



2010 Annual Report

December 31, 2010



Part of the Farm Credit System

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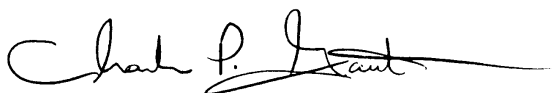
REPORT OF MANAGEMENT

The consolidated financial statements of Texas Land Bank, ACA (Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The board of directors has overall responsibility for the Association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously.

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



Charles P. Gant
Chief Executive Officer/President
March 3, 2011



Barnett L. Baker
Chairman, Board of Directors
March 3, 2011



Sharla Chambers
Chief Financial Officer
March 3, 2011

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of directors David W. Conrad, Barnett L. Baker, Gary R. Murphy and Paul H. Young. In 2010, eight Committee meetings were held. The Committee oversees the scope of Texas Land Bank, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request. The Committee approved the appointment of PricewaterhouseCoopers LLP for 2010.

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

In this context, the Committee reviewed and discussed Texas Land Bank, ACA's audited consolidated financial statements for the year ended December 31, 2010 (audited consolidated financial statements) with management and PricewaterhouseCoopers LLP. The Committee also reviews with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication With Those Charged With Governance) and both PricewaterhouseCoopers LLP's and Texas Land Bank, ACA's internal auditors directly provide reports on significant matters to the Committee.

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

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the board of directors include the audited consolidated financial statements in Texas Land Bank, ACA's Annual Report to Stockholders for the year ended December 31, 2010.

Audit Committee Members

David W. Conrad, Chairman
Barnett L. Baker, Member
Gary R. Murphy, Member
Paul H. Young, Member

March 3, 2011

TEXAS LAND BANK, ACA

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

	2010	2009	2008	2007	2006
Balance Sheet Data					
<u>Assets</u>					
Cash	\$ 755	\$ 688	\$ 60	\$ 62	\$ 67
Loans	437,292	433,149	408,271	385,664	349,504
Less: allowance for loan losses	843	1,139	369	83	113
Net loans	436,449	432,010	407,902	385,581	349,391
Investment in and receivable from the bank	7,149	6,896	6,606	6,124	5,107
Other property owned, net	347	-	-	-	32
Other assets	5,207	6,055	5,412	5,847	5,573
Total assets	<u>\$ 449,907</u>	<u>\$ 445,649</u>	<u>\$ 419,980</u>	<u>\$ 397,614</u>	<u>\$ 360,170</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 6,016	\$ 5,817	\$ 5,170	\$ 4,889	\$ 5,128
Obligations with maturities greater than one year	352,223	354,870	335,096	317,046	284,377
Total liabilities	358,239	360,687	340,266	321,935	289,505
<u>Members' Equity</u>					
Capital stock and participation certificates	2,664	2,623	2,621	2,661	2,632
Allocated retained earnings	15,754	14,254	12,765	8,645	4,144
Unallocated retained earnings	73,356	67,793	64,072	64,089	63,889
Accumulated other comprehensive income (loss)	(106)	292	256	284	-
Total members' equity	91,668	84,962	79,714	75,679	70,665
Total liabilities and members' equity	<u>\$ 449,907</u>	<u>\$ 445,649</u>	<u>\$ 419,980</u>	<u>\$ 397,614</u>	<u>\$ 360,170</u>
Statement of Income Data					
Net interest income	\$ 13,105	\$ 12,340	\$ 11,891	\$ 11,245	\$ 10,382
(Provision for loan losses) or loan loss reversal	(2)	(1,047)	(2,089)	(615)	(82)
Income from the bank	2,024	1,639	1,287	1,203	1,012
Other noninterest income	907	1,333	1,189	898	896
Noninterest expense	(5,118)	(6,044)	(5,409)	(5,029)	(4,445)
Net income (loss)	<u>\$ 10,916</u>	<u>\$ 8,221</u>	<u>\$ 6,869</u>	<u>\$ 7,702</u>	<u>\$ 7,763</u>
Key Financial Ratios for the Year					
Return on average assets	2.5%	1.9%	1.7%	2.0%	2.3%
Return on average members' equity	12.2%	9.9%	8.6%	10.5%	11.3%
Net interest income as a percentage of average earning assets	3.0%	2.9%	3.0%	3.0%	3.2%
Net charge-offs (recoveries) as a percentage of average loans	0.1%	0.1%	0.4%	0.2%	0.0%

TEXAS LAND BANK, ACA

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

	2010	2009	2008	2007	2006
<u>Key Financial Ratios at Year End</u>					
Members' equity as a percentage of total assets	20.4%	19.1%	19.1%	19.0%	19.6%
Debt as a percentage of members' equity	390.8%	424.5%	426.9%	425.4%	409.7%
Allowance for loan losses as a percentage of loans	0.2%	0.26%	0.09%	0.02%	0.03%
Permanent capital ratio	19.1%	17.7%	18.0%	18.0%	18.7%
Core surplus ratio	18.5%	17.1%	17.3%	17.3%	17.9%
Total surplus ratio	18.5%	17.1%	17.3%	17.3%	17.9%
<u>Net Income Distribution</u>					
Patronage refunds:					
Cash	\$ 3,000	\$ 2,762	\$ 3,007	\$ 2,763	\$ 2,800
Allocated retained earnings	1,500	1,500	4,127	4,501	4,144

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

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Texas Land Bank, ACA, including its wholly-owned subsidiaries, Texas PCA and Texas Land Bank, FLCA (Association) for the years ended December 31, 2010, 2009 and 2008, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's Audit Committee.

Forward-Looking Information:

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

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

Significant Events:

In 2010, the global, national and local economies continued to see the effects of an economic cycle that economists, business and government leaders classified as the worst business environment, liquidity problems and recession since the Great Depression. Although the Association did experience the impact of this cycle due to the national and international connections affecting current business and agriculture, the economic diversity found in Texas and the 16-county Central Texas area serviced by the Association was not affected as severely as other regions of the country. Current leading economic indicators are showing slow improvement in the health of the national economy in general with projections toward further improvement and opportunities during 2011. At this point, management is cautiously optimistic about the continued strength of the local economy and opportunities for growth during 2011 while keeping an eye on developments regarding governmental budget cuts at the federal, state and local levels and global political unrest that could potentially trickle down and have a negative impact on the area serviced by the Association.

In December 2010, the Association received a direct loan patronage of \$1,786,376 from the Farm Credit Bank of Texas (Bank), representing 50 basis points on the average daily balance of the Association's direct loan with the Bank. During 2010, the Association also received \$238,057 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

On October 1, 2006, pursuant to a restructuring plan approved by the Farm Credit Administration (FCA) and the Association's shareholders, the Association reorganized to form an Agricultural Credit Association (ACA). Pursuant to the restructuring plan, a Production Credit Association (PCA) was formed, Texas PCA, which, together with Texas Land Bank, FLCA, became wholly-owned subsidiaries of the Association. The formation of the ACA and creation of the PCA enable the Association to make short- and intermediate-term loans for agricultural production or operating purposes through the PCA while maintaining the tax-exempt status of long-term mortgage interest for loans generated by the FLCA.

In addition to the restructuring of the Association into an ACA in 2006, a revised patronage plan was created in order to provide additional value to the stockholders of the Association. Patronage distributions may be paid to patrons of the Association, as the board of directors may determine by resolution subject to capitalization requirements as defined by FCA and the Association's Capital Plan. From 2006 through 2009, the Association paid cash patronage totaling \$11.5 million and allocated an additional \$14.3

million in nonqualified patronage that may be paid out in future years. In keeping with the plan, for the year ended December 31, 2010, the board of directors approved a cash patronage in the amount of \$3.8 million to be paid out in April 2011, and an additional \$1.5 million was allocated as nonqualified patronage that may be paid in future years.

For over 93 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses, primarily in the 16-county Central Texas area located in the I-35 corridor between the metropolitan areas of Dallas/Fort Worth and Austin. The Association's loan volume consists of long-term rural real estate mortgage loans, production and intermediate-term loans, farm-related business loans, and rural home loans. These loan products are available to eligible borrowers with competitive fixed, adjustable and index-based interest rates. Loan maturities range from one to 25 years, with annual operating loans comprising the majority of the commercial loans and 15- to 25-year maturities comprising the majority of the mortgage loans, with an average portfolio maturity of less than 20 years. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower. It should be noted, however, that a significant number of borrowers have monthly installment payment cycles that coincide with their nonfarm income and are not as vulnerable to seasonal fluctuations.

Livestock, excluding dairy and poultry, makes up approximately 69 percent of the Association's loan portfolio commodity source. Cattle prices have been stable and are being aided with an improving economy and lower inventory numbers creating a demand/supply imbalance. While export sales are below normal, ongoing demand for meat protein and supply management in meat production have continued to provide support for meat prices. As the United States continues to seek expansion of export sales, markets will likely find ongoing support internationally, depending on the state of the international economy, particularly those in emerging markets.

Fuel and fertilizer costs, which are impacted by changes in fuel oil and natural gas prices, continue to be a major consideration in producers' planning processes. Fuel oil and natural gas continue to experience market volatility and could continue to put upward pressure on these prices. Cotton and grain prices have also strengthened and are near historically high prices as a result of supply/demand imbalance. The commodity markets in general have experienced a significant upward trend due to supply/demand imbalances and the overall improvement in the financial markets and global economies.

