

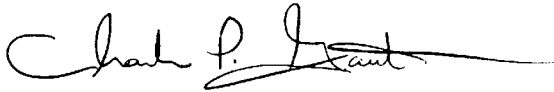
2010 Quarterly Report



For the 2nd Quarter Ended June 30, 2010

REPORT OF MANAGEMENT

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



Charles P. Gant
Chief Executive Officer/President
June 26, 2010



Barnett L. Baker
Chairman, Board of Directors
June 26, 2010



Sharla Chambers
Chief Financial Officer
June 26, 2010

**TEXAS LAND BANK, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of Texas Land Bank, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and six months ended June 30, 2010. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2009 Annual Report of the Association.

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

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

LOAN PORTFOLIO:

The Association makes and services loans to farmers, ranchers, rural homeowners, and certain farm-related businesses, primarily in the 16-county Central Texas 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.

The primary commodity source for the Association's loan portfolio is livestock, excluding dairy and poultry. Cattle prices have been stable to strengthening and are being aided with good pasture conditions, lower inventory numbers and a reduction in feed costs through lower grain prices. While export sales are still weak, ongoing demand for meat protein and supply management in meat production have continued to provide support for meat prices.

Producers in the loan portfolio are also affected by fuel and fertilizer costs, which are impacted by changes in fuel oil and natural gas prices, and continue to be a major consideration in planning processes. While fuel oil and natural gas prices have decreased from previous highs, market volatility could continue to put upward pressure on these prices. In addition, overall commodity prices have also been under pressure due to continued weak export markets and USDA crop reports as prices in the commodity markets in general have experienced weakness during the overall softening in the financial markets and global economies. Cotton prices, however, have been strengthening and could remain fairly stable this year.

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

RISK EXPOSURE:

Total loans outstanding at June 30, 2010, including nonaccrual loans and sales contracts, were \$433,419,606 compared to \$433,149,428 at December 31, 2009, reflecting an increase of 0.1 percent.

Nonaccrual loans as a percentage of total loans outstanding were 0.3 percent at June 30, 2010, compared to 0.6 percent at December 31, 2009. The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ending June 30, 2010, and \$0 in recoveries and \$28,000 in charge-offs for the same period in 2009. The Association's allowance for loan losses was 0.3 percent and 0.3 percent of total loans outstanding as of June 30, 2010, and December 31, 2009, respectively.

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

	<u>June 30, 2010</u>		<u>December 31, 2009</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 1,474,580	68.3%	\$ 2,588,468	100.0%
90 days past due and still accruing interest	547,232	25.3%	-	0.0%
Other property owned, net	137,411	6.4%	-	0.0%
Total	<u>\$ 2,159,223</u>	<u>100.0%</u>	<u>\$ 2,588,468</u>	<u>100.0%</u>

As of June 30, 2010, the Association's portfolio included nonaccrual loans in the amount of \$1,474,580, which represented a 43.03 percent decrease from December 31, 2009. The decrease in nonaccrual volume is primarily the result of a participation loan in the ethanol industry, whose performance and operating conditions had improved to a level that warranted the transfer of the loan back to accrual status per the direction of the lead lender with approval from the Farm Credit Administration. The remaining nonaccrual volume is largely comprised of one remaining participation loan in the ethanol industry that is currently in bankruptcy.

In addition, the Association had two well collateralized loans to one viable borrower that were 90 days past due and still accruing interest under an approved plan of collection within regulatory guidelines.

The Association's portfolio included other property owned as of June 30, 2010, in the amount of \$137,411. This amount consists of one previously nonaccrual loan that went into foreclosure and was acquired by the Association in June 2010.

The overall quality of the loan portfolio remained strong through the second quarter of 2010, with loans classified under Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" at 97.89 percent of total loans and accrued interest at June 30, 2010.

RESULTS OF OPERATIONS:

Net Income

The Association had net income of \$2,613,426 and \$4,739,401 for the three and six months ended June 30, 2010, as compared to net income of \$315,959 and \$2,428,948 for the same periods in 2009 reflecting an increase of 727.1 and 95.1 percent, respectively. The increase in net income was driven largely by a decrease in the provision for loan losses in the amount of \$1,542,100, a \$478,962 increase in net interest income and a \$282,079 decrease in noninterest expenses as compared to the same six month period in 2009.

