2012 Quarterly Report

For the 3rd Quarter Ended September 30, 2012

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
October 31, 2012

Burt Richards
Chairman, Board of Directors
October 31, 2012

Sharla Chambers
Chief Financial Officer
October 31, 2012

TEXAS LAND BANK, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Texas Land Bank, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended September 30, 2012. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2011 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.

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 September 30, 2012, including nonaccrual loans and sales contracts, were $482,909,211 compared to $465,896,604 at December 31, 2011, reflecting an increase of 3.7 percent, primarily the result of an increase in real estate mortgage loans. Nonaccrual loans as a percentage of total loans outstanding were 0.6 percent at September 30, 2012, compared to 0.5 percent at December 31, 2011, reflecting a slight increase of 0.1 percent.

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

Local agricultural conditions in the 16-county area served by the Association were considered poor during much of 2011 due to exceptionally hot weather and rainfall totals that were well below average, causing operators to not fully benefit from the positive markets due to below average yields. However, overall rainfall and growing conditions significantly improved during the latter part of 2011 through the 3rd quarter of 2012. Overall crop yields have been above average. Pasture conditions are considered fair, as they have continued to recover from the 2011 drought. Operators continue to be concerned about production cost volatility, particularly fuel, fertilizer, feed and chemical costs. Grain prices have been trading significantly above average historical ranges, and this has affected feed costs, negatively impacting livestock and poultry producers. Economists are predicting grain prices to continue trading within these higher ranges during the 2012 production cycle and could continue to be a concern for meat protein producers. Cotton prices have been trading within somewhat lower price ranges but still within profitable levels, with yields being mostly above average. 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.

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

RISK EXPOSURE:

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

	September 30, 2012		December 31, 2011	
	Amount	**%**	Amount	%
Nonaccrual	**$ 2,719,147**	**76.6%**	$ 2,481,342	73.7%
90 days past due and still accruing interest	**-**	**0.0%**	75,805	2.3%
Formally restructured	**482,788**	**13.6%**	459,885	13.7%
Other property owned, net	**347,430**	**9.8%**	347,430	10.3%
Total	**$ 3,549,365**	**100.0%**	$ 3,364,462	100.0%

Total high-risk assets as of September 30, 2012, were $3,549,365, as compared to $3,364,462 as of December 31, 2011, which represented a 5.5 percent increase, as a result of an increase in the volume of nonaccrual and formally restructured loans.

Nonaccrual loans as a percentage of total loans outstanding were 0.6 percent at September 30, 2012, compared to 0.5 percent at December 31, 2011. The increase in nonaccrual loan volume was primarily the result of the transfer of a capital markets participation loan in the ethanol industry to nonaccrual status at the end of the third quarter due to unsatisfactory performance caused in part by the weak operating environment that currently exists in the ethanol industry due to high grain prices. That increase in nonaccrual volume was offset by the pay-off of a large existing nonaccrual loan.

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 2011when warranted by improved performance and operating conditions. Although the loan was transferred back to accrual status and was a performing loan as of September 30, 2012, the conditions and structure of the loan mandated it being classified as formally restructured.

Other property owned remained unchanged as of September 30, 2012, as compared to December 31, 2011. 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.

Association recorded $0 in recoveries and $0 in charge-offs for the quarter ended September 30, 2012, and $70,711 in recoveries and $3,019 in charge-offs for the same period in 2011. The Association’s allowance for loan losses was 0.3 percent and 0.2 percent of total loans outstanding as of September 30, 2012, and December 31, 2011, 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 third quarter of 2012, with loans classified under Farm Credit Administration’s Uniform Loan Classification System as “acceptable” or “other assets especially mentioned” at 97.82 percent of total loans and accrued interest as of September 30, 2012.

RESULTS OF OPERATIONS:

Net Income

The Association had net income of $2,784,283 and $8,937,870 for the three and nine months ended September 30, 2012, as compared to net income of $2,647,661 and $7,093,246 for the same period in 2011, reflecting an increase of 5.2 and 26.0 percent, respectively. The increase for the three and nine months is primarily related to higher net interest income and higher noninterest income, offset by a higher provision for loan loss.