Demand for production and mortgage loans, while lower than previous years, remained stable during 2010 as some lenders outside the Farm Credit System reduced their commitment to agricultural and mortgage lending in the wake of the economic slowdown previously noted. As a result, the Association experienced growth in its loan portfolio as compared to the previous year.

Though slightly reduced, the overall credit quality of the loan portfolio remained strong through the end of 2010 with loans classified under Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" at 98.2 percent of total loans and accrued interest as compared to 98.4 percent at December 31, 2009.

The composition of the Association's loan portfolio, including principal less funds held of \$437,291,603, \$433,149,428 and \$408,270,608 as of December 31, 2010, 2009 and 2008, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

Purchase and Sales of Loans:

During 2010, 2009 and 2008, the Association was participating in loans with other lenders. As of December 31, 2010, 2009 and 2008, these participations totaled \$50,137,473, \$57,196,725 and \$61,118,208, or 11.5 percent, 13.2 percent and 15.0 percent of loans, respectively. None of these loans was purchased from entities outside the District in 2010, 2009 or 2008. The Association has also sold participations of \$6,048,474, \$5,360,433 and \$5,233,393 as of December 31, 2010, 2009 and 2008, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net. The following table illustrates the Association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 1,127,210	76.4%	\$ 2,588,468	100.0%	\$ 4,210,523	100.0%
90 days past due and still accruing interest	-	0.0%	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%	-	0.0%
Other property owned, net	347,430	23.6%	-	0.0%	-	0.0%
Total	\$ 1,474,640	100.0%	\$ 2,588,468	100.0%	\$ 4,210,523	100.0%

Impaired loans consist of all high-risk assets except other property owned, net. At December 31, 2010, 2009 and 2008, loans that were considered impaired were \$1,127,210, \$2,588,468 and \$4,210,523, representing 0.3 percent, 0.6 percent and 1.0 percent of loan volume, respectively. Impaired loan volume at December 31, 2010, decreased \$1,461,258 as compared to the same period in 2009. Impaired loan volume decreased primarily as a result of a large participation loan in the ethanol industry that was removed from impaired status during 2010 as a result of evidence provided to the lead lender and the FCA that the borrower had achieved improved and stable financial and repayment performance.

Other property owned as of December 31, 2010, increased by \$347,430 as compared to December 31, 2009. This amount exists as a result of a participation loan in the ethanol industry in which the participants received an equity position in the borrowing entity in exchange for concession of a portion of the debt. The equity was valued at \$347,430, and an acquired property was recognized for this amount.

The Association has significant monthly payment loan volume and loans to borrowers who are not dependent solely upon farm income for repayments. Thus, the Association does not experience large fluctuations due to seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender.

Allowance for Loan Losses:

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

	2010	2009	2008
Allowance for loan losses	\$ 842,968	\$ 1,139,346	\$ 368,663
Allowance for loan losses to total loans	0.2%	0.3%	0.1%
Allowance for loan losses to nonaccrual loans	74.8%	44.0%	8.8%
Allowance for loan losses to impaired loans	74.8%	44.0%	8.8%
Net charge-offs to average loans	0.1%	0.1%	0.4%

The allowance for loan losses is maintained based upon estimates that consider the general financial strength of the business and agricultural economies, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. Based upon ongoing risk assessment and the allowance for loan losses considerations previously mentioned, the allowance for loan losses were \$842,968, \$1,139,346 and \$368,663 at December 31, 2010, 2009 and 2008, respectively. Due to a historically low loss history experienced by the Association, the consideration that the majority of the loan portfolio is collateralized by first-lien real estate with stable values, and the Association's implementation of enhanced loan portfolio monitoring to more efficiently and effectively detect and mitigate risk, the allowance value at December 31, 2010, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates.

Results of Operations:

The Association's net income for the year ended December 31, 2010, was \$10,915,727 as compared to \$8,220,943 for the year ended December 31, 2009, reflecting an increase of \$2,694,784, or 32.8 percent. The increase in net income experienced by the Association in 2010 was primarily the result of increased net interest income combined with lower provisions for loan losses due to allowance reversals, refunds of Farm Credit System Insurance Corporation (FCSIC) premiums from prior years, and an increased patronage from the Bank. The Association's net income for the year ended December 31, 2008 was \$6,869,438. Net income increased \$1,351,505, or 19.7 percent, in 2009 versus 2008 as a result of increased net interest income in addition to increases in noninterest income in the form of patronage from the Bank and loan fees collected on loans serviced by the Association as well as a decreased provision for loan losses.

Net interest income for 2010, 2009 and 2008 was \$13,104,529, \$12,339,878 and \$11,891,402, respectively, reflecting increases of \$764,651, or 6.2 percent, for 2010 versus 2009 and \$448,476, or 3.8 percent, for 2009 versus 2008. Net interest income is the principal source of earnings for the Association and both wholly-owned subsidiaries, and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2010		2009		2008	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 437,801,258	\$ 25,580,809	\$ 420,643,830	\$ 25,556,090	\$ 402,504,068	\$ 27,677,866
Total interest-earning assets	437,801,258	25,580,809	420,643,830	25,556,090	402,504,068	27,677,866
Interest-bearing liabilities	357,315,217	12,476,280	346,422,011	13,216,211	332,100,648	15,785,974
Impact of capital	\$ 80,486,041		\$ 74,221,819		\$ 70,403,420	
Net interest income		\$ 13,104,529		\$ 12,339,879		\$ 11,891,892

	Average Yield	Average Yield	Average Yield
Yield on loans	5.84%	6.08%	6.88%
Total yield on interest-earning assets	5.84%	6.08%	6.88%
Cost of interest-bearing liabilities	3.49%	3.82%	4.75%
Interest rate spread	2.35%	2.26%	2.12%

	2010 vs. 2009			2009 vs. 2008		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ 1,042,400	\$ (1,017,681)	\$ 24,719	\$ 1,247,362	\$ (3,369,139)	\$ (2,121,777)
Total interest income	1,042,400	(1,017,681)	24,719	1,247,362	(3,369,139)	(2,121,777)
Interest expense	415,587	(1,155,518)	(739,931)	680,766	(3,251,019)	(2,570,253)
Net interest income	\$ 626,813	\$ 137,837	\$ 764,650	\$ 566,596	\$ (118,120)	\$ 448,476

Interest income increased by \$24,719, or 0.1 percent, compared to 2009, despite a decrease in market interest rates, due to an increase in the volume of loans in the portfolio. Interest expense for 2010 decreased by \$739,931, or 5.6 percent, compared to 2009 due to a decrease in the cost of funds to the Association. The net effect of these two trends is the increase of interest rate spread by 9 basis points to 2.35 percent in 2010 from 2.26 percent in 2009. In 2010, the Association implemented authoritative accounting guidance that requires loan origination fees and costs to be capitalized and amortized over the life of the loans as an adjustment to yield. The resulting adjustment to loan yield for 2010 was a decrease of \$3,247. The interest rate spread increased by 14 basis points to 2.26 percent in 2009 from 2.12 percent in 2008, primarily because interest expense decreased by a larger expense than interest income due to lower cost of funds to the Association.

Noninterest income for 2010 decreased by \$40,236, or 1.4 percent, compared to 2009, due primarily to the Association's implementation of authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs for loans closed in 2010, resulting in the capitalization of \$542,072 in origination fees, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The decrease caused by the capitalization of loan origination fee income was offset by \$421,242 in refund distributions of excess reserves from prior years from the FCSIC Insurance Fund. The distributions from the FCSIC included reserves it held in excess of its secure base amount in 2003 which had been previously allocated to its Allocated Insurance Reserves Accounts, and also included reserves in excess of its secure base amount in 2009 which were likewise allocated. The 2008 Farm Bill amended the Farm Credit Act and simplified the formula for payments from the Allocated Insurance Reserves Accounts to allow more immediate distribution of excess Insurance Fund balances to System banks. Noninterest income for 2009 increased by \$495,613, or 20.0 percent, compared to 2008, due primarily to an increase in patronage income from the Bank for both the FLCA and PCA subsidiaries in addition to loan fees collected on loans serviced by the Association, prior to implementation of accounting guidance that required the capitalization of loan origination fee income.

Provisions for loan losses decreased by \$1,045,137, or 99.80 percent, compared to 2009, due primarily to a continued strong loan portfolio asset quality combined with the reversal of a specific allowance to a loan in the ethanol industry that comprised a large portion of the 2009 provision for loan losses.

Operating expenses consist primarily of salaries, employee benefits, purchased services, and advertising and public/member relations expenses. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. Noninterest expenses for 2010, 2009 and 2008 were \$5,118,267, \$6,043,499 and \$5,409,161, respectively. Operating expenses decreased by \$925,232 from 2009 to 2010 primarily as a result of the Association's implementation of authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs during 2010 for loans closed in 2010, resulting in the capitalization of \$590,342 in origination costs consisting of salaries and benefits, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The \$925,232 decrease in operating expenses included a decrease of \$491,144 in premiums to the Insurance Fund, resulting from a decrease in the premium rates from 20 basis points in 2009 to 5 basis points in 2010. Operating expenses increased by \$634,338 from 2008 to 2009 primarily as a result of a \$105,894 increase in FCSIC insurance premiums as well as increased salary and benefits in the amount of \$549,761 that were a result of increased costs to fund the defined benefit retirement plan in addition to staff additions and merit pay raises.