Net Interest Income

Net interest income was \$3,277,827 and \$6,482,056 for the three and six months ended June 30, 2010, compared to \$2,956,789 and \$6,003,094 for the same periods in 2009. Average loan volume for the second quarter of 2010 was \$436,339,790, compared to \$416,403,627 in the second quarter of 2009. In addition, the average spread on the loan portfolio for the second quarter of 2010 was 2.37 percent, compared to 2.17 percent in the second quarter of 2009. These factors contributed to an increase in interest income of \$162,042, or 1.3 percent, and a decrease in interest expense in the amount of \$316,920, or 4.8 percent, for the first six months of 2010 as compared to the same period in 2009.

Noninterest Income and Expense

Noninterest income for the three and six months ended June 30, 2010, was \$684,130 and \$956,239, compared to \$425,290 and \$941,643 for the same periods in 2009. The increase in noninterest income was primarily the result of refunds of excess reserves paid into the Farm Credit System Insurance Fund (FCSIC) in prior years, offset by lower loan origination and servicing fee income as compared to the same period in 2009. Noninterest expenses for the three and six months ended June 30, 2010, were \$1,271,431 and \$2,571,796 as compared to \$1,445,547 and \$2,853,875 for the same periods in 2009. The decrease in expenses was attributable to a refund of premiums paid to FCSIC in the first half of 2010 and lower salary and benefits expenses as a result of decreased pension plan costs, offset by an increase in purchased services related to the utilization of outside consultants during the due diligence phase of merger/acquisition discussions with Legacy Ag Credit, ACA.

Financial Ratios

The Association's return on average assets for the six months ended June 30, 2010, was 2.14 percent compared to 1.15 percent for the same period in 2009. The Association's return on average equity for the six months ended June 30, 2010, was 10.95 percent, compared to 6.00 percent for the same period in 2009. These increases are primarily the result of increased earnings due to improved yields on earning assets and increased noninterest income.

LIQUIDITY AND FUNDING SOURCES:

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

	June 30, 2010	December 31, 2009
Note payable to the Bank	\$ 352,661,726	\$ 353,779,641
Accrued interest on note payable	1,043,919	1,091,317
Total	\$ 353,705,645	\$ 354,870,958

The Association experienced a .33 percent decrease in notes and accrued interest payable to the Bank through the quarter ended June 30, 2010, due to an overall stable level of loan volume in the Association's loan portfolio since December 31, 2009.

CAPITAL RESOURCES:

The Association's capital position increased by \$4,717,290 at June 30, 2010, compared to December 31, 2009. The Association's debt as a percentage of members' equity was 397.01:1 as of June 30, 2010, compared to 424.50:1 as of December 31, 2009.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at June 30, 2010, was 18.2 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at June 30, 2010, were 17.6 and 17.6 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

SIGNIFICANT EVENTS:

In the March 31, 2010 Stockholder Report it was noted that the Association's board of directors had begun discussions with Legacy Ag Credit, ACA regarding a potential acquisition of that entity. The Association is no longer pursuing that business consolidation.

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS:

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 January 1, 2010. This statement must be applied to transfers occurring on or after the effective date. Additionally, 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 in accordance with the applicable consolidation guidance. If the evaluation results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. The Association reviewed its 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.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2009 Annual Report of Texas Land Bank, ACA more fully describe the Association's relationship with the Bank.

The Texas Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at fcdb@farmcreditbank.com. The District makes its annual and quarterly stockholder reports available on its website at www.farmcreditbank.com.

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

TEXAS LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

	June 30, 2010 (unaudited)	December 31, 2009
<u>ASSETS</u>		
Cash	\$ 316,652	\$ 688,395
Loans	433,419,606	433,149,428
Less: allowance for loan losses	1,259,160	1,139,346
Net loans	<u>432,160,446</u>	<u>432,010,082</u>
Accrued interest receivable	4,300,726	3,852,847
Investment in and receivable from the Bank:		
Capital stock	6,896,470	6,896,470
Other property owned, net	137,411	-
Premises and equipment	1,382,328	1,406,157
Other assets	521,412	795,292
Total assets	<u><u>\$ 445,715,445</u></u>	<u><u>\$ 445,649,243</u></u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 352,661,726	\$ 353,779,641
Accrued interest payable	1,043,933	1,091,317
Drafts outstanding	984,870	991,500
Patronage distributions payable	-	3,000,000
Other liabilities	1,345,641	1,824,801
Total liabilities	<u><u>356,036,170</u></u>	<u><u>360,687,259</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,626,860	2,623,015
Allocated retained earnings	14,253,946	14,254,258
Unallocated retained earnings	72,532,315	67,792,972
Accumulated other comprehensive income (loss)	266,153	291,739
Total members' equity	<u><u>89,679,274</u></u>	<u><u>84,961,984</u></u>
Total liabilities and members' equity	<u><u>\$ 445,715,444</u></u>	<u><u>\$ 445,649,243</u></u>

