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

	June 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Cash	$ 1,265,522	$ 657,737
Loans	497,113,730	480,461,990
Less: allowance for loan losses	990,549	1,318,682
Net loans	496,123,181	479,143,308
Accrued interest receivable	3,487,317	2,749,878
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	7,635,765	7,635,765
Other	583,998	68,306
Other property owned, net	347,430	347,430
Premises and equipment	1,541,962	1,599,926
Other assets	733,098	382,114
Total assets	$ 511,718,273	$ 492,584,464
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ 398,225,039	$ 380,391,555
Advance conditional payments	2,386	3,905
Accrued interest payable	682,773	722,225
Drafts outstanding	1,665,224	1,480,153
Patronage distributions payable	-	4,295,072
Other liabilities	2,636,720	2,509,866
Total liabilities	403,212,142	389,402,776
MEMBERS' EQUITY		
Capital stock and participation certificates	2,814,470	2,793,160
Allocated retained earnings	14,253,895	14,253,895
Unallocated retained earnings	91,909,161	86,603,918
Accumulated other comprehensive income (loss)	(471,395)	(469,285)
Total members' equity	108,506,131	103,181,688
Total liabilities and members' equity	$ 511,718,273	$ 492,584,464

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
INTEREST INCOME				
Loans	**$ 5,889,368**	$ 6,058,857	**$ 11,691,771**	$ 12,124,025
Total interest income	**5,889,368**	6,058,857	**11,691,771**	12,124,025
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**2,073,791**	2,342,599	**4,131,498**	4,781,345
Advance conditional payments	**1**	1	**8**	1
Total interest expense	**2,073,792**	2,342,600	**4,131,506**	4,781,346
Net interest income	**3,815,576**	3,716,257	**7,560,265**	7,342,679
PROVISION FOR LOAN LOSSES	**90,635**	(23,655)	77,225	(130,814)
Net interest income after provision for loan losses	**3,724,941**	3,739,912	**7,483,040**	7,473,493
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**335,814**	330,611	**663,400**	656,128
Loan fees	**65,856**	92,541	**154,490**	190,914
Refunds from Farm Credit System Insurance Corporation	-	377,591	-	377,591
Financially related services income	**2,272**	2,269	**5,325**	5,424
Other noninterest income	**17,126**	7,341	**18,376**	7,642
Total noninterest income	**421,068**	**810,353**	**841,591**	**1,237,699**
NONINTEREST EXPENSES				
Salaries and employee benefits	**891,673**	746,076	**1,812,800**	1,514,672
Directors' expense	**71,699**	65,276	**138,592**	132,785
Purchased services	**74,272**	57,812	**154,691**	139,957
Travel	**45,387**	42,629	**85,081**	78,774
Occupancy and equipment	**90,038**	91,010	**163,467**	155,581
Communications	**22,617**	26,297	**42,469**	46,624
Advertising	**73,381**	60,778	**137,499**	127,195
Public and member relations	**56,351**	30,865	**87,354**	62,673
Supervisory and exam expense	**42,986**	44,179	**85,972**	88,358
Insurance Fund premiums	**91,358**	44,656	**180,566**	88,595
(Gain) loss on sale of premises and equipment, net	**-**	1,362	**(10)**	1,362
Other noninterest expense	**39,310**	61,741	**110,144**	121,028
Total noninterest expenses	**1,499,072**	1,272,681	**2,998,625**	2,557,604
Income before income taxes	**2,646,937**	3,277,584	**5,326,006**	6,153,588
NET INCOME	**2,646,937**	3,277,584	**5,326,006**	**6,153,588**
Other comprehensive income:				
Change in postretirement benefit plans	**5,456**	(6,009)	**(2,110)**	(12,019)
Other comprehensive income, net of tax	**5,456**	(6,009)	**(2,110)**	**(12,019)**
COMPREHENSIVE INCOME	**$ 2,652,393**	$ 3,271,575	**$ 5,323,896**	**$ 6,141,569**

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2011	$ 2,730,590	$ 15,754,288	$ 79,444,404	$ (123,855)	$ 97,805,427
Comprehensive income	-	-	6,153,588	(12,019)	$ 6,141,569
Capital stock/participation certificates and allocated retained earnings issued	201,335	-	-	-	201,335
Capital stock/participation certificates and allocated retained earnings retired	(164,525)	-	-	-	(164,525)
Patronage refunds:					
Change in estimated patronage declared in 2011 and paid in 2012	-	-	(21,253)	-	(21,253)
Balance at June 30, 2012	$ 2,767,400	$ 15,754,288	$ 85,576,739	$ (135,874)	$ 103,962,553
Balance at December 31, 2012	$ 2,793,160	$ 14,253,895	$ 86,603,918	$ (469,285)	$ 103,181,688
Comprehensive income	-	-	5,326,006	(2,110)	5,323,896
Capital stock/participation certificates and allocated retained earnings issued	201,375	-	-	-	201,375
Capital stock/participation certificates and allocated retained earnings retired	(180,065)	-	-	-	(180,065)
Patronage refunds:					
Change in estimated patronage declared in 2012 and paid in 2013	-	-	(20,763)	-	(20,763)
Balance at June 30, 2013	**$ 2,814,470**	**$ 14,253,895**	**$ 91,909,161**	**$ (471,395)**	**$ 108,506,131**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