For the year ended December 31, 2010, the Association's return on average assets was 2.5 percent, as compared to 1.9 percent and 1.7 percent for the years ended December 31, 2009 and 2008, respectively. For the year ended December 31, 2010, the Association's return on average members' equity was 12.2 percent, as compared to 9.9 percent and 8.6 percent for the years ended December 31, 2009 and 2008, respectively. The fluctuations in these measures of performance from 2007 through 2009 were the result of fluctuations in net income as discussed above.

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

Liquidity and Funding Sources:

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

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$351,233,934, \$353,779,641 and \$333,802,614 as of December 31, 2010, 2009 and 2008, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.15 percent, 3.61 percent and 4.36 percent at December 31, 2010, 2009 and 2008, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a financing agreement. The decrease in note payable to the Bank and related accrued interest payable since December 31, 2009, is due to an increase in the use of the Association's own funds generated by earnings. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$86,052,974, \$79,400,643 and \$73,452,598 at December 31, 2010, 2009 and 2008, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2010, was \$434,599,718 as defined by the general financing agreement.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2011. As borrower payments are received, they are applied to the Association's note payable to the Bank.

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

Capital Resources:

The Association's capital position remains strong, with total members' equity of \$91,668,128, \$84,961,984 and \$79,714,498 at December 31, 2010, 2009 and 2008, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2010, 2009 and 2008 was 19.1 percent, 17.7 percent and 18.0 percent, respectively.

The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio at December 31, 2010, 2009 and 2008 was 18.5 percent, 17.1 percent and 17.3 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent.

The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's total surplus ratio at December 31, 2010, 2009 and 2008 was 18.5 percent, 17.1 percent and 17.3 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

In 2010, 2009 and 2008, the Association paid patronage distributions of \$3,000,370, \$2,762,228 and \$3,007,297, respectively. In December 2010, the board of directors approved a \$3,852,577 patronage distribution to be paid in April 2011. See Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Relationship with the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

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

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 6 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 10 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank allocates District expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Over the past 93 years, regardless of the state of the agricultural economy, your Association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in members' equity, and of cash flows present fairly, in all material respects, the financial position of Texas Land Bank, ACA and subsidiaries (Association) at December 31, 2010, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 3, 2011

TEXAS LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2010	2009	2008
<u>Assets</u>			
Cash	\$ 754,776	\$ 688,395	\$ 60,000
Loans	437,291,603	433,149,428	408,270,608
Less: allowance for loan losses	842,968	1,139,346	368,663
Net loans	436,448,635	432,010,082	407,901,945
Accrued interest receivable	3,563,905	3,852,847	3,928,186
Investment in and receivable from the bank:			
Capital stock	7,148,785	6,896,470	6,605,955
Other	-	-	380
Other property owned, net	347,430	-	-
Premises and equipment	1,473,212	1,406,157	1,364,663
Other assets	170,317	795,292	118,987
Total assets	\$ 449,907,060	\$ 445,649,243	\$ 419,980,116
<u>Liabilities</u>			
Note payable to the bank	\$ 351,233,934	\$ 353,779,641	\$ 333,802,614
Advance conditional payments	-	-	305
Accrued interest payable	989,246	1,091,317	1,293,137
Drafts outstanding	371,770	991,500	666,896
Patronage distributions payable	3,852,577	3,000,000	2,751,042
Other liabilities	1,791,405	1,824,801	1,751,624
Total liabilities	358,238,932	360,687,259	340,265,618
<u>Members' Equity</u>			
Capital stock and participation certificates	2,664,165	2,623,015	2,620,855
Allocated retained earnings	15,753,946	14,254,258	12,765,444
Unallocated retained earnings	73,356,064	67,792,972	64,072,029
Accumulated other comprehensive income (loss)	(106,047)	291,739	256,170
Total members' equity	91,668,128	84,961,984	79,714,498
Total liabilities and members' equity	\$ 449,907,060	\$ 445,649,243	\$ 419,980,116

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,		
	2010	2009	2008
<u>Interest Income</u>			
Loans	\$ 25,580,809	\$ 25,556,090	\$ 27,677,866
Total interest income	<u>25,580,809</u>	<u>25,556,090</u>	<u>27,677,866</u>
<u>Interest Expense</u>			
Note payable to the bank	12,476,280	13,216,211	15,785,974
Advance conditional payments	-	1	490
Total interest expense	<u>12,476,280</u>	<u>13,216,212</u>	<u>15,786,464</u>
Net interest income	<u>13,104,529</u>	<u>12,339,878</u>	<u>11,891,402</u>
<u>Provision for Loan Losses</u>			
Net interest income after provision for losses	<u>2,119</u>	<u>1,047,256</u>	<u>2,089,010</u>
<u>Noninterest Income</u>			
Income from the bank:			
Patronage income	2,024,433	1,639,099	1,286,594
Loan fees	465,012	1,286,747	1,126,270
Refunds from Farm Credit System Insurance Corporation	421,242	-	-
Financially related services income	13,969	15,079	18,723
Other noninterest income	6,928	30,895	44,620
Total noninterest income	<u>2,931,584</u>	<u>2,971,820</u>	<u>2,476,207</u>
<u>Noninterest Expenses</u>			
Salaries and employee benefits	2,876,534	3,471,876	2,922,115
Directors' expense	248,160	248,794	221,631
Purchased services	547,991	479,303	512,493
Travel	129,570	103,129	127,175
Occupancy and equipment	280,651	267,551	259,527
Communications	102,073	83,640	74,045
Advertising	314,763	296,257	313,559
Public and member relations	120,128	116,935	97,591
Supervisory and exam expense	160,381	148,060	138,978
Insurance Fund premiums	221,994	711,910	606,016
(Gain)/loss on sale of premises and equipment, net	3,205	(6,515)	3,914
(Gain)/loss on other property owned, net	(26,557)	(223)	-
Other noninterest expense	139,374	122,782	132,117
Total noninterest expenses	<u>5,118,267</u>	<u>6,043,499</u>	<u>5,409,161</u>
Net income	<u>\$ 10,915,727</u>	<u>\$ 8,220,943</u>	<u>\$ 6,869,438</u>

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	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
Adjustment to beginning balance due to the pension accounting change	-	-	-	(8,665)	-	(8,665)
Balance at January 1, 2008	2,660,520	-	8,645,124	64,080,196	284,093	75,669,933
Comprehensive income						
Net income	-	-	-	6,869,438	-	6,869,438
Amortization of costs in postretirement benefit plans	-	-	-	-	(27,923)	(27,923)
Total comprehensive income	-	-	-	6,869,438	(27,923)	6,841,515
Capital stock/participation certificates issued	312,960	-	-	-	-	312,960
Capital stock/participation certificates and allocated retained earnings retired	(352,625)	-	-	-	-	(352,625)
Patronage refunds:						
Cash	-	-	-	(2,751,042)	-	(2,751,042)
Capital stock/participation certificates and allocated retained earnings	-	-	4,126,563	(4,126,563)	-	-
Change in estimated patronage declared in 2007 and paid in 2008	-	-	(6,243)	-	-	(6,243)
Balance at December 31, 2008	2,620,855	-	12,765,444	64,072,029	256,170	79,714,498
Cumulative effect adjustment for adoption of new accounting principle for investment securities	-	-	-	-	-	-
Comprehensive income						
Net income	-	-	-	8,220,943	-	8,220,943
Amortization of costs in postretirement benefit plans	-	-	-	-	35,569	35,569
Total comprehensive income	-	-	-	8,220,943	35,569	8,256,512
Capital stock/participation certificates issued	299,555	-	-	-	-	299,555
Capital stock/participation certificates and allocated retained earnings retired	(297,395)	-	-	-	-	(297,395)
Patronage refunds:						
Cash	-	-	-	(3,000,000)	-	(3,000,000)
Capital stock/participation certificates and allocated retained earnings	-	-	1,500,000	(1,500,000)	-	-
Change in estimated patronage declared in 2008 and paid in 2009	-	-	(11,186)	-	-	(11,186)
Balance at December 31, 2009	2,623,015	-	14,254,258	67,792,972	291,739	84,961,984
Comprehensive income						
Net income	-	-	-	10,915,727	-	10,915,727
Amortization of costs in postretirement benefit plans	-	-	-	-	(397,786)	(397,786)
Total comprehensive income	-	-	-	10,915,727	(397,786)	10,517,941
Capital stock/participation certificates issued	328,070	-	-	-	-	328,070
Capital stock/participation certificates and allocated retained earnings retired	(286,920)	-	-	-	-	(286,920)
Patronage refunds:						
Cash	-	-	-	(3,852,577)	-	(3,852,577)
Capital stock/participation certificates and allocated retained earnings	-	-	1,500,000	(1,500,000)	-	-
Change in estimated patronage declared in 2009 and paid in 2010	-	-	(312)	(58)	-	(370)
Balance at December 31, 2010	\$ 2,664,165	\$ -	\$ 15,753,946	\$ 73,356,064	\$ (106,047)	\$ 91,668,128