Net Interest Income

Net interest income was $3,949,659 and $11,292,337 for the three and nine months ended September 30, 2012, compared to $3,513,201 and $10,280,795 for the same period in 2011. Interest income for the three and nine months ended September 30, 2012, increased by $17,416 and $124,003, or 0.3 and 0.7 percent, respectively, from the same period of 2011, primarily due to increases in yields on earning assets and an increase in average loan volume, as average loan volume for the third quarter of 2012 was $484,513,248 compared to $447,848,569 in the third quarter of 2011. In spite of an increase in average loan volume, interest expense for the three and nine months ended September 30, 2012, decreased by $419,042 and $1,135,545, or 15.3 and 13.8 percent, respectively, from the same period of 2011 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 spread on the loan portfolio for the third quarter of 2012 equal to 2.78 percent, compared to 2.53 percent in the third quarter of 2011.

Noninterest Income and Expense

Noninterest income was $437,984 and $1,675,684 for the three and nine months ended September 30, 2012, compared to $216,415 and $653,745 the same period in 2011. The increase is primarily the result of the accrual of direct loan patronage from the Farm Credit Bank of Texas (the Bank) in the amount of $292,454 and $859,103 for the three and nine months ended September 30, 2012. The Association receives a patronage distribution from the Bank every December based on the average daily balance of the Association's direct loan with the Bank during the year. The amount can fluctuate based on the financial performance of the Bank, but the amount has historically been at least 40 basis points. Through 2011, the full amount was included in income during the fourth quarter when received. During 2012, the Association began accruing the patronage quarterly at 30 basis points.

In addition, during the second quarter of 2012, the Association received a refund of excess reserves paid into the Farm Credit System Insurance Corporation (FCSIC) in previous years in the amount of $377,591.

Noninterest expenses were $1,204,994 and $3,762,599 for the three and nine months ended September 30, 2012, compared to $1,176,343 and $3,901,601 for the same period in 2011. Although there was a decrease in total noninterest expenses for the nine months ended September 30, 2012, as compared to the same period in 2011, as a result of a one-time funding of a nonqualified benefit trust in the amount of $200,000 during the first quarter of 2011, total noninterest expenses for the three-month quarter ended September 30, 2012, as compared to the same period in 2011 increased, primarily as a result of an increase in salaries and benefits and occupancy and equipment. 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 for both the three and nine months 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.

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 $451,884 in loan origination fees and $563,904 in salaries and benefits for the nine months ended September 30, 2012, which will be amortized over the life of the loans as an adjustment to yield in net interest income.

Financial Performance Ratios

The Association's return on average assets for the nine months ended September 30, 2012, was 2.41 percent compared to 2.09 percent for the same period in 2011. The Association's return on average equity for the nine months ended September 30, 2012, was 12.96 percent, compared to 9.99 percent for the same period in 2011. These increases are a result of increased net income as discussed above.

LIQUIDITY AND FUNDING SOURCES:

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

	September 30, 2012	December 31, 2011
Note payable to the Bank	**$ 387,431,048**	$ 372,411,673
Accrued interest on note payable	**746,774**	881,422
Total	**$ 388,177,822**	$ 373,293,095

The Association experienced a 3.99 percent increase in notes and accrued interest payable to the Bank through the nine months ended September 30, 2012, due to an increase in loan volume experienced by the Association since December 31, 2011.

CAPITAL RESOURCES:

The Association's capital position increased by $7,448,643 at September 30, 2012, compared to December 31, 2011. The Association's debt as a percentage of members' equity was 3.72:1 as of September 30, 2012, compared to 3.88:1 as of December 31, 2011.

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 September 30, 2012, was 19.9 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2012, were 19.4 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 will not impact financial condition or results of operations, but will result in additional disclosures.

In September 2011, the FASB issued guidance entitled "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012, for nonpublic entities. The amendments should be applied retrospectively for all prior periods presented. The adoption will not impact the Association's financial condition or results of operation.

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 disclose 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.

In May 2011, the FASB issued guidance entitled "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments clarify certain aspects of the fair value measurement and disclosure requirements. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 31, 2011. The adoption of this guidance did not impact the financial condition or results of operations but resulted in additional disclosures.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring is a troubled debt restructuring, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance was not material to the financial condition or results of operations.