In February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012, and for nonpublic entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures (See Note 6 – Employee Benefit Plans.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, Associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended June 30, 2013, are not necessarily indicative of the results to be expected for the year ended December 31, 2013. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**June 30, 2013 Amount**	December 31, 2012 Amount
Production agriculture:		
Real estate mortgage	**$ 419,242,483**	$ 408,640,139
Production and intermediate term	**30,101,404**	25,842,040
Agribusiness:		
Loans to cooperatives	**1,441,873**	1,398,198
Processing and marketing	**19,117,472**	17,867,787
Farm-related business	**4,250,348**	3,535,708
Communication	**664,298**	764,984
Energy	**12,596,781**	12,000,562
Rural residential real estate	**9,699,071**	10,412,572
Total	**$ 497,113,730**	$ 480,461,990

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2013:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 13,966,500	$ 15,775,991	$ -	$ -	$ 13,966,500	$ 15,775,991
Production and intermediate term	10,053,997	5,008,550	-	-	10,053,997	5,008,550
Agribusiness	21,221,259	-	-	-	21,221,259	-
Communication	664,298	-	-	-	664,298	-
Energy	12,596,781	-	-	-	12,596,781	-
Total	$ 58,502,835	$ 20,784,541	$ -	$ -	$ 58,502,835	$ 20,784,541

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $3,628,311 and $2,762,297 at June 30, 2013, and December 31, 2012, respectively.

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

	June 30, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	**$ 1,032,255**	$ 789,349
Agribusiness	**1,484,996**	1,890,354
Rural residential real estate	**7,418**	9,352
Total nonaccrual loans	**2,524,669**	2,689,055
Accruing restructured loans:		
Real estate mortgage	**439,654**	448,062
Total accruing restructured loans	**439,654**	448,062
Accruing loans 90 days or more past due:		
Total accruing loans 90 days or more	**-**	-
Total nonperforming loans	**2,964,323**	3,137,117
Other property owned	**347,430**	347,430
Total nonperforming assets	**$ 3,311,753**	$ 3,484,547

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

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

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

	June 30, 2013		December 31, 2012	
Real estate mortgage				
Acceptable	**96.45**	%	96.64	%
OAEM	**2.08**		1.82	
Substandard/doubtful	**1.47**		1.54	
	100.00		100.00	
Production and intermediate term				
Acceptable	**100.00**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.00		100.00	
Agribusiness				
Acceptable	**94.02**		87.09	
OAEM	**-**		4.63	
Substandard/doubtful	**5.98**		8.28	
	100.00		100.00	
Energy and water/waste water				
Acceptable	**81.41**		80.10	
OAEM	**-**		-	
Substandard/doubtful	**18.59**		19.90	
	100.00		100.00	
Communication				
Acceptable	**100.00**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.00		100.00	
Rural residential real estate				
Acceptable	**99.07**		99.06	
OAEM	**0.29**		0.29	
Substandard/doubtful	**0.64**		0.65	
	100.00		100.00	
Total loans				
Acceptable	**96.22**		96.00	
OAEM	**1.76**		1.80	
Substandard/doubtful	**2.02**		2.20	
	100.00	%	100.0	%

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

June 30, 2013	**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	**$ 169,981**	**$ 538,503**	**$ 708,484**	**$ 421,736,355**	**$ 422,444,839**	**$ -**
Production and intermediate term	**-**	**-**	**-**	**30,305,887**	**30,305,887**	**-**
Loans to cooperatives	**-**	**-**	**-**	**1,442,818**	**1,442,818**	**-**
Processing and marketing	**-**	**1,484,996**	**1,484,996**	**17,648,508**	**19,133,504**	**-**
Farm-related business	**-**	**-**	**-**	**4,270,803**	**4,270,803**	**-**
Communication	**-**	**-**	**-**	**670,153**	**670,153**	**-**
Energy	**-**	**-**	**-**	**12,603,622**	**12,603,622**	**-**
Rural residential real estate	**-**	**-**	**-**	**9,729,421**	**9,729,421**	**-**
Total	**$ 169,981**	**$ 2,023,499**	**$ 2,193,480**	**$ 498,407,567**	**$ 500,601,047**	**$ -**