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	\$ 10,915,727	\$ 8,220,943	\$ 6,869,438
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	2,119	1,047,256	2,089,010
Gain on other property owned, net	(26,557)	(223)	-
Depreciation	150,939	133,006	133,359
Loss (gain) on sale of premises and equipment, net	3,205	(6,515)	3,914
Decrease in accrued interest receivable	288,942	75,339	343,927
Decrease in other receivables from the Bank	-	380	16,232
Decrease (increase) in other assets	624,975	(27,633)	(19,943)
Decrease in accrued interest payable	(101,425)	(201,820)	(132,266)
(Decrease) increase in other liabilities	(431,182)	108,746	3,114
Net cash provided by operating activities	<u>11,426,743</u>	<u>9,349,479</u>	<u>9,306,785</u>
Cash flows from investing activities:			
Increase in loans, net	(4,924,635)	(25,840,724)	(24,409,707)
Cash recoveries of loans previously charged off	-	36,659	-
Proceeds from purchase of investment in the bank	(252,315)	(290,515)	(498,705)
Purchases of premises and equipment	(221,199)	(179,950)	(26,053)
Proceeds from sales of premises and equipment	-	11,965	100
Proceeds from sales of other property owned	163,090	223	-
Net cash used in investing activities	<u>(5,235,059)</u>	<u>(26,262,342)</u>	<u>(24,934,365)</u>

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31,

	2010	2009	2008
Cash flows from financing activities:			
Net (repayment of) draws on note payable to the Bank	(2,545,707)	19,977,027	18,181,590
(Decrease) increase in drafts outstanding	(619,730)	324,604	500,381
Decrease in advance conditional payments	(646)	(305)	(9,221)
Issuance of capital stock and participation certificates	328,070	299,555	312,960
Retirement of capital stock and participation certificates	(286,920)	(297,395)	(352,625)
Patronage distributions paid	(3,000,370)	(2,762,228)	(3,007,297)
Net cash (used in) provided by financing activities	<u>(6,125,303)</u>	<u>17,541,258</u>	<u>15,625,788</u>
Net increase (decrease) in cash	66,381	628,395	(1,792)
Cash at the beginning of the year	<u>688,395</u>	<u>60,000</u>	<u>61,792</u>
Cash at the end of the year	<u>\$ 754,776</u>	<u>\$ 688,395</u>	<u>\$ 60,000</u>

Supplemental schedule of noncash investing and financing activities:

Financed sales of other property owned	-	812,914	-
Loans transferred to other property owned	483,963	-	-
Loans charged off	298,497	313,232	1,803,010
Patronage distributions declared	3,852,577	3,000,000	2,751,042

Supplemental cash information:

Cash paid during the year for:			
Interest	\$ 12,578,351	\$ 13,418,032	\$ 15,918,245

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

TEXAS LAND BANK, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION, RESTRUCTURING, AND OPERATIONS:

- A. Organization: Texas Land Bank, ACA, including its wholly-owned subsidiaries, Texas PCA and Texas Land Bank, FLCA (collectively called the Association), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Bell, Bosque, Burnet, Coryell, Dallas, Ellis, Falls, Freestone, Hamilton, Hill, Lampasas, Limestone, McLennan, Milam, Navarro and Williamson in the state of Texas.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2010, the System consisted of four Farm Credit banks and their affiliated associations, one Agricultural Credit bank and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the District. The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2010, the District consisted of the Bank, one Federal Land Credit Association (FLCA) and 17 Agricultural Credit Association (ACA) parent companies, which have two wholly-owned subsidiaries, a FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

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

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

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

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

The Association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investments in the Association. Upon request, stockholders of the Association will be provided with the Farm Credit Bank of Texas and District Associations' Annual Report to Stockholders, which includes the combined financial statements of the Bank and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the Bank and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund.

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

- A. Recently Issued or Adopted Accounting Pronouncements: In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including, among others, a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For nonpublic entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending after December 15, 2011. The adoption of this Standard will not have an impact on the Association's financial condition or results of operations, but will result in additional disclosures.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. This statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date, in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. System institutions reviewed their loan participation agreements to ensure that participations would meet the requirements for sales treatment and not be required to be

consolidated. The impact of adoption on January 1, 2010, was immaterial to the Association's financial condition and results of operations.

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. System institutions reviewed transactions that are included in the scope of this guidance and determined that the impact of adoption on January 1, 2010, was immaterial to the Association's financial condition and results of operations.

- B. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.
- C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 25 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. Prior to 2010, this guidance was not implemented due to its immaterial effect on the Association's financial position or results of operation for any year presented. The guidance was implemented in 2010 for loans closed in 2010, resulting in the capitalization of \$542,072 in origination fees and \$590,342 in origination costs, primarily salaries and benefits related to the origination of loans. The net adjustment to yield on loans for 2010 was decrease of \$3,247.

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

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years).

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified as "doubtful" or "loss." If previously unrecognized interest income exists upon transfer of a nonaccrual loan to accrual status, interest income will be recognized as cash payments are received.

Loans are charged off at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

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

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

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production and economic conditions, and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

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

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

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

1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The “projected unit credit” actuarial method is used for financial reporting and funding purposes for the DB Plan.

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers’ contributions, 5.0 percent of eligible pay for the year ended December 31, 2010, made on their behalf into various investment alternatives.

The structure of the District’s DB Plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC Plan of \$71,593, \$60,896 and \$51,656 for the years ended December 31, 2010, 2009 and 2008, respectively. For the DB Plan, the Association recognized pension costs of \$562,023, \$864,643 and \$443,984 for the years ended December 31, 2010, 2009 and 2008, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the Associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association’s contributions to the 401(k) plan were \$83,269, \$72,251 and \$73,310 for the years ended December 31, 2010, 2009 and 2008, respectively.

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

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

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 asset and liabilities include debt and equity securities and derivative contracts that are

traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and our supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also included in Level 1.

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

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

The fair value disclosures are presented in Note 11, "Fair Value Measurements."

- M. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 377,910,701	86.4%	\$ 368,360,090	85.0%	\$ 348,550,244	85.4%
Production and intermediate term	19,144,244	4.4%	22,776,733	5.3%	17,539,944	4.3%
Agribusiness:						
Loans to cooperatives	1,884,412	0.4%	240,000	0.1%	-	0.0%
Processing and marketing	9,889,469	2.3%	10,712,126	2.5%	12,498,826	3.1%
Farm-related business	1,682,310	0.4%	2,289,817	0.5%	2,555,516	0.6%
Communication	4,549,008	1.0%	4,799,762	1.1%	7,709,882	1.9%
Energy	10,984,405	2.5%	14,000,926	3.2%	9,810,895	2.4%
Rural residential real estate	11,247,054	2.6%	9,969,974	2.3%	9,605,301	2.4%
Total	\$ 437,291,603	100.0%	\$ 433,149,428	100.0%	\$ 408,270,608	100.1%

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold:

	Participations Purchased	Participations Sold
Real estate mortgage	\$ 18,669,070	\$ 5,082,417
Production and intermediate term	4,169,542	-
Agribusiness	11,765,449	966,057
Communication	4,549,008	-
Energy	10,984,405	-
Total	<u>\$ 50,137,473</u>	<u>\$ 6,048,474</u>

Geographic Distribution:

County	2010	2009	2008
Bosque	9.2%	8.4%	7.5%
Bell	8.0%	7.5%	6.2%
Hill	7.7%	6.3%	6.0%
Navarro	7.0%	6.1%	6.1%
Williamson	6.0%	5.6%	6.1%
Lampasas	5.9%	5.1%	5.4%
McLennan	5.7%	5.8%	6.0%
Falls	5.3%	4.8%	5.3%
Hamilton	5.2%	5.1%	5.3%
Limestone	4.5%	3.7%	3.6%
Ellis	4.1%	3.6%	3.5%
Coryell	4.0%	3.4%	3.6%
Burnet	3.4%	3.2%	3.8%
Other States	2.9%	11.3%	13.3%
Other	4.8%	6.2%	5.9%
Other with counties less than 3%	16.3%	0.0%	0.0%
Totals	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

