

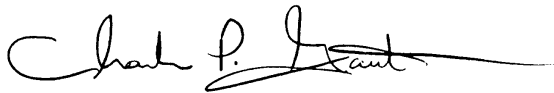
2009 Quarterly Report



For the 1st Quarter Ended March 31, 2009

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 our knowledge and belief.



Charles P. Gant
Chief Executive Officer/President
May 8, 2009



Barnett L. Baker
Chairman, Board of Directors
May 8, 2009



Sharla Chambers
Chief Financial Officer
May 8, 2009

TEXAS LAND BANK, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Texas Land Bank, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and three months ended March 31, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008, Annual Report of the Association.

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.

Results of Operations:

Net Income

The Association had net income of \$2,112,990 for the three months ended March 31, 2009, as compared to net income of \$2,034,973 for the same period in 2008 reflecting an increase of 3.8 percent. The increase in net income for the three months ended March 31, 2009, primarily consisted of a \$37,012 increase in net interest income and a \$150,171 increase in noninterest income, offset by a \$117,825 increase in noninterest expenses as compared to the same period in 2008.

Net Interest Income

Net interest income was \$3,046,305 for the three months ended March 31, 2009, compared to \$3,009,293 for the same period in 2008. This increase in net interest income was attributable to the fact that interest income for the first three months of 2009 decreased by \$669,261 or 9.5 percent while interest expense for the same period decreased by \$706,273 or 17.4 percent compared to the same period in 2008. In addition, average loan volume for the first quarter of 2009 was \$410,771,077, compared to \$387,657,467 in the first quarter of 2008, and the average spread on the loan portfolio for the first quarter 2009 was 2.29 percent, compared to 2.20 percent in the first quarter of 2008.

Noninterest Income and Expense

Noninterest income for the first three months of 2009 increased by \$150,171 or 41.0 percent from the same period in 2008 due primarily to an increase in loan fees collected on loans originated and serviced by the Association. Noninterest expenses for the first three months of 2009 increased by \$117,825 or 9.1 percent from the same period in 2008. The increase is largely caused by an increase in Farm Credit System Insurance Corporation (FCSIC) expenses as well as increased salary and benefits expenses primarily related to pension plan costs.

Financial Ratios

The Association's return on average assets for the three months ended March 31, 2009, was 2.02 percent and 2.04 percent for the same period in 2008. The Association's return on average equity for the three months ended March 31, 2009, was 10.57 percent and 10.67 percent for the same period in 2008. These decreases are primarily attributable to a decrease in earnings on own funds caused by lower interest rates as well as slightly higher operating costs as discussed above.

Loan Portfolio:

Total loans outstanding at March 31, 2009, including nonaccrual loans and sales contracts, were \$413,922,202 compared to \$408,270,608 at December 31, 2008, reflecting an increase of 1.4 percent, which was primarily driven by an increase in loan volume in the Production Credit Association subsidiary, Texas PCA (PCA). Nonaccrual loans as a percentage of total loans outstanding were 0.9 percent at March 31, 2009, compared to 1.0 percent at December 31, 2008, reflecting payoffs and pay-downs of nonaccrual loans.

Overall credit quality remained strong, with loans classified under Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" at 97.90 percent of total loans and accrued interest at March 31, 2009.

For the quarter ending March 31, 2009, the Association recorded \$36,659 in recoveries on a loan that was previously charged-off in the amount of \$1.8 million as of December 31, 2008, and \$0 in charge-offs. There were no recoveries or charge-offs for the same period in 2008. The Association's allowance for loan losses was 0.1 percent and 0.1 percent of total loans outstanding as of March 31, 2009, and December 31, 2008, respectively.

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

	March 31, 2009		December 31, 2008	
	Amount	%	Amount	%
Nonaccrual	\$ 3,926,212	100.0%	\$ 4,210,523	100.0%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	-	0.0%	-	0.0%
Total	\$ 3,926,212	100.0%	\$ 4,210,523	100.0%

As of March 31, 2009, the Association's portfolio included nonaccrual loans in the amount of \$3,926,212, a 6.75 percent decrease from December 31, 2008. The decrease was primarily due to payoffs and pay-downs of loans classified as nonaccrual. There were no loans classified as 90 days or more and still accruing interest, formally restructured loans or other property owned as of March 31, 2009.