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	$ -

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 June 30, 2013, the total recorded investment of troubled debt restructured loans was $763,421, including $323,767 classified as nonaccrual and $439,654 classified as accrual, with specific allowance for loan losses of $126,738 on the nonaccrual loan. During the quarter ended June 30, 2013, there were no restructured loans designated as troubled debt restructurings. All troubled debt restructurings in the loan portfolio were restructured prior to January 1, 2012. Allowance for loan loss for troubled debt restructurings with a probability of default of 11 or less are included in the general allowance pool. Those with a probability of default of 12 or greater are calculated on a specific allowance basis. As of June 30, 2013, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $0.

During the period, there were no payment defaults on loans that were restructured during the previous 12 months. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

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 at:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Real estate mortgage	$ 763,421	$ 782,652	$ 323,767	$ 358,437
Total	$ 763,421	$ 782,652	$ 323,767	$ 358,437

*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	June 30, 2013			At December 31, 2012		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 323,767**	**$ 336,485**	**$ 126,738**	$ 587,528	$ 600,272	$ 136,366
Processing and marketing	**1,484,996**	**1,890,354**	**297,655**	1,890,354	1,890,354	594,100
Total	**$ 1,808,763**	**$ 2,226,839**	**$ 424,393**	$ 2,477,882	$2,490,626	$ 730,466
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 1,147,921**	**$ 1,149,116**	**$ -**	$ 649,883	$ 650,211	$ -
Rural residential real estate	**7,418**	**7,418**	**-**	9,352	9,352	-
Total	**$ 1,155,339**	**$ 1,156,534**	**$ -**	$ 659,235	$ 659,563	$ -
Total impaired loans:						
Real estate mortgage	**$ 1,471,688**	**$ 1,485,601**	**$ 126,738**	$ 1,237,411	$1,250,483	$ 136,366
Processing and marketing	**1,484,996**	**1,890,354**	**297,655**	1,890,354	1,890,354	594,100
Rural residential real estate	**7,418**	**7,418**	**-**	9,352	9,352	-
Total	**$ 2,964,102**	**$ 3,383,373**	**$ 424,393**	$ 3,137,117	$3,150,189	$ 730,466

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

	June 30, 2013		June 30, 2012	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 326,384**	**$ -**	$ 1,475,107	$ -
Processing and marketing	**1,876,990**	**-**	-	-
Total	**$ 2,203,374**	**$ -**	$ 1,475,107	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 891,707**	**$ 8,285**	$ 1,343,215	$ 6,944
Rural residential real estate	**7,779**	**-**	11,134	7
Total	**$ 899,486**	**$ 8,285**	$ 1,354,349	$ 6,951
Total impaired loans:				
Real estate mortgage	**$ 1,218,091**	**$ 8,285**	$ 2,818,322	$ 6,944
Processing and marketing	**1,876,990**	**-**	-	-
Rural residential real estate	**7,779**	**-**	11,134	7
Total	**$ 3,102,860**	**$ 8,285**	$ 2,829,456	$ 6,951

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at March 31, 2013	$ 484,643	$ 34,521	$ 629,606	$ 2,131	$ 147,068	$ 7,303	$ 1,305,272
Charge-offs	-	-	(405,358)	-	-	-	(405,358)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(14,974)	607	108,715	(202)	(3,046)	(465)	90,635
Balance at June 30, 2013	$ 469,669	$ 35,128	$ 332,963	$ 1,929	$ 144,022	$ 6,838	$ 990,549
Balance at December 31, 2012	$ 507,204	$ 30,783	$ 624,166	$ 2,232	$ 145,558	$ 8,739	$ 1,318,682
Charge-offs	-	-	(405,358)	-	-	-	(405,358)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(37,535)	4,345	114,155	(303)	(1,536)	(1,901)	77,225
Balance at June 30, 2013	$ 469,669	$ 35,128	$ 332,963	$ 1,929	$ 144,022	$ 6,838	$ 990,549
Ending Balance:							
Individually evaluated for impairment	$ 126,738	$ -	$ 297,655	$ -	$ -	$ -	$ 424,393
Collectively evaluated for impairment	342,931	35,128	35,308	1,929	144,022	6,838	566,156
Balance at June 30, 2013	$ 469,669	$ 35,128	$ 332,963	$ 1,929	$ 144,022	$ 6,838	$ 990,549
Balance at March 31, 2012	$ 566,262	$ 34,750	$ 193,638	$ 14,867	$ 124,956	$ 12,290	$ 946,763
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(45,530)	2,091	(3,866)	(277)	23,825	102	(23,655)
June 30, 2012	$ 520,732	$ 36,841	$ 189,772	$ 14,590	$ 148,781	$ 12,392	$ 923,108
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	(170,094)	931	(182)	7,896	30,077	558	(130,814)
June 30, 2012	$ 520,732	$ 36,841	$ 189,772	$ 14,590	$ 148,781	$ 12,392	$ 923,108
Ending Balance:							
Individually evaluated for impairment	$ 199,690	$ -	$ -	$ -	$ -	$ -	$ 199,690
Collectively evaluated for impairment	321,042	36,841	189,772	14,590	148,781	12,392	723,418
June 30, 2012	$ 520,732	$ 36,841	$ 189,772	$ 14,590	$ 148,781	$ 12,392	$ 923,108