Operation/Commodity	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Livestock, except dairy and poultry	\$ 303,335,120	69.4%	\$ 299,657,263	69.2%	\$ 277,238,872	67.9%
Cash grains	50,458,517	11.5%	47,406,572	10.9%	46,998,937	11.5%
Timber	13,115,206	3.0%	13,809,968	3.2%	14,573,240	3.6%
Electric services	10,984,405	2.5%	14,000,926	3.2%	9,802,276	2.4%
Rural home loans	10,453,037	2.4%	8,986,879	2.1%	8,405,017	2.1%
Hunting, trapping and game propagation	9,099,399	2.1%	7,336,241	1.7%	6,688,331	1.6%
Field crops except cash grains	7,105,622	1.6%	4,756,327	1.1%	3,598,539	0.9%
Poultry and eggs	5,558,110	1.3%	3,864,721	0.9%	3,726,025	0.9%
Communications	4,549,008	1.0%	4,799,762	1.1%	7,709,882	1.9%
Landlords	3,918,327	0.9%	4,232,945	1.0%	435,019	0.1%
Horticultural specialties	1,560,301	0.4%	1,801,926	0.4%	1,721,489	0.4%
Dairy farms	1,312,341	0.3%	1,232,854	0.3%	1,241,395	0.3%
Fruit and tree nuts	1,240,219	0.3%	1,481,229	0.3%	1,514,547	0.4%
Agricultural services	1,055,938	0.2%	1,125,509	0.3%	1,802,688	0.4%
Farm and garden machinery equipment	1,049,598	0.2%	1,151,775	0.3%	649,477	0.2%
General farms, primarily livestock	1,036,135	0.2%	2,913,811	0.7%	3,261,174	0.8%
Paper and allied products	363,662	0.1%	2,055,569	0.5%	4,923,761	1.2%
Animal specialties	129,002	0.0%	134,162	0.0%	-	0.0%
Other	10,967,656	2.5%	12,400,989	2.9%	13,979,939	3.4%
Total	<u>\$ 437,291,603</u>	<u>99.9%</u>	<u>\$ 433,149,428</u>	<u>100.1%</u>	<u>\$ 408,270,608</u>	<u>100.0%</u>

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

Asset Quality:

	2010	2009	2008
Acceptable	93.7%	96.5%	97.0%
Special mention	4.5%	1.9%	1.8%
Substandard	1.8%	1.6%	1.2%
Doubtful	0.0%	0.0%	0.0%
Loss	0.0%	0.0%	0.0%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following presents information relating to impaired loans as of December 31:

	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Nonaccrual loans						
Current as to principal and interest	\$ 1,082,916	96.1%	\$ 2,588,468	100.0%	\$ 4,062,582	96.5%
Past due	44,294	3.9%	-	0.0%	147,941	3.5%
Total nonaccrual loans	<u>1,127,210</u>	<u>100.0%</u>	<u>2,588,468</u>	<u>100.0%</u>	<u>4,210,523</u>	<u>100.0%</u>
Accrual loans						
90 days or more past due	-	0.0%	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%	-	0.0%
Total impaired accrual loans	<u>-</u>	<u>0.0%</u>	<u>-</u>	<u>0.0%</u>	<u>-</u>	<u>0.0%</u>
Total impaired loans	<u>\$ 1,127,210</u>	<u>100.0%</u>	<u>\$ 2,588,468</u>	<u>100.0%</u>	<u>\$ 4,210,523</u>	<u>100.0%</u>

The Association loan portfolio contained \$1,127,210 in loans classified as impaired at December 31, 2010. This represented a decrease of \$1,461,258 from the same period in 2009. Impaired loan volume decreased primarily as a result of a participation loan in the ethanol industry that was removed from impaired status during 2010 as a result of evidence provided to the lead lender and the FCA that the borrower had achieved improved and stable financial and repayment performance. The remaining impaired loan volume is primarily related to one participation loan in the ethanol industry and one participation loan purchased from another association in the District.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2010.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2, "Summary of Significant Accounting Policies." The following table presents interest income recognized on impaired loans.

	2010	2009	2008
Interest income recognized on nonaccrual loans	\$ 67,880	\$ 72,033	\$ 7,054
Interest income recognized on impaired accrual loans	-	-	-
Interest income recognized on impaired loans	<u>\$ 67,880</u>	<u>\$ 72,033</u>	<u>\$ 7,054</u>

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

	Year Ended December 31,		
	2010	2009	2008
Balance at beginning of year	\$ 1,139,346	\$ 368,663	\$ 82,663
Charge-offs:			
Production agriculture:			
Real estate mortgage	(298,497)	-	-
Production and intermediate term	-	-	-
Agribusiness			
Loans to cooperatives	-	-	-
Processing and marketing	-	(28,000)	-
Farm-related business	-	-	-
Communication	-	(285,232)	-
Energy	-	-	(1,803,010)
Water/waste disposal	-	-	-
Rural residential real estate	-	-	-
International	-	-	-
Lease receivables	-	-	-
Total charge-offs	<u>(298,497)</u>	<u>(313,232)</u>	<u>(1,803,010)</u>
Recoveries:			
Production agriculture:			
Real estate mortgage	-	-	-
Production and intermediate term	-	-	-
Agribusiness			
Loans to cooperatives	-	-	-
Processing and marketing	-	-	-
Farm-related business	-	-	-
Communication	-	-	-
Energy	-	36,659	-
Water/waste disposal	-	-	-
Rural residential real estate	-	-	-
International	-	-	-
Lease receivables	-	-	-
Total recoveries	<u>-</u>	<u>36,659</u>	<u>-</u>
Net charge-offs (recoveries)	<u>(298,497)</u>	<u>(276,573)</u>	<u>(1,803,010)</u>
Loan loss (reversal) or provision for loan losses	<u>2,119</u>	<u>1,047,256</u>	<u>2,089,010</u>
Balance at end of year	<u>\$ 842,968</u>	<u>\$ 1,139,346</u>	<u>\$ 368,663</u>
Ratio of net charge-offs during the period to average loans outstanding during the period	-0.07%	-0.07%	-0.45%

The following table presents information concerning impaired loans as of December 31:

	2010	2009	2008
Impaired loans with related allowance	\$ 427,870	\$ 1,368,513	\$ 191,897
Impaired loans with no related allowance	699,340	1,219,955	4,018,626
Total impaired loans	<u>\$ 1,127,210</u>	<u>\$ 2,588,468</u>	<u>\$ 4,210,523</u>
Allowance on impaired loans	<u>\$ 2,615</u>	<u>\$ 656,683</u>	<u>\$ 86,000</u>

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Average impaired loans	<u>\$ 1,728,617</u>	<u>\$ 2,537,117</u>	<u>\$ 1,013,107</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Interest income which would have been recognized under the original terms	\$ 176,134	\$ 306,146	\$ 148,977
Less: interest income recognized	<u>(67,880)</u>	<u>(72,033)</u>	<u>(7,054)</u>
Foregone interest income	<u>\$ 108,254</u>	<u>\$ 234,113</u>	<u>\$ 141,923</u>

NOTE 4 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 191,766	\$ 191,766	\$ 191,766
Building and improvements	1,810,105	1,722,603	1,707,536
Furniture and equipment	183,300	162,633	164,222
Computer equipment and software	128,401	124,576	99,176
Automobiles	<u>225,678</u>	<u>238,408</u>	<u>220,186</u>
	2,539,250	2,439,986	2,382,886
Accumulated depreciation	<u>(1,066,038)</u>	<u>(1,033,829)</u>	<u>(1,018,223)</u>
Total	<u>\$ 1,473,212</u>	<u>\$ 1,406,157</u>	<u>\$ 1,364,663</u>

The Association leases office space in Dallas, Georgetown and Marble Falls, and it leases office equipment for the offices in Waco, Lampasas, Temple, Corsicana and Hillsboro. Lease expense was \$41,335, \$49,675 and \$39,175 for 2010, 2009 and 2008, respectively. Minimum annual lease payments for the next five years are as follows:

	Operating
2011	\$ 50,818
2012	38,803
2013	33,640
2014	6,262
2015	0
Total	<u>\$129,523</u>

NOTE 5 – OTHER PROPERTY OWNED, NET:

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Gain (loss) on sale, net	\$ 26,557	\$ 223	\$ -
Carrying value adjustments	-	-	-
Operating income (expense), net	-	-	-
Net gain (loss) on other property owned	<u>\$ 26,557</u>	<u>\$ 223</u>	<u>\$ -</u>

NOTE 6 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets, and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the Association has outstanding to its borrowers.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2010, 2009 and 2008, was \$351,233,934 at 3.15 percent, \$353,779,641 at 3.61 percent and \$333,802,614 at 4.36 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2010, 2009 and 2008, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2010, was \$434,599,718, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2010, 2009 and 2008, the Association was not subject to remedies associated with the covenants in the financing agreement.

NOTE 7 — MEMBERS' EQUITY:

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

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

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

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

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

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class A to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the Association's board of directors. At December 31, 2010, 2009 and 2008, the Association did not have Class C stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A capital stock and participation certificates. In the event of liquidation of the Association,

capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the Association's obligations to external parties and to the Bank would be distributed to the holders of common stock and participation certificates, pro rata, in proportion to the number of shares or units of participation certificates then outstanding until an amount equal to the aggregate par value or unit value of all shares of such stock and participation certificates issued and outstanding has been distributed to stockholders.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2010, 2009 and 2008, respectively:

<u>Date Declared</u>	<u>Date Paid</u>	<u>Patronage</u>
December 2010	April 2011	\$3,852,577
December 2009	April 2010	3,000,000
December 2008	April 2009	2,751,042

The FCA's capital adequacy regulations require the Association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. As of December 31, 2010, the Association is not prohibited from retiring stock or distributing earnings. Furthermore, neither the board nor senior management knows of any such prohibitions that may apply during the subsequent fiscal year. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2010, were 19.1 percent, 18.5 percent and 18.5 percent, respectively.