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 December 31, 2011 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 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 District makes its annual and quarterly stockholder reports 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 by 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

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash	$ 739,424	$ 415,313
Loans	482,909,211	465,896,604
Less: allowance for loan losses	1,321,474	1,053,922
Net loans	481,587,737	464,842,682
Accrued interest receivable	4,314,774	3,141,007
Investment in and receivable from the Bank:		
Capital stock	7,164,690	7,164,690
Other	859,103	-
Other property owned, net	347,430	347,430
Premises and equipment	1,558,979	1,356,907
Other assets	611,579	455,708
Total assets	$ 497,183,716	$ 477,723,737
LIABILITIES		
Note payable to the Bank	$ 387,431,048	$ 372,411,673
Advance conditional payments	5,948	-
Accrued interest payable	746,778	881,422
Drafts outstanding	206,335	528,074
Patronage distributions payable	1,500,000	3,992,254
Other liabilities	2,039,537	2,104,887
Total liabilities	391,929,646	379,918,310
MEMBERS' EQUITY		
Capital stock and participation certificates	2,780,645	2,730,590
Allocated retained earnings	14,254,288	15,754,288
Unallocated retained earnings	88,361,021	79,444,404
Accumulated other comprehensive income (loss)	(141,884)	(123,855)
Total members' equity	105,254,070	97,805,427
Total liabilities and members' equity	$ 497,183,716	$ 477,723,737

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2012	2011	**2012**	2011
INTEREST INCOME				
Loans	**$ 6,266,390**	$ 6,248,974	**$ 18,390,415**	$ 18,514,418
Total interest income	**6,266,390**	6,248,974	**18,390,415**	18,514,418
INTEREST EXPENSE				
Note payable to the Bank	**2,316,731**	2,735,773	**7,098,076**	8,233,623
Advance conditional payments	**-**	-	**2**	-
Total interest expense	**2,316,731**	2,735,773	**7,098,078**	8,233,623
Net interest income	**3,949,659**	3,513,201	**11,292,337**	10,280,795
PROVISION FOR LOAN LOSSES	**398,366**	(94,388)	267,552	(60,307)
Net interest income after provision for loan losses	**3,551,293**	3,607,589	**11,024,785**	10,341,102
NONINTEREST INCOME				
Income from the Bank:				
Patronage income	**333,784**	53,597	**989,912**	163,896
Loan fees	**102,131**	160,040	**293,045**	445,180
Refunds from Farm Credit System Insurance Corporation	**-**	-	377,591	-
Financially related services income	**2,069**	2,778	**7,494**	8,991
Other noninterest income	**-**	-	**7,642**	35,678
Total noninterest income	**437,984**	**216,415**	**1,675,684**	**653,745**
NONINTEREST EXPENSES				
Salaries and employee benefits	**699,032**	659,227	**2,213,704**	2,367,225
Directors' expense	**36,056**	54,657	**168,841**	161,290
Purchased services	**68,451**	67,671	**208,408**	241,446
Travel	**36,023**	39,366	**114,797**	121,389
Occupancy and equipment	**100,204**	77,187	**255,785**	214,344
Communications	**28,542**	25,961	**75,167**	73,676
Advertising	**62,690**	76,907	**189,884**	210,263
Public and member relations	**22,656**	20,873	**85,329**	77,107
Supervisory and exam expense	**44,179**	43,051	**132,537**	129,155
Insurance Fund premiums	**45,911**	50,046	**134,506**	149,750
Loss on sale of premises and equipment, net	**2,291**	2,615	**3,652**	2,615
Other noninterest expense	**58,959**	58,782	**179,989**	153,341
Total noninterest expenses	**1,204,994**	1,176,343	**3,762,599**	3,901,601
Income before income taxes	**2,784,283**	2,647,661	**8,937,870**	7,093,246
Provision for (benefit from) income taxes	**-**	-	**-**	-
NET INCOME	**2,784,283**	2,647,661	**8,937,870**	**7,093,246**
Other comprehensive income:				
Change in postretirement benefit plans	**(6,010)**	(6,676)	**(18,029)**	(20,027)
Other comprehensive loss, net of tax	**(6,010)**	(6,676)	**(18,029)**	**(20,027)**
COMPREHENSIVE INCOME	**$ 2,778,273**	$ 2,640,985	**$ 8,919,841**	**$ 7,073,219**