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<u>INTEREST INCOME</u>				
Loans	\$ 6,430,973	\$ 6,275,613	\$ 12,837,561	\$ 12,675,519
Total interest income	<u>6,430,973</u>	<u>6,275,613</u>	<u>12,837,561</u>	<u>12,675,519</u>
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	3,153,146	3,318,824	6,355,505	6,672,424
Advance conditional payments	-	-	-	1
Total interest expense	<u>3,153,146</u>	<u>3,318,824</u>	<u>6,355,505</u>	<u>6,672,425</u>
Net interest income	<u>3,277,827</u>	<u>2,956,789</u>	<u>6,482,056</u>	<u>6,003,094</u>
<u>PROVISION FOR LOSSES</u>				
Provision (negative provision) for loan losses	69,814	1,620,573	119,814	1,661,914
Provision for acquired property losses	7,285	-	7,285	-
Net interest income after provision for loan losses	<u>3,200,728</u>	<u>1,336,216</u>	<u>6,354,957</u>	<u>4,341,180</u>
<u>NONINTEREST INCOME</u>				
Income from the bank:				
Patronage income	60,560	63,721	122,420	130,517
Loan fees	194,569	358,423	399,839	770,684
Financially related services income	3,653	3,587	7,941	8,274
Gain (loss) on other property owned, net	176	-	815	-
Gain (loss) on sale of premises and equipment, net	(2,930)	(2,097)	(2,930)	6,662
Other noninterest income	428,101	1,656	428,155	25,506
Total noninterest income	<u>684,129</u>	<u>425,290</u>	<u>956,240</u>	<u>941,643</u>
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	754,857	792,929	1,499,182	1,596,072
Directors' expense	66,209	78,786	140,754	139,036
Purchased services	147,875	125,459	266,685	221,683
Travel	30,937	27,170	59,661	46,432
Occupancy and equipment	62,334	54,047	134,394	147,105
Communications	21,955	20,649	42,461	39,267
Advertising	69,552	68,302	132,128	116,528
Public and member relations	26,765	35,138	55,405	59,447
Supervisory and exam expense	39,109	36,317	78,218	72,634
Insurance Fund premiums	692	160,883	85,416	320,718
Other noninterest expense	51,146	45,867	77,492	94,953
Total noninterest expenses	<u>1,271,431</u>	<u>1,445,547</u>	<u>2,571,796</u>	<u>2,853,875</u>
Income before income taxes	<u>2,613,426</u>	<u>315,959</u>	<u>4,739,401</u>	<u>2,428,948</u>
Net income	<u>\$ 2,613,426</u>	<u>\$ 315,959</u>	<u>\$ 4,739,401</u>	<u>\$ 2,428,948</u>

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2008	\$ 2,620,855	\$ 12,765,444	\$ 64,072,029	\$ 256,170	\$ 79,714,498
Comprehensive income					
Net income	-	-	2,428,948	-	2,428,948
Amortization of costs included in periodic retirement benefit costs	-	-	-	(24,761)	(24,761)
Total comprehensive income	-	-	2,428,948	(24,761)	2,404,187
Capital stock/participation certificates issued	149,740	-	-	-	149,740
Capital stock/participation certificates and allocated retained earnings retired	(161,260)	-	-	-	(161,260)
Patronage refunds:					
Change in estimated patronage declared in 2008 and paid in 2009	-	(11,186)	-	-	(11,186)
Balance at June 30, 2009	<u>\$ 2,609,335</u>	<u>\$ 12,754,258</u>	<u>\$ 66,500,977</u>	<u>\$ 231,409</u>	<u>\$ 82,095,979</u>
Balance at December 31, 2009	\$ 2,623,015	\$ 14,254,258	\$ 67,792,972	\$ 291,739	\$ 84,961,984
Comprehensive income					
Net income	-	-	4,739,401	-	4,739,401
Change in postretirement benefit plans	-	-	-	(25,586)	(25,586)
Total comprehensive income	-	-	4,739,401	(25,586)	4,713,815
Capital stock/participation certificates issued	151,805	-	-	-	151,805
Capital stock/participation certificates and allocated retained earnings retired	(147,960)	-	-	-	(147,960)
Patronage refunds:					
Change in estimated patronage declared in 2009 and paid in 2010	-	(312)	(58)	-	(370)
Balance at June 30, 2010	<u>\$ 2,626,860</u>	<u>\$ 14,253,946</u>	<u>\$ 72,532,315</u>	<u>\$ 266,153</u>	<u>\$ 89,679,274</u>

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

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

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

Effective January 1, 2010, the Association adopted Financial Accounting Standards Board (FASB) guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance will provide for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on the Association’s financial condition and results of operations but resulted in additional disclosures.

