CAPITAL FARM CREDIT

PART OF THE FARM CREDIT SYSTEM

2011 ANNUAL REPORT

Commitment to Agriculture

Proud to Serve the Agricultural Industry

Agriculture is a way of life for hardworking men and women with unwavering dedication and determination. At Capital Farm Credit, we also believe in hard work and dedication, and we strive to stay true to our mission to provide financing and related services that enrich our stockholders' success in agriculture and rural America.

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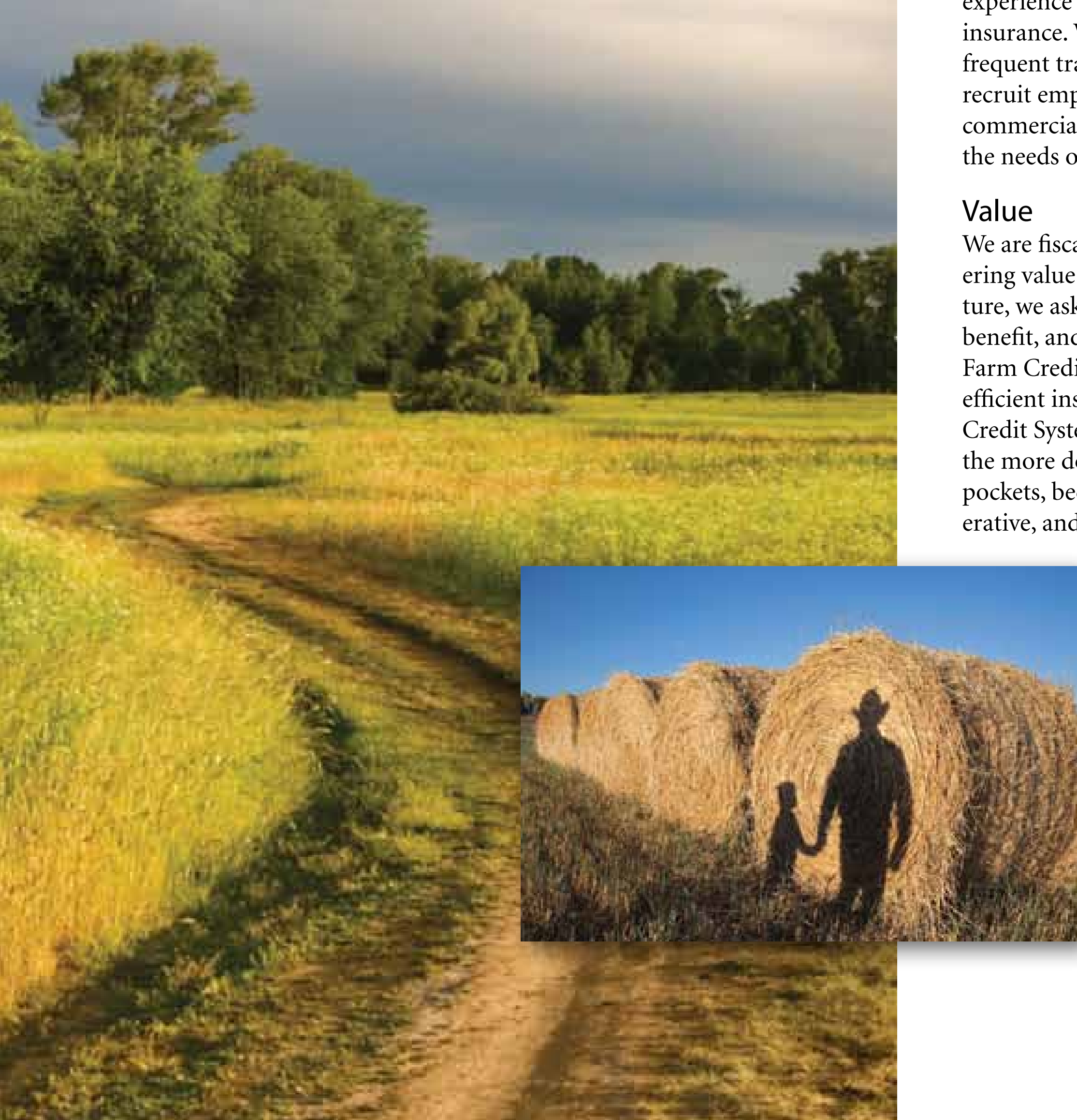
When Agriculture Is Your Business, We're the Answer

Capital Farm Credit has covered a lot of ground in 95 years. What started as a small lending cooperative in 1917 has grown into the largest rural lender in Texas, serving three-quarters of the state.

Our **vision** is to be the best provider of agricultural credit, anywhere. We strive to accomplish that with the best people, best service, best financial performance and best patronage program. The milestones that we reached in 2011 with record earnings and patronage payments tell us that we are on the right path.

As we carry out our **mission** to provide financing and services to our rural customers, we are guided by our **core values** of commitment, trust, value and family.



Commitment

We are committed to providing exceptional service to our members, to agriculture and to rural America. Our past is rooted in agriculture, and that industry is at the heart of our plans for growth. With more than 70 offices and a territory covering 192 counties, our large reach and diverse portfolio have put us in a position of financial strength that enables us to provide reliable credit to full-time and part-time farmers and ranchers. We also have a growing number of commercial customers, and in 2011 we expanded our agribusiness department to serve them.