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2010	$ 2,664,165	$ -	$ 15,753,946	$ 73,356,064	$ (106,047)	$ 91,668,128
Net income	-	-	-	7,093,246	-	7,093,246
Other comprehensive income	-	-	-	-	(20,027)	(20,027)
Capital stock/participation certificates and allocated retained earnings issued	254,175	-	-	-	-	254,175
Capital stock/participation certificates and allocated retained earnings retired	(205,605)	-	-	-	-	(205,605)
Patronage refunds:						
Change in estimated patronage declared in 2010 and paid in 2011	-	-	342	(962)	-	(620)
Balance at September 30, 2011	$ 2,712,735	$ -	$ 15,754,288	$ 80,448,348	$ (126,074)	$ 98,789,297
Balance at December 31, 2011	$ 2,730,590	$ -	$ 15,754,288	$ 79,444,404	$ (123,855)	$ 97,805,427
Net income	-	-	-	8,937,870	-	8,937,870
Other comprehensive income	-	-	-	-	(18,029)	(18,029)
Capital stock/participation certificates and allocated retained earnings issued	304,855	-	-	-	-	304,855
Capital stock/participation certificates and allocated retained earnings retired	(254,800)	-	-	-	-	(254,800)
Patronage refunds:						
Cash	-	-	(1,500,000)	-	-	(1,500,000)
Change in estimated patronage declared in 2011 and paid in 2012	-	-	-	(21,253)	-	(21,253)
Balance at September 30, 2012	**$ 2,780,645**	**$ -**	**$ 14,254,288**	**$ 88,361,021**	**$ (141,884)**	**$ 105,254,070**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The 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, 2011, are contained in the 2011 Annual Report to Stockholders. These unaudited third quarter 2012 financial statements should be read in conjunction with the 2011 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 September 2011, the FASB issued guidance entitled "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012, for nonpublic entities. The amendments should be applied retrospectively for all prior periods presented. The adoption will not impact the Association's financial condition or results of operation.

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 disclose 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.

In May 2011, the FASB issued guidance entitled "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments clarify certain aspects of the fair value measurement and disclosure requirements. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 31, 2011. The adoption of this guidance did not impact the financial condition or results of operations but resulted in additional disclosures.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring is a troubled debt restructuring, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance was not material to the financial condition or results of operations.

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 September 30, 2012, are not necessarily indicative of the results to be expected for the year ended December 31, 2012. 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	**September 30, 2012 Amount**	December 31, 2011 Amount
Production agriculture:		
Real estate mortgage	**$ 410,481,546**	$ 403,207,304
Production and intermediate term	**26,280,479**	20,705,844
Agribusiness:		
Loans to cooperatives	**2,523,392**	208,572
Processing and marketing	**16,352,409**	15,154,388
Farm-related business	**3,324,506**	3,767,207
Communication	**1,775,706**	2,037,827
Energy	**11,610,110**	9,534,144
Rural residential real estate	**10,561,063**	11,281,318
Total	**$ 482,909,211**	$ 465,896,604

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 September 30, 2012:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 14,210,854	$ 15,673,282	$ -	$ -	$ 14,210,854	$ 15,673,282
Production and intermediate term	8,342,030	4,435,538	-	-	8,342,030	4,435,538
Agribusiness	19,492,839	-	-	-	19,492,839	-
Communication	1,775,705	-	-	-	1,775,705	-
Energy	11,610,110	-	-	-	11,610,110	-
Total	$ 55,431,538	$ 20,108,820	$ -	$ -	$ 55,431,538	$ 20,108,820