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

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

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Class A stock	<u>499,782</u>	<u>495,707</u>	<u>496,344</u>
Participation certificates	<u>33,051</u>	<u>28,896</u>	<u>27,827</u>
Total	<u><u>532,833</u></u>	<u><u>524,603</u></u>	<u><u>524,171</u></u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Nonpension post-retirement benefits	\$ (106,047)	\$ 291,739	\$ 256,170
Unrealized gains (losses) on investments available for sale	-	-	-
Total	<u>\$ (106,047)</u>	<u>\$ 291,739</u>	<u>\$ 256,170</u>

NOTE 8 — INCOME TAXES:

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Federal tax at statutory rate	\$ 3,711,347	\$ 2,795,120	\$ 2,335,609
Effect of nontaxable FLCA subsidiary	(3,656,259)	(2,710,103)	(2,327,452)
Patronage distributions	(55,137)	(84,300)	(10,934)
Other	49	(717)	2,777
Provision for (benefit from) income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 4,276	\$ 4,315	\$ 2,053
Gross deferred tax assets	<u>4,276</u>	<u>4,315</u>	<u>2,053</u>
Deferred tax asset valuation allowance	<u>(4,276)</u>	<u>(4,315)</u>	<u>(2,053)</u>

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

The Association recorded valuation allowances of \$4,276, \$4,315 and \$2,053 during 2010, 2009 and 2008, respectively. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

Upon adoption of FASB guidance “Accounting for Uncertainty in Income Taxes” on January 1, 2007, the Association did not need to recognize a tax liability for any uncertain tax positions and at December 31, 2010, did not need to recognize a tax liability for any uncertain tax positions.

NOTE 9 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contributions plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. These plans are described more fully in section G of Note 2, “Summary of Significant Accounting Policies.”

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

In September 2006, the FASB issued guidance, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of this guidance were adopted at December 31, 2007. The guidance also required that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, the System used a September 30 measurement date for pension and other postretirement benefit plans. The guidance provided two approaches for an employer to transition to a fiscal year-end measurement date. The System has applied the second approach, which allows for the use of the measurements determined for the prior year end.

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

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

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	2010	2009	2008
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	\$ 939,667	\$ 978,051	\$ 936,923
Service cost	29,087	28,485	31,828
Interest cost	56,176	60,937	75,255
Plan participants' contributions	12,131	11,807	9,348
Plan amendments	-	-	-
Special termination benefits	-	-	-
Actuarial loss (gain)	346,613	(85,092)	(35,840)
Benefits paid	(56,941)	(54,521)	(39,463)
Accumulated postretirement benefit obligation, end of year	\$ 1,326,733	\$ 939,667	\$ 978,051
Change in Plan Assets			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Company contributions	44,810	42,714	30,115
Plan participants' contributions	12,131	11,807	9,348
Benefits paid	(56,941)	(54,521)	(39,463)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (1,326,733)	\$ (939,667)	\$ (978,051)
Amounts Recognized in Statement of Financial Position			
Other liabilities	\$ (1,326,733)	\$ (939,667)	\$ (978,051)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	374,469	27,856	114,598
Prior service cost (credit)	(268,422)	(319,595)	(370,768)
Net transition obligation (asset)	-	-	-
Total	106,047	(291,739)	(256,170)
Additional Information			
Increase in minimum liability included in other comprehensive income	\$ 397,786	\$ (35,570)	\$ 27,923
Weighted-Average Assumptions Used to Determine Obligations at Year-end			
Measurement date	12/31/2010	12/31/2009	12/31/2008
Discount rate	5.70%	6.05%	6.30%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.5%/6.5%	8.0%/7.0%	8.5%/6.25%
Health care cost trend rate assumed for next year - Rx	10.00%	10.50%	11.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2017	2017	2015

Total Cost	2010	2009	2008
Service cost	\$ 29,087	\$ 28,485	\$ 25,462
Interest cost	56,176	60,937	60,204
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(51,173)	(51,173)	(51,825)
Unrecognized net loss (gain)	-	1,651	814
Net postretirement benefit cost	<u>34,090</u>	<u>39,900</u>	<u>34,655</u>
Adjustment to retained earnings for 2008 due to change in measurement date	N/A	N/A	\$ -
Accounting for settlements/curtailments/special termination benefits	\$ -	\$ -	\$ -

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

Net actuarial loss (gain)	\$ 346,613	\$ (85,092)	\$ (35,840)
Amortization of net actuarial loss (gain)	-	(1,651)	(1,018)
Prior service cost (credit)	-	-	-
Amortization of prior service cost	51,173	51,173	64,781
Recognition of prior service cost	-	-	-
Amortization of transition liability (asset)	-	-	-
Total recognized in other comprehensive income	<u>\$ 397,786</u>	<u>\$ (35,570)</u>	<u>\$ 27,923</u>

AOCI Amounts Expected to be Amortized into Expense in 2011

Unrecognized net transition obligation (asset)	\$ -	\$ -	\$ -
Unrecognized prior service cost	(49,974)	(51,173)	(51,173)
Unrecognized net loss (gain)	-	-	1,651
Total	<u>\$ (49,974)</u>	<u>\$ (51,173)</u>	<u>\$ (49,522)</u>

Weighted-Average Assumptions Used to Determine Benefit Cost

	12/31/2009	12/31/2008	9/30/2007
Measurement date			
Discount rate	6.05%	6.30%	6.00%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	8.0%/7.0%	8.50%/6.50%	9.0%/6.75%
Health care cost trend rate assumed for next year - Rx	10.50%	11.00%	13.00%
Ultimate health care cost trend rate	5.00%	5.00%	4.75%
Year that the rate reaches the ultimate trend rate	2017	2015	2016

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)

Fiscal 2011	\$ 57,823	\$ -	\$ -
Fiscal 2012	69,382	-	-
Fiscal 2013	67,391	-	-
Fiscal 2014	74,929	-	-
Fiscal 2015	70,552	-	-
Fiscal 2016–2020	406,686	-	-

Expected Contributions

Fiscal 2011	\$ 57,823	\$ -	\$ -
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NOTE 10 — RELATED PARTY TRANSACTIONS:

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

Total loans to such persons for the Association amounted to \$11,996,765, \$5,266,574 and \$5,006,193 at December 31, 2010, 2009 and 2008, respectively. During 2010, \$10,028,012 of new loans were made, and repayments totaled \$2,836,162. In the opinion of management, no such loans outstanding at December 31, 2010, 2009 and 2008 involved more than a normal risk of collectibility.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the Bank and passed through to the Associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$295,434, \$302,812 and \$303,021 in 2010, 2009 and 2008, respectively.

The Association received patronage payments from the Bank totaling \$2,024,433, \$1,639,099 and \$1,286,594 during 2010, 2009 and 2008, respectively.

NOTE 11 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," for additional information.

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

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 425,255	\$ 425,255
Other property owned	-	-	347,430	347,430

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used by the Bank and associations for assets and liabilities:

Loans

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

Other Property Owned

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

NOTE 12 — COMMITMENTS AND CONTINGENCIES:

In addition to those commitments and contingencies discussed in Note 2, “Summary of Significant Accounting Policies,” the Association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2010, \$30,031,585 of commitments and \$1,086,901 of commercial letters of credit were outstanding.

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

NOTE 13 — DISCLOSURE ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following table presents the carrying amounts and estimated fair values of the Association’s financial instruments at December 31, 2010, 2009 and 2008. Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, discount rates, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association’s financial instruments as of December 31 follow:

	2010		2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash	\$ 754,776	\$ 754,776	\$ 688,395	\$ 688,395	\$ 60,000	\$ 60,000
Loans, net	436,448,635	438,542,761	432,010,082	431,135,987	407,901,945	425,690,687
Financial liabilities						
Note payable to the bank	351,233,934	352,934,959	353,779,641	353,129,247	333,802,614	348,359,859

A description of the methods and assumptions used to estimate the fair value of each class of the Association’s financial instruments for which it is practicable to estimate that value follows:

A. Cash:

The carrying amount is a reasonable estimate of fair value.

B. Loans:

Because no active market exists for the Association’s loans, fair value is estimated by discounting the expected future cash flows using the Association’s current interest rates at which similar loans would be made to borrowers with similar credit risk. Since the discount rates are based on the Association’s loan rates as well as on management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and discount rates reflecting appropriate credit risk are determined separately for each individual pool.

Fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher discount rates to reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

The carrying value of accrued interest approximates its fair value.

C. Investment in the Bank:

Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. As described in Note 2, "Summary of Significant Accounting Policies," the investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. The Association owns 3.1 percent of the issued common stock of the Bank as of December 31, 2010. As of that date, the Bank's assets totaled \$14.1 billion and members' equity totaled \$1.2 million. The Bank's earnings were \$168.5 million during 2010.

D. Note payable to the Bank:

The note payable to the Bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the Association's and Bank's loan rates as well as on management estimates. For the purposes of this estimate it is assumed that the cash flow on the note is equal to the principal payments on the Association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

E. Commitments to extend credit:

The Association does not normally assess fees on its commitments to extend credit; hence, there is no fair value to be assigned to these commitments until they are funded.