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 January 1, 2010. This statement must be applied to transfers occurring on or after the effective date. Additionally, 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 in accordance with the applicable consolidation guidance. If the evaluation results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. The Association reviewed its 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 January 1, 2010. The Association 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 its financial condition and results of operations.

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter and the six months ended June 30, 2010, are not necessarily indicative of the results to be expected for the year ended December 31, 2010. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES:

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

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Impaired loans with related allowance	\$ 1,352,180	\$ 3,934,829
Impaired loans with no related allowance	669,632	2,939,830
Total impaired loans	<u>\$ 2,021,812</u>	<u>\$ 6,874,659</u>
Allowance on impaired loans	\$ 656,683	\$ 1,600,573
Average impaired loans	\$ 2,011,816	\$ 4,235,637
Interest income on impaired loans for the quarter	\$ 8,807	\$ 103

The Association portfolio included \$2,021,812 in loans classified as impaired as of June 30, 2010. This represented a decrease of \$4,852,847 from the same period in 2009. Nonaccrual loans made up \$1,474,580 of total impaired loans, and approximately 66.88 percent of the total impaired loan volume was comprised of a participation loan to a borrower in the ethanol industry. Based on guidance from Farm Credit Administration (FCA) and the lead lender in addition to analysis performed by the Association, a related specific allowance has been recorded on this impaired nonaccrual loan. While the ethanol industry has been economically challenged in recent years due to volatility in commodity markets, particularly oil and corn, those markets appear to have stabilized, and the industry has begun to experience profitability.

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

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Balance at beginning of quarter	\$ 1,189,346	\$ 446,663
Provision for loan losses	69,814	1,620,573
Charge-offs	-	(28,000)
Recoveries	-	-
Balance at end of quarter	<u>\$ 1,259,160</u>	<u>\$ 2,039,236</u>

The Association recorded an additional \$69,814 provision for loan loss in the second quarter of 2010, to bring the total provision for the year through June 30, 2010, to \$119,814. The allowance for loan loss balance was \$780,076 lower at June 30, 2010, as compared to the same period in 2009. This decrease was attributable to the reversal of a specific allowance that was previously recorded in June 2009 on a large participation loan in the ethanol industry. In December 2009, the loan was subsequently approved by FCA and the lead lender to be removed from impaired and nonaccrual status after improved and stable financial performance that met the requirements of FCA Regulation 621.9.

NOTE 3 — CAPITAL:

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

NOTE 4 — INCOME TAXES:

Texas Land Bank, ACA and its subsidiary are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During 2010, the Association intends to participate in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. For the six months ended June 30, 2010, and 2009 net income for tax purposes did not warrant the recognition of tax expense due to the patronage program implemented.

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

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

NOTE 5 — FAIR VALUE MEASUREMENTS:

Authoritative guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 11 to the 2009 Annual Report to Stockholders for a more complete description.

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

<u>June 30, 2010</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans *	\$ -	\$ -	\$ 695,498	\$ 695,498
Other property owned	-	-	177,200	177,200
<u>December 31, 2009</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans *	\$ -	\$ -	\$ 711,830	\$ 711,830
Other property owned	-	-	-	-

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

Valuation Techniques

As more fully discussed in Note 11 to the 2009 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the associations' assets and liabilities. For a more complete description, see Notes to the 2009 Annual Report.

Loans

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

Other Property Owned

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

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the six months ended June 30,:

	Other Benefits	
	2010	2009
Service cost	\$ 14,544	\$ 14,242
Interest cost	28,088	30,468
Amortization of prior service costs	(25,586)	(25,586)
Amortizations of net (gain) loss	-	826
Net periodic benefit cost	<u>\$ 17,046</u>	<u>\$ 19,950</u>

The Association previously disclosed in its financial statements for the year ended December 31, 2009, that it expected to contribute \$562,023 to its defined pension plan in 2010. As of June 30, 2010, \$562,023 of contributions have been made, and the Association does not anticipate contributing any additional amounts during 2010. The total amounts paid will be recognized as an expense for the Association on a pro rata basis throughout the year.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through June 26, 2010, which is the date the financial statements were available to be issued. As of June 26, 2010, there were no significant events requiring disclosure in the second quarter 2010 stockholder report.