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

	September 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	**$ 818,474**	$ 2,481,342
Agribusiness	**1,890,354**	-
Rural residential real estate	**10,319**	-
Total nonaccrual loans	**2,719,147**	2,481,342
Accruing restructured loans:		
Real estate mortgage	**482,788**	459,885
Total accruing restructured loans	**482,788**	459,885
Accruing loans 90 days or more past due:		
Total accruing loans 90 days or more	**-**	-
Total nonperforming loans	**3,201,935**	2,941,227
Other property owned	**347,430**	347,430
Total nonperforming assets	**$ 3,549,365**	$ 3,288,657

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:

	September 30, 2012		December 31, 2011	
Real estate mortgage				
Acceptable	**96.4**	%	94.8	%
OAEM	**2.1**		3.2	
Substandard/doubtful	**1.5**		2.0	
	100.0		100.0	
Production and intermediate term				
Acceptable	**100.0**		71.4	
OAEM	**-**		27.6	
Substandard/doubtful	**-**		1.0	
	100.0		100.0	
Agribusiness				
Acceptable	**86.6**		82.4	
OAEM	**4.9**		7.4	
Substandard/doubtful	**8.5**		10.2	
	100.0		100.0	
Energy and water/waste water				
Acceptable	**66.7**		74.0	
OAEM	**12.6**		12.4	
Substandard/doubtful	**20.7**		13.6	
	100.0		100.0	
Communication				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Rural residential real estate				
Acceptable	**99.0**		98.7	
OAEM	**0.3**		0.3	
Substandard/doubtful	**0.7**		1.0	
	100.0		100.0	
Total loans				
Acceptable	**95.4**		92.9	
OAEM	**2.4**		4.6	
Substandard/doubtful	**2.2**		2.5	
	100.0	%	100.0	%

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

September 30, 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	**$ 95,232**	**$ 345,413**	**$ 440,645**	**$ 413,967,875**	**$ 414,408,520**	**$ -**
Production and intermediate term	**1,775**	**-**	**1,775**	**26,483,001**	**26,484,776**	**-**
Loans to cooperatives	**-**	**-**	**-**	**2,526,605**	**2,526,605**	**-**
Processing and marketing	**-**	**-**	**-**	**16,373,646**	**16,373,646**	**-**
Farm-related business	**-**	**-**	**-**	**3,348,196**	**3,348,196**	**-**
Communication	**-**	**-**	**-**	**1,787,744**	**1,787,744**	**-**
Energy	**-**	**-**	**-**	**11,689,207**	**11,689,207**	**-**
Rural residential real estate	**-**	**-**	**-**	**10,605,291**	**10,605,291**	**-**
Total	**$ 97,007**	**$ 345,413**	**$ 442,420**	**$ 486,781,565**	**$ 487,223,985**	**$ -**

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	11,320,480	-
Total	$ 265,534	$ 75,805	$ 341,339	$ 468,696,272	$ 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 September 30, 2012, the total recorded investment of troubled debt restructured loans was $828,201, including $345,413 classified as nonaccrual and $482,788 classified as accrual, with specific allowance for loan losses of $145,955 on the nonaccrual loan. During the quarter ended September 30, 2012, 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 September 30, 2012, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $49,224.

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

Additional impaired loan information is as follows:

	September 30, 2012			At December 31, 2011		
	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	**$ 345,413**	**$ 358,131**	**$145,955**	$ 2,325,274	$ 2,338,042	$ 377,649
Processing and marketing	**1,890,356**	**1,890,356**	**563,708**	-	-	-
Total	**$2,235,769**	**$2,248,487**	**$709,663**	$ 2,325,274	$ 2,338,042	$ 377,649
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 956,066**	**$ 956,999**	**$ -**	$ 690,281	$ 690,464	$ -
Production and intermediate term	**-**	**-**	**-**	-	-	-
Rural residential real estate	**10,319**	**10,319**	**-**	-	-	-
Total	**$ 966,385**	**$ 967,318**	**$ -**	$ 690,281	$ 690,464	$ -
Total impaired loans:						
Real estate mortgage	**$1,301,479**	**$1,315,130**	**$145,955**	$ 3,015,555	$ 3,028,506	$ 377,649
Production and intermediate term	**-**	**-**	**-**	-	-	-
Processing and marketing	**1,890,356**	**1,890,356**	**563,708**	-	-	-
Rural residential real estate	**10,319**	**10,319**	**-**	-	-	-
	$3,202,154	**$3,215,805**	**$709,663**	$ 3,015,555	$ 3,028,506	$ 377,649