NOTE 14 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

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

	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,046	\$ 2,957	\$ 2,972	\$ 3,365	\$ 12,340
(Provision for) reversal of loan losses	(41)	(1,621)	(304)	918	(1,048)
Noninterest income (expense), net	(892)	(1,020)	(1,056)	(103)	(3,071)
Net income	\$ 2,113	\$ 316	\$ 1,612	\$ 4,180	\$ 8,221

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,009	\$ 2,973	\$ 3,036	\$ 2,873	\$ 11,891
(Provision for) reversal of loan losses	(50)	(50)	(50)	(1,939)	(2,089)
Noninterest income (expense), net	(924)	(769)	(957)	(283)	(2,933)
Net income	\$ 2,035	\$ 2,154	\$ 2,029	\$ 651	\$ 6,869

In the third quarter of 2010, the Association reversed a specific allowance that had been recorded against a participation loan in the ethanol industry. In the fourth quarter of 2010, the Association implemented authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs for loans closed in 2010, resulting in the capitalization of \$48,270 in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. In addition, the Association once again received its patronage from the Bank, which offset a significant portion of the fourth quarter expenses.

NOTE 15 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 3, 2011, which is the date the financial statements were issued or available to be issued. As of that date, there were no significant events requiring disclosure in the 2010 Annual Stockholder Report.

DISCLOSURE INFORMATION AND INDEX

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

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

The descriptions of significant developments that had or could have a material impact on earnings, interest rates to borrowers, patronage, or dividends and acquisitions or dispositions of material assets, changes in patronage policies or practices, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

Texas Land Bank, ACA (Association) serves its 16-county territory through its main administrative office at 13525 Sandalwood Drive, Waco, Texas 76712. Additionally, there are six branch lending offices located throughout the territory. The Association owns the office buildings in Waco, Corsicana, Hillsboro, Lampasas and Temple free of debt and leases office space for the Georgetown and Marble Falls contact offices.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 12 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

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

The Farm Credit Bank of Texas and District Associations' (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing fcf@farmcreditBank.com. The District's annual and quarterly stockholder reports are also available on its website at www.farmcreditBank.com.

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

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2010, required to be disclosed, is incorporated herein by reference to the “Five-Year Summary of Selected Consolidated Financial Data” included in this annual report to stockholders.

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

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

DIRECTORS AND SENIOR OFFICERS

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

<u>NAME</u>	<u>POSITION</u>	<u>DATE ELECTED/ EMPLOYED</u>	<u>TERM EXPIRES</u>
Barnett “Barney” Baker	Chairman	1977	2012
Burt Richards	Vice Chairman	1988	2013
Arthur Bancroft	Director	1990	2013
Derwood Cobb	Director	2000	2012
John Courtney	Director	1982	2011*
N. “Sonny” Foote, Jr.	Director	1975	2011
Charles L. Hansen	Director	1970	2010
Jarvis Herbst	Director	1975	2011
Gary Murphy	Director	1988	2014
John R. Sawyer	Director	2006	2014
Paul H. Young	Director	2010	2014
Clarence Fischer	Director – Elected Director	1989	2010
David W. Conrad	Director – Elected Director	2005	2013
Charles P. Gant	President/Chief Executive Officer	1981	-
J. Keith Finstad	Chief Credit Officer	1981	-
Sharla Chambers	Chief Financial Officer	2006	-
Weldon R. Schiller	Credit Office President	1979	-
Kasey McGraw	Credit Office President	2006	-
Justin L. Wiethorn	Credit Office President	1999	-
Ryan Janek	Credit Office President	2004	-
John Davis	Credit Office President	2009	-

*Paid off loan and resigned from board in 2010 prior to expiration of term

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

Barnett “Barney” Baker, age 72. Mr. Baker ranches in Burnet County near Burnet. He owns 2,969 acres and leases additional land and has approximately 200 cows and 350 goats. He was past president and is currently a director of Burnet County Farm Bureau. During the summer, he is director of food service and construction at Camp Longhorn. He serves as a member of the Association Audit Committee. In addition, Mr. Baker serves as the Association’s representative on the District Stockholder’s Advisory Committee.

Burt Richards, age 67. Mr. Richards is from Fairfield, Texas. He owns and operates 2,250 acres of land in Freestone County and leases additional land as well as maintaining an ownership interest in Diamond Cattle Feeders in the Texas Panhandle. He serves as a director of the Navasota Valley Electric Co-Op and Elkhart Farmers Co-Op. He serves as chairman of the Association Compensation Committee and as the Association’s representative on the District Farm Credit Council.

Arthur Bancroft, age 72. Mr. Bancroft resides in Powell, Texas. He is a farmer, rancher and owner of Kerens Grain Elevator and Sonny’s Farm Service. Mr. Bancroft owns 1,000 acres of land in Navarro County and leases 3,000 acres. He grows milo, corn, wheat and cotton. He is a director of the Texas Cotton Growers Association. He serves as a member of the Association Compensation Committee.

Derwood Cobb, age 76. Mr. Cobb farms and ranches near Cameron in Milam County. He owns 718 acres and leases 3,710 acres. His farming operation consists of corn, cotton, wheat and cattle. He is a director of the Milam County Farm Bureau. He serves as a member of the Association Compensation Committee.

John Courtney, age 65. Mr. Courtney farms and ranches near Jonesboro in Hamilton County. He owns 1,035 acres and leases 1,825 acres. His farming operation consists of wheat, milo, oats, and hay and he runs approximately 200 cows and 100 stockers. He serves as a member of the Association Audit Committee.

N. “Sonny” Foote, Jr., age 73. Mr. Foote farms and ranches near Turnersville in Coryell County. He owns 750 acres and leases 450 acres. His farming operation consists of milo, wheat and corn, and he runs approximately 85 cows, 300 stockers and 400 sheep. In addition, he serves as a director for McLennan County Electric Co-Op and Hamilton County Soil and Water Conservation District. He serves as a member of the Association Compensation Committee.

Charles L. Hansen, age 86. Mr. Hansen is from Chilton, Texas. He farms and ranches in Falls and McLennan counties with principal crops of corn and wheat and maintains a small cow herd. He owns 554 acres and leases 540 acres. He serves as a director of Levi Water Supply Corporation and Cottonwood Cemetery Association.

Jarvis Herbst, age 71. Mr. Herbst ranches near Adamsville, in Lampasas County. He owns 1,250 acres of which 330 acres are cultivated. His ranching operation consists of approximately 70 cows, 400 stockers, 75 goats and 60 sheep.

Gary Murphy, age 62. Mr. Murphy resides in Hubbard, Texas. He is a farmer, rancher and owner of J.P.M., Inc. and Central Texas Cotton & Grain. He owns 5,535 acres of land and leases 2,959 acres on which he grows corn, milo and wheat, and has cattle. He is a director on the Texas Wheat Producers Board. In addition, he serves on the U.S. Wheat Board, U.S. Wheat Board Audit Committee, and Hubbard Community Affairs Board. He serves as a member of the Association Audit Committee.

John R. Sawyer, age 52. Mr. Sawyer resides in Hillsboro, Texas. He is a farmer and rancher and operates Sawyer Farms Partnership farming approximately 3,500 acres. He owns 1,005 acres and leases another 2,595 acres. In addition, he is a partner in Apex Grain Co. LLC located in Hillsboro. He is a board member and chairman of the Hill County Blackland Soil & Water Conservation District and serves as a member of the Association Compensation Committee.

Paul H. Young, age 56. Mr. Young resides in the Lott area. He is self-employed as a partner/owner/operator of M.E. Young and Sons Partnership, operating in Coryell, Hamilton, Falls, Mills and Robertson counties. As a total his agricultural operation consists of approximately 6,000 acres of owned land and 14,000 acres of leased land. His farm/ranch operation consists of corn, milo, wheat, oats, soybeans, hay, cows, stockers, ewes, goats and broiler chickens. He presently serves on the board of the Coryell County Commission Company.

Clarence Fischer, age 83. Mr. Fischer is from Bartlett, Texas. He owns 503 acres and leases 250 acres in Bell County. His farming operation consists of milo, corn and wheat, and he owns 40 cows.

David W. Conrad, age 56. Mr. Conrad is from Round Rock, Texas. He is the owner of a professional accounting practice in Round Rock. He is a certified public accountant. Early in his career he was employed by the Farm Credit Bank of Texas from 1982 to 1990 and served as internal auditor and director of association financial operations. He is a member of the American Institute of CPAs. He serves as chairman of the Association Audit Committee.

Charles P. Gant, age 60. Mr. Gant serves as president and chief executive officer. He has served as senior vice president of the Association, loan officer and director of credit at the Farm Credit Bank of Texas, and president of the Federal Land Bank Association of Stephenville. He has 30 years of experience with the Farm Credit System.

J. Keith Finstad, age 52. Mr. Finstad serves as chief credit officer of the Association. He has served as credit office president in the Waco credit office, a loan officer and director of credit at the Farm Credit Bank of Texas, vice president of the Federal Land Bank Association of Hillsboro and loan officer trainee of the Federal Land Bank Association of Waco. He has 29 years of experience with the Farm Credit System.

Sharla Chambers, age 34. Ms. Chambers serves as chief financial officer of the Association. She began her career with the Association as controller in 2006. In addition to being a certified public accountant, she has experience in corporate accounting as well as retirement plan administration and compliance. She has four years of experience with the Farm Credit System.