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at June 30, 2013	$ 422,444,839	$ 30,305,887	$24,847,125	$ 670,153	$ 12,603,622	$ 9,729,421	$ 500,601,047
Individually evaluated for impairment	$ 323,767	$ -	$ 1,484,998	$ -	$ -	$ -	$ 1,808,765
Collectively evaluated for impairment	$ 422,121,072	$ 30,305,887	$23,362,127	$ 670,153	$ 12,603,622	$ 9,729,421	$ 498,792,282
Ending Balance at June 30, 2012	$ 411,257,835	$ 26,411,679	$21,026,711	$ 1,825,523	$ 11,534,630	$ 11,074,448	$ 483,130,826
Individually evaluated for impairment	$ 1,471,209	$ -	$ -	$ -	$ -	$ -	$ 1,471,209
Collectively evaluated for impairment	$ 409,786,626	$ 26,411,679	$21,026,711	$ 1,825,523	$ 11,534,630	$ 11,074,448	$ 481,659,617

NOTE 3 — CAPITAL:

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

NOTE 4 — INCOME TAXES:

Texas Land Bank, ACA and its subsidiary are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During the six months ended June 30, 2013, the Association participated in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the six months ended June 30, 2013, and 2012, net income for tax purposes did not warrant the recognition of tax expense due to the implemented patronage program.

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

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

NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2012 Annual Report to Stockholders for a more complete description.

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

June 30, 2013	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Investments available-for-sale*	**$ -**	**$ -**	**$ -**	**$ -**
Assets held in nonqualified benefit trusts	**200,840**	**-**	**-**	**200,840**
Total assets	**200,840**	**-**	**-**	**200,840**

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

The table below presents significant transfers in and out of Level 1 for all assets and liabilities measured at fair value on a recurring basis during the first six months of 2013:

	Total Fair Value Measurement Level 1 Assets
	Assets held in nonqualified benefit
Transfers into Level 1	$ 200,840
Transfers out of Level 1	-

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

June 30, 2013	**Fair Value Measurement Using**			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets:				
Loans*	**$ -**	**$ -**	**$ 1,384,372**	**$ 1,384,372**
Other property owned	**-**	**-**	**347,430**	**347,430**

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

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

Valuation Techniques

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

Assets Held in Nonqualified Benefits Trusts

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

Loans

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

Other Property Owned

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

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended June 30:

	Other Benefits	
	2013	2012
Service cost	**$ 8,269**	$ 7,246
Interest cost	**18,377**	17,216
Amortization of prior service (credits) costs	**(9,854)**	(10,970)
Amortizations of net actuarial (gain) loss	**9,150**	4,961
Net periodic benefit cost	**$ 25,942**	$ 18,453

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the six months ended June 30:

	Other Benefits	
	2013	2012
Service cost	**$ 16,538**	$ 14,492
Interest cost	**36,754**	34,432
Amortization of prior service (credits) costs	**(29,562)**	(21,940)
Amortizations of net actuarial (gain) loss	**27,452**	9,921
Net periodic benefit cost	**$ 51,182**	$ 36,905

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2013, was $1,753,974 and is included in "Other Liabilities" in the balance sheet.

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. As of June 30, 2013, $588,654 of contributions have been made to the defined benefit plan. The Association does not anticipate contributing any additional money to the plan during 2013.

The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the six months ended June 30:

	2013	2012
Accumulated other comprehensive income (loss) at January 1	**$ (469,285)**	$ (123,855)
Amortization of prior service (credit) costs included in net periodic postretirement benefit cost	**(29,562)**	(21,940)
Amortization of actuarial (gain) loss included in net periodic postretirement benefit cost	**27,452**	9,921
Other comprehensive income (loss), net of tax	**(2,110)**	(12,019)
Accumulated other comprehensive income at June 30	**$ (471,395)**	$ (135,874)

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through August 8, 2013, which is the date the financial statements were issued. There are no other significant events requiring disclosure in the second quarter stockholder report as of August 8, 2013.