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

	For the Three Months Ended			
	September 30, 2012		September 30, 2011	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 348,366**	**$ -**	$ 363,513	$ -
Processing and marketing	**252,047**	**169**	-	-
Total	**$ 600,413**	**$ 169**	$ 363,513	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 947,313**	**$ 7,152**	$ 436,394	$ 42,140
Production and intermediate term	**-**	**-**	110	-
Rural residential real estate	**10,686**	**-**	-	-
Total	**$ 957,999**	**$ 7,152**	$ 436,504	$ 42,140
Total impaired loans:				
Real estate mortgage	**$ 1,295,679**	**$ 7,152**	$ 799,907	$ 42,140
Production and intermediate term	**-**	**-**	110	-
Processing and marketing	**252,047**	**169**	-	-
Rural residential real estate	**10,686**	**-**	-	-
	$ 1,558,412	**$ 7,321**	$ 800,017	$ 42,140

	For the Nine Months Ended			
	September 30, 2012		September 30, 2011	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 351,740**	**$ 1,427**	$ 381,963	$ -
Processing and marketing	**252,047**	**169**	-	-
Total	**$ 603,787**	**$ 1,596**	$ 381,963	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 944,483**	**$ 18,552**	$ 1,180,489	$ 58,774
Production and intermediate term	**-**	**-**	37	-
Rural residential real estate	**7,286**	**7**	-	-
Total	**$ 951,769**	**$ 18,559**	$ 1,180,526	$ 58,774
Total impaired loans:				
Real estate mortgage	**$ 1,296,223**	**$ 19,979**	$ 1,562,452	$ 58,774
Production and intermediate term	**-**	**-**	37	-
Processing and marketing	**252,047**	**169**	-	-
Rural residential real estate	**7,286**	**7**	-	-
	$ 1,555,556	**$ 20,155**	$ 1,562,489	$ 58,774

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 June 30, 2012	$ 520,732	$ 36,841	$ 189,772	$ 14,590	$ 148,781	$ 12,392	$ 923,108
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(4,024)	(4,488)	405,151	180	2,775	(1,228)	398,366
Balance at September 30, 2012	$ 516,708	$ 32,353	$ 594,923	$ 14,770	$ 151,556	$ 11,164	$ 1,321,474
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	(174,118)	(3,557)	404,969	8,076	32,852	(670)	267,552
Balance at September 30, 2012	$ 516,708	$ 32,353	$ 594,923	$ 14,770	$ 151,556	$ 11,164	$ 1,321,474
Ending Balance:							
Individually evaluated for impairment	$ 145,955	$ -	$ 563,708	$ -	$ -	$ -	$ 709,663
Collectively evaluated for impairment	370,753	32,353	31,215	14,770	151,556	11,164	611,811
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Balance at September 30, 2012	$ 516,708	$ 32,353	$ 594,923	$ 14,770	$ 151,556	$ 11,164	$ 1,321,474
Balance at June 30, 2011	$ 515,802	$ 27,574	$ 256,138	$ 11,863	$ 19,617	$ 13,929	$ 844,923
Charge-offs		(3,019)	-	-	-	-	(3,019)
Recoveries	70,711	-	-	-	-	-	70,711
Provision for loan losses	(73,547)	4,020	(54,788)	(279)	29,894	312	(94,388)
Adjustment due to merger	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
September 30, 2011	$ 512,966	$ 28,575	$ 201,350	$ 11,584	$ 49,511	$ 14,241	$ 818,227
Balance at December 31, 2010	$ 421,809	$ 40,505	$ 313,882	$ 30,527	$ 21,586	$ 14,659	$ 842,968
Charge-offs	(83,430)	(3,019)	-	-	-	-	(86,449)
Recoveries	70,711	-	-	-	51,304	-	122,015
Provision for loan losses	103,876	(8,911)	(112,532)	(18,943)	(23,379)	(418)	(60,307)
September 30, 2011	$ 512,966	$ 28,575	$ 201,350	$ 11,584	$ 49,511	$ 14,241	$ 818,227
Ending Balance:							
Individually evaluated for impairment	$ 109,930	$ -	$ -	$ -	$ -	$ -	$ 109,930
Collectively evaluated for impairment	403,036	28,575	201,350	11,584	49,511	-	694,056
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
September 30, 2011	$ 512,966	$ 28,575	$ 201,350	$ 11,584	$ 49,511	$ -	$ 803,986