The overall quality of the portfolio remained strong through the first quarter of 2009. Cattle prices have been stabilizing or strengthening with improving pasture conditions and a reduction in feed costs through lower grain prices. However, while export sales are still slowing, ongoing demand for meat protein and supply management in meat production have continued to provide support for meat prices. As the United States continues to seek expansion of export sales, markets will likely find ongoing support internationally. This, however, will depend on the state of the international economy going forward.

The spring rainfall has been good with overall favorable growing conditions found throughout the area. Fuel and fertilizer costs, which are impacted by changes in fuel oil and natural gas prices, continue to be a major consideration in producers' planning processes. While fuel oil and natural gas prices have decreased from their recent highs, market volatility could continue to put upward pressure on these prices. Cotton and grain prices have also come under pressure due to weaker export markets, and prices in the commodity markets in general have experienced a trend of decline during the overall softening in the financial markets.

Liquidity and Funding Sources:

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

	March 31, 2009	December 31, 2008
Note payable to the Bank	\$ 338,869,894	\$ 333,802,614
Accrued interest on note payable	1,129,175	1,293,137
Total	\$ 339,999,069	\$ 335,095,751

The Association experienced a \$4,903,318 increase in notes and accrued interest payable to the Bank through the first three months of 2009. The increase is attributable to a \$5,651,594 increase in total loan volume experienced by the Association since December 31, 2008.

Capital Resources:

The Association's capital position increased by \$2,083,505 at March 31, 2009, compared to December 31, 2008. This increase is the result of net income of \$2,112,990 offset by slight decreases in capital stock and participation certificates as well as accumulated other comprehensive income. As a result of the increase in the Association's capital position, the Association's debt as a percentage of members' equity was 421.5:1 as of March 31, 2009, compared to 426.9:1 as of December 31, 2008.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2009, was 17.4 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2009, were 16.8 and 16.8 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

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, 2008 Annual Report of Texas Land Bank, ACA more fully describe the Association's relationship with the Bank.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. 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 web site 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 and annual stockholder reports can also be requested by e-mailing sharla.chambers@texaslandbank.com.

TEXAS LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
Cash	\$ 377,001	\$ 60,000
Loans	413,922,202	408,270,608
Less: allowance for loan losses	446,663	368,663
Net loans	<u>413,475,539</u>	<u>407,901,945</u>
Accrued interest receivable	3,946,679	3,928,186
Investment in and receivable from the Bank:		
Capital stock	6,605,955	6,605,955
Other	215	380
Premises and equipment	1,373,082	1,364,663
Other assets	794,115	118,987
Total assets	<u><u>\$ 426,572,586</u></u>	<u><u>\$ 419,980,116</u></u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 338,869,894	\$ 333,802,614
Advance conditional payments	-	305
Accrued interest payable	1,130,092	1,293,137
Drafts outstanding	647,580	666,896
Patronage distributions payable	2,751,042	2,751,042
Other liabilities	1,375,975	1,751,624
Total liabilities	<u><u>344,774,583</u></u>	<u><u>340,265,618</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,603,750	2,620,855
Allocated retained earnings	12,765,444	12,765,444
Unallocated retained earnings	66,185,019	64,072,029
Accumulated other comprehensive income (loss)	243,790	256,170
Total members' equity	<u><u>81,798,003</u></u>	<u><u>79,714,498</u></u>
Total liabilities and members' equity	<u><u>\$ 426,572,586</u></u>	<u><u>\$ 419,980,116</u></u>

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF INCOME
(unaudited)