Weldon R. Schiller, age 54. Mr. Schiller serves as credit office president in the Temple credit office. He began his career with the Waco PCA in 1979, worked as a loan officer for the FLBA of Waco, and served as the regional vice president of the Farm Credit Bank of Texas, Extraco Bank in Temple and CoBank in Denver. He has 28 years of experience with the Farm Credit System.

Kasey McGraw, age 35. Mr. McGraw serves as credit office president of the Corsicana credit office. He has four years of experience with the Farm Credit System in addition to considerable commercial lending experience having previously served as a loan officer for a large commercial bank.

John Davis, age 37. Mr. Davis serves as credit office president of the Lampasas credit office. He began his career with Texas Land Bank in 2009 and prior to that has held different positions with commercial banks and lenders.

Justin L. Wiethorn, age 33. Mr. Wiethorn serves as credit office president in the Waco credit office, where he began as a loan officer trainee in June 1999. He has ten years of experience with the Farm Credit System.

Ryan Janek, age 32. Mr. Janek serves as credit office president in the Hillsboro credit office. Mr. Janek has served as a credit office president for two years and prior to that was a vice president loan officer for Lone Star Ag Credit and a loan officer at a large commercial bank. He has six years of experience with the Farm Credit System.

COMPENSATION OF DIRECTORS

All directors other than the chairman of the board and chairman of the Audit Committee were compensated for their service to the Association in the form of an honorarium at the rate of \$600 per day for director meetings and committee meetings and \$300 per day if such meetings were held via conference call. The chairman of the board and chairman of the Audit Committee were compensated \$750 per day for director meetings and committee meetings and \$375 per day if such meetings were held via conference call. All members were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2010 was paid at the IRS-approved rate per mile. A copy of the travel policy is available to stockholders of the Association upon request.

Director	Number of Days Served Associated With		Total Compensation in 2010
	Board Meetings	Other Official Activities	
Barnett Baker	11	21	\$ 22,875
David Conrad	11	18	19,500
Burt Richards	11	23	20,775
Gary Murphy	10	19	16,200
Arthur Bancroft	11	15	15,300
Derwood Cobb	11	15	15,300
N. "Sonny" Foote	11	13	14,100
Paul Young	7	9	9,000
John Courtney	3	1	5,700
Jarvis Herbst	11	9	11,700
Charles Hansen	4	4	4,500
Clarence Fischer	11	5	9,900
John Sawyer	10	14	13,800
			<u>\$ 178,650</u>

The aggregate compensation paid to directors in 2010, 2009 and 2008 was \$178,650 \$183,450 and \$167,850, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

<u>Director</u>	<u>Committee</u>		
	<u>Audit</u>	<u>Compensation</u>	<u>Other Committees</u>
Barney Baker	\$1,500	\$ –	\$13,125
David Conrad	2,250	–	9,000
Burt Richards	–	2,250	11,925
Gary Murphy	3,000	–	7,200
Arthur Bancroft	–	1,800	6,900
Derwood Cobb	–	1,800	6,900
N. “Sonny” Foote	–	1,800	5,700
Paul Young	900	–	3,900
John Courtney	300	–	3,600
Jarvis Herbst	–	–	5,100
Charles Hansen	–	–	2,100
Clarence Fischer	–	–	3,300
John Sawyer	–	1,800	6,000
	<u>\$7,950</u>	<u>\$9,450</u>	<u>\$84,750</u>

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$69,039, \$65,344 and \$53,781 in 2010, 2009 and 2008, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis

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

In addition to market based salary administration, the Association’s total compensation plan seeks to reward extraordinary performance and motivate employees to meet and exceed specific performance targets established in the Association’s Annual Business Plan through an employee incentive plan that is open to all employees. The board, Compensation Committee and management recognize the value of experienced and skilled employees in order to meet the needs of stockholders while providing risk management and adequate returns to the Association. The incentive plan is a multi-dimensional plan that incorporates profitability as well as asset quality criteria. In addition, there are incentives for new business generation based on the employee’s role in the organization and a team incentive based on the credit quality and profitability of the Association as a whole. For 2010, the Association paid bonus incentives to all eligible employees in the form of cash on December 31, 2010. There were no noncash incentives available.

Chief Executive Officer (CEO) Compensation Table and Policy

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

Name of Individual	Year	Salary	Bonus	Change in Pension Value	Deferred/Perquisite	Other*	Total
Charles P. Gant, CEO	2010	\$ 200,000	\$ 72,500	\$ 347,554	\$ 16,105	\$ -	\$ 636,159
	2009	190,000	28,500	234,792	13,493	-	466,785
	2008	155,000	38,750	N/A	9,039	-	202,789

For 2010, the CEO's salary and bonus comprised 42.83 percent of the total compensation package summarized above. "Deferred/Perquisite" amounts include employer 401k contributions, term life insurance premiums, and auto fringe benefits received. The "Change in Pension Value" column includes the aggregate increase in actuarial value of all defined benefit and actuarial plans accrued during the year, excluding defined contribution plans. The change in actuarial value is based on increases in value due to an additional year of service, compensation increases, plan amendments, and increases or decreases in value due to the discount interest rate utilized in the calculations. This amount does not reflect an actual cash payment, and the calculation was not available for 2008 and prior years.

Pension Benefits Table for the CEO

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2010:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2010
Charles P. Gant	Farm Credit Bank of Texas Pension Plan	32	\$ 1,658,341	\$ -

Pension Benefits Table Narrative Disclosure for the CEO

The CEO of the Association participates in the Farm Credit of Texas Pension Plan (the Pension Plan), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation items (ii) "Years of Benefit Service" (not to exceed 35). The present value of the CEO's accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 65. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the CEO is married on the date the annuity begins, that the spouse is exactly two years younger than the CEO, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to the five highest paid officers, excluding the CEO, of the Association during 2010, 2009 and 2008. Amounts reflected in the table are presented in the year the compensation was earned.

<u>Name of Group</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Deferred/ Perquisite</u>	<u>Other*</u>	<u>Total</u>
Aggregate No. of 5 Highest Paid Officers in Year						
5	2010	\$ 501,500	\$ 154,620	\$ 72,279	\$ -	\$ 728,399
5	2009	489,500	122,300	62,772	-	674,572
5	2008	457,500	98,600	54,850	-	610,950

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

Employees who used their personal automobiles for business purposes were reimbursed during 2010 at the IRS-approved rate.

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

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

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

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 10 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

During the past five years, none of the Association's officers or directors has been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as a director or senior officer on January 1, 2011, or at any time during the fiscal year just ended.

RELATIONSHIP WITH INDEPENDENT AUDITOR

There were no changes in the relationship with the independent auditor during 2010. The Association's Audit Committee engaged the independent accounting firm of PricewaterhouseCoopers (PWC) to perform the annual audit of the Association's financial statements included in this annual report, and the Association continues to utilize the audit and permissible tax return preparation services provided by PricewaterhouseCoopers LLP. The fees for professional services rendered for the Association by PwC during 2010 were \$34,000 for audit services and \$5,800 for tax return preparation services. No other services were performed by PwC during the reporting period.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 3, 2011, and the report of management in this annual report to stockholders, are incorporated herein by reference.

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

As an agricultural lender in Central Texas, the Association Board and management is aware that the average age of full-time agricultural operators in the area continues to grow. Board and management are also aware that the profile of producers continues to shift away from full-time operators seeking farming and ranching as a primary vocation and income source to part-time operators who seek to pursue agricultural interest to supplement off-farm income and/or for lifestyle or recreational purposes. These trending demographics are illustrated in most recent USDA census surveys.

The Association, having provided financing to agricultural interests in Central Texas for more than 93 years, recognizes the importance of having Young, Beginning and Small (YBS) farmers and ranchers to help sustain ongoing production agriculture in the local service area (LSA). Accordingly, the Association encourages entry into agriculture by providing competitively priced loan products and services tailored to fit the needs of present day operators.

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

The Association has established quantitative goals with an action plan to accomplish its YBS goals.

Most recent USDA census data and management's knowledge of local markets in the LSA are used to establish and monitor YBS goals and action plans. Included within the Association's action plan are coordination with other lenders and educational outreach.

For 2010, the Association's goals were:

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

The following represents: a) an evaluation of the Association's achievement towards quantitative goals during 2010; and b) a comparison of the percentage of YBS loans in the Association's portfolio to the percentage of YBS farms in the LSA based on most recent USDA census data:

	2010 Goal	2010 Results
By Number of Loans	360	285
By Volume of Loans	\$60 million	\$50 million

	Young	Beginning	Small
Association	18.05%	53.14%	73.35%
YBS Populations in LSA	8.20%	41.68%	97.78%

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

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

Definitions for YBS farmers and ranchers

Young: A farmer, rancher or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.

Beginning: A farmer, rancher or producer or harvester of aquatic products who has ten years or less farming, ranching or aquatic experience as of the loan transaction date.

(A loan or lease to a "young" or "beginning" borrower qualifies for reporting if the young or beginning borrower is either obligated on the note or is an owner of the closely-held entity financed. A loan to a publicly held entity or other entity that is not closely held does not qualify for reporting.)

Small: A farmer, rancher or producer or harvester of aquatic products who normally generates less than \$250,000 in annual gross sales of agricultural or aquatic products.