	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 September 30, 2012	$414,408,520	$ 26,484,776	$22,248,447	$ 1,787,744	$ 11,689,207	$ 10,605,291	$ 487,223,985
Individually evaluated for impairment	$ 345,413	$ -	$ 1,890,356	$ -	$ -	$ -	$ 2,235,769
Collectively evaluated for impairment	$414,063,107	$ 26,484,776	$20,358,091	$ 1,787,744	$ 11,689,207	$ 10,605,291	$ 484,988,216
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance at December 31, 2011	$403,009,120	$ 20,819,406	$19,151,774	$ 2,051,486	$ 9,544,338	$ 11,320,480	$ 465,896,604
Individually evaluated for impairment	$ 3,017,032	$ -	$ -	$ -	$ -	$ -	$ 3,017,032
Collectively evaluated for impairment	$399,992,088	$ 20,819,406	$19,151,774	$ 2,051,486	$ 9,544,338	$ 11,320,480	$ 462,879,572
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -

NOTE 3 — CAPITAL:

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

NOTE 4 — INCOME TAXES:

Texas Land Bank, ACA and its subsidiary are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During the nine months ended September 30, 2012, 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 nine months ended September 30, 2012, and 2011, 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 2011 Annual Report to Stockholders for a more complete description.

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

September 30, 2012	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 200,825**	**$ -**	**$ -**	**$ 200,825**
Total assets	**200,825**	**-**	**-**	**200,825**
Liabilities:				
Standby letters of credit	**-**	**-**	**-**	**-**
Total liabilities	**$ -**	**$ -**	**$ -**	**$ -**

December 31, 2011	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 200,811	$ -	$ -	$ 200,811
Total assets	200,811	-	-	200,811
Liabilities:				
Standby letters of credit	-	-	-	-
Total liabilities	$ -	$ -	$ -	$ -

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

September 30, 2012	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 1,526,106**	**$ 1,526,106**
Other property owned	**-**	**-**	**347,430**	**347,430**

December 31, 2011	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 996,551	$ 996,551
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 2011 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 2011 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 September 30:

	Other Benefits	
	2012	2011
Service cost	**$ 7,246**	$ 8,379
Interest cost	**17,216**	18,538
Amortization of prior service (credits) costs	**(10,970)**	(12,494)
Amortizations of net actuarial (gain) loss	**4,960**	5,818
Net periodic benefit cost	**$ 18,452**	$ 20,241

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

	Other Benefits	
	2012	2011
Service cost	**$ 21,738**	$ 25,137
Interest cost	**51,648**	55,614
Amortization of prior service (credits) costs	**(32,910)**	(37,481)
Amortizations of net actuarial (gain) loss	**14,881**	17,454
Net periodic benefit cost	**$ 55,357**	$ 60,724

The Association's liability for the plan's unfunded accumulated obligation at September 30, 2012, was $1,382,996 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. The Association previously disclosed in its financial statements for the year ended December 31, 2011, that it expected to contribute $664,008 to the District's defined benefit pension plan in 2012. As of September 30, 2012, $664,008 of contributions have been made, and the Association does not anticipate contributing any additional money during 2012.

The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2012	2011
Accumulated other comprehensive income (loss) at January 1	**$ (123,855)**	$ (106,047)
Amortization of prior service credit (costs) included in net periodic postretirement benefit cost	**(32,910)**	(37,481)
Amortization of actuarial gain (loss) included in net periodic postretirement benefit cost	**14,881**	17,454
Other comprehensive income (loss), net of tax	**(18,029)**	(20,027)
Accumulated other comprehensive income at September 30	**$ (141,884)**	$ (126,074)

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 October 31, 2012, which is the date the financial statements were issued. As of October 31, 2012, there were no significant events requiring disclosure in the third quarter stockholder report.