	Quarter Ended March 31,	
	2009	2008
<u>INTEREST INCOME</u>		
Loans	\$ 6,399,906	\$ 7,069,167
Total interest income	6,399,906	7,069,167
<u>INTEREST EXPENSE</u>		
Note payable to the Bank	3,353,600	4,059,774
Advance conditional payments	1	100
Total interest expense	3,353,601	4,059,874
Net interest income	3,046,305	3,009,293
<u>PROVISION FOR LOSSES</u>		
Provision (negative provision) for loan losses	41,341	50,000
Net interest income after provision for loan losses	3,004,964	2,959,293
<u>NONINTEREST INCOME</u>		
Income from the bank:		
Patronage income	66,795	78,155
Loan fees	412,261	279,240
Financially related services income	4,687	4,724
Gain (loss) on sale of premises and equipment, net	8,759	-
Other noninterest income	23,851	4,063
Total noninterest income	516,353	366,182
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	803,143	668,482
Directors' expense	60,249	58,366
Purchased services	96,225	110,424
Travel	19,262	34,932
Occupancy and equipment	93,058	90,463
Communications	18,618	17,287
Advertising	48,225	52,569
Public and member relations	24,309	20,405
Supervisory and exam expense	36,317	34,220
Insurance Fund premiums	159,835	144,289
Other noninterest expense	49,086	59,065
Total noninterest expenses	1,408,327	1,290,502
Income before income taxes	2,112,990	2,034,973
Provision for (benefit from) income taxes	-	-
Net income	\$ 2,112,990	\$ 2,034,973

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2007	\$ 2,660,520	\$ 8,645,124	\$ 64,088,861	\$ 284,093	\$ 75,678,598
Comprehensive income					
Net income	-	-	2,034,973	-	2,034,973
Other comprehensive income					
Prior service credits (costs)	-	-	-	(12,956)	(12,956)
Actuarial gains (losses)				204	204
Other comprehensive income	-	-	-	(12,752)	(12,752)
Comprehensive income	-	-	2,034,973	(12,752)	2,022,221
Effects of accounting change regarding measurement date of postretirement benefits plans pursuant to FASB Statement No. 158					
Service and interest costs for October 1- December 31, net of tax	-	-	(21,417)	-	(21,417)
Amortization of prior service credits for October 1-December 31, net of tax	-	-	12,956	-	12,956
Additional net loss, October 1- December 31, net of tax	-	-	(204)	-	(204)
Net effects of accounting change	-	-	(8,665)	-	(8,665)
Capital stock/participation certificates issued	88,950	-	-	-	88,950
Capital stock/participation certificates and allocated retained earnings retired	(96,660)	-	-	-	(96,660)
Balance at March 31, 2008	<u>\$ 2,652,810</u>	<u>\$ 8,645,124</u>	<u>\$ 66,115,169</u>	<u>\$ 271,341</u>	<u>\$ 77,684,444</u>
Balance at December 31, 2008	\$ 2,620,855	\$ 12,765,444	\$ 64,072,029	\$ 256,170	\$ 79,714,498
Comprehensive income					
Net income	-	-	2,112,990	-	2,112,990
Amortization of costs included in periodic retirement benefit costs	-	-	-	(12,380)	(12,380)
Total comprehensive income	-	-	2,112,990	(12,380)	2,100,610
Capital stock/participation certificates issued	69,720	-	-	-	69,720
Capital stock/participation certificates and allocated retained earnings retired	(86,825)	-	-	-	(86,825)
Balance at March 31, 2009	<u>\$ 2,603,750</u>	<u>\$ 12,765,444</u>	<u>\$ 66,185,019</u>	<u>\$ 243,790</u>	<u>\$ 81,798,003</u>

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

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Texas Land Bank, ACA (Agricultural Credit Association), including its wholly-owned subsidiaries, Texas PCA and Texas Land Bank, FLCA (collectively called “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 in the counties of Bell, Bosque, Burnet, Coryell, Dallas, Ellis, Falls, Freestone, Hamilton, Hill, Lampasas, Limestone, McLennan, Milam, Navarro and Williamson in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

Effective January 1, 2009, the Association adopted FSP No. 157-2, “Effective Date of FASB Statement No. 157.” This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures but did not have an impact on our 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 and the three months ended March 31, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2009. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is maintained based on estimates that consider the general financial strength of the agricultural economy, loan portfolio composition, credit administration and the portfolio’s prior loan loss experience. Using these factors, the Association maintains an allowance for loan loss level that is considered adequate by management to provide for estimated losses inherent in the loan portfolio. An analysis of the allowance for loan losses follows:

	March 31, 2009	March 31, 2008
Balance at beginning of quarter	\$ 368,663	\$ 82,663
Provision for loan losses	41,341	50,000
Charge-offs	-	-
Recoveries	36,659	-
Balance at end of quarter	<u>\$ 446,663</u>	<u>\$ 132,663</u>

The provision for loan losses was \$8,659 lower for the quarter ending March 31, 2009, as compared to the same period in 2008. This decrease was due to a \$36,659 recovery received by the Association during the first quarter of 2009 that was netted against the provision expense recorded by the Association. The recovery was related to a \$1.8 million charge-off recorded in the quarter ending December 31, 2008.

Impaired loans are loans for which it is probably that not all principal and interest will be collected according to the contractual terms. The following table presents information concerning impaired loans:

	March 31, 2009	March 31, 2008
Impaired loans with related allowance	\$ 1,031,298	\$ -
Impaired loans with no related allowance	2,894,914	292,013
Total impaired loans	<u>\$ 3,926,212</u>	<u>\$ 292,013</u>
Allowance on impaired loans	\$ 114,000	\$ -
Average impaired loans	\$ 4,153,467	\$ 298,483
Interest income on impaired loans for the quarter	\$ 18,290	\$ -

The Association portfolio included \$3,926,212 in loans classified as impaired as of March 31, 2009. This represented an increase of \$3,634,199 from the same period in 2008. All of the loans classified as impaired at March 31, 2009, were also classified as nonaccrual, with 98.4 percent current as to principal and interest. Nonaccrual loan volume was primarily driven by three participation loans. Using data provided to the Association it was determined that while there was enough concern regarding the viability of one of the borrowers going forward to prevent the loan from being upgraded to nonaccrual cash basis, the loan continued to be well secured and did not warrant a specific allowance as of March 31, 2009. Based on guidance from FCA, the Association recorded a \$28,000 specific allowance in relation to a second impaired participation loan with a recorded investment in the amount of \$840,914 due to its potential for loss upon sale of assets. The third and smallest loan was deemed to be undercollateralized, and a specific loan loss allowance in the amount of \$86,000 was recorded for it as of December 31, 2008.

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 2008, the Association participated in a patronage program and intends to do so again in 2009. 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 (over 50 percent probability), based on management's estimate, that they will not be realized. The Association has recorded a full valuation allowance against its deferred tax asset as of March 31, 2009, based on management's estimate that it is more likely than not that the deferred tax asset will not be realized. For the three months ended March 31, 2009, net income for tax purposes did not warrant the recognition of tax expense due to the patronage program implemented.

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 FIN 48 on January 1, 2007, the Association did not recognize a tax liability for any unrecognized tax benefits.

NOTE 5 — FAIR VALUE MEASUREMENTS:

SFAS No. 157 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 11 to the 2008 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2009 for each of the fair value hierarchy values are summarized below:

	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans	\$ -	\$ -	\$ 917,298	\$ 917,298	\$ -
Other property owned	-	-	-	-	-

* Represents the fair value of certain loans that were evaluated for impairment under SFAS No. 114. 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 11 to the 2008 Annual Report to Stockholders, SFAS No. 157 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 Bank and its related Associations' assets and liabilities. For a more complete description, see Notes to the 2008 Annual Report.

Loans

For certain loans evaluated for impairment under SFAS No. 114, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. These loans are generally classified as Level 3.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three months ended March 31, :

	<u>Other Benefits</u>	
	<u>2009</u>	<u>2008</u>
Service cost	\$ 7,121	\$ 6,366
Interest cost	15,234	15,051
Expected return on plan assets	-	-
Amortization of prior service costs	(12,793)	(12,956)
Amortizations of net (gain) loss	413	204
Net periodic benefit cost	<u>\$ 9,975</u>	<u>\$ 8,665</u>

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007. SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, we used a September 30 measurement date for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year-end measurement date. We have applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the Association decreased retained earnings \$8,665 net of taxes of \$0 and increased the postretirement benefit liability by \$8,665.

The Association expects to contribute \$864,643 to its pension plan in 2009. The Association has now funded the full amount for 2009, and it does not anticipate contributing any additional amounts in 2009. The amount will be recognized as an expense for the Association on a pro rata basis throughout the year.