Trust

At Capital Farm Credit, our actions reflect integrity, competence, credibility and a strong work ethic. That's how we earn the trust of our customers. Our staff members have years of experience in lending, leasing, appraisals and insurance. We build on that experience with frequent training, and as we grow, we continue to recruit employees with agricultural backgrounds, commercial expertise and other skills to satisfy the needs of our stockholders.

Value

We are fiscally responsible and dedicated to delivering value to our members. With every expenditure, we ask ourselves how our stockholders will benefit, and that approach has allowed Capital Farm Credit to operate alongside the most efficient institutions in the nationwide Farm Credit System. The more efficiently we operate, the more dollars can go back into our members' pockets, because we are a customer-owned cooperative, and our earnings are theirs.

Our members saw more value than ever in 2011. In April, we paid our stockholders $32 million in a cash patronage refund from our 2010 earnings, and allocated $73 million in equity for future cash payouts. In the fall, we distributed $50 million more in cash when we retired a portion

CORE VALUES:

of previously allocated equities from three prior years. Those payments lowered our members' effective cost of borrowing at a time when many were confronting extra expenses and difficult decisions in a record drought.

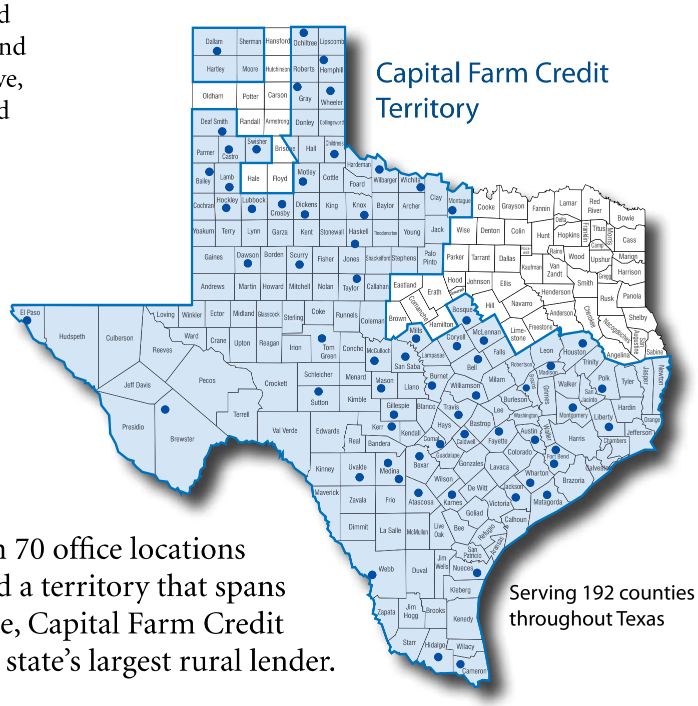
Because of our strong performance, we are once again satisfying our mission to enrich our stockholders' success by returning $38.4 million in a cash patronage refund from our 2011 earnings, a new landmark.

Family

We care for and cooperate with our members and each other with familylike respect and appreciation. Our actions are guided by the cooperative principle of concern for community, and we demonstrate that concern in tangible ways.

In 2011, Capital Farm Credit donated more than ever to youth programs, schools, universities, and livestock shows and rodeos. We reached even deeper in 2011 and made cash donations to assist more than 100 rural fire departments, whose volunteer firefighters did battle in the worst wildfire season in state history.

Our employees also gave their own time and money. As volunteers, our staff distributed water and first-aid supplies to firefighters, transported feed to displaced livestock, and held cleanups and food drives. We live in the communities we serve, and encourage the success of our neighbors and our staff alike. That's the cooperative way.



With more than 70 office locations across Texas and a territory that spans most of the state, Capital Farm Credit has become the state's largest rural lender.

Letter From the CEO

Dear Stockholder:

The year 2011 delivered, in true Texas fashion, plenty to talk about in agriculture. Opportunities brought about by strong commodity prices were challenged by drought, wildfires and the high prices of fuel and feed. Most of those affected were able to adjust and maintain successful operations. We want to commend our stockholders for their resourcefulness.

Because of careful management by our customers and our staff, Capital Farm Credit posted record earnings. That strength allowed us to deliver on our mission and act on our compassion. We stood by our communities when times were hard, donating funds, materials and other assistance for rural fire departments, agricultural operators and youth. Today we stand ready with reliable financing to serve our stockholders' needs as they expand, rebuild, restart or move forward.

The diversity of our portfolio is what provides the financial stability to bridge across tougher times. We've been able to achieve that stability because of our large footprint and our cautious approach to lending. With total capital of $871 million and a record $126 million in net income at the end of 2011, we stand stronger than ever.

Our sound earnings and capital decisions benefit our customers financially. The more efficient our cooperative is, the more we can pay in patronage, reducing our stockholders' effective cost of borrowing. The $82 million we paid in cash patronage and distributions of allocated equities in 2011 set new records for the association. We continue to deliver on past declarations, and in 2011 we retired a portion of previously allocated equities from three years. Your borrower-elected board has approved payment of yet another record cash patronage based on our strong financial results in 2011.

Together, the association and our stockholders are positioned for exciting growth opportunities. We continuously look for ways to better deliver our services to our present and potential members, and we are implementing new programs to expedite loan delivery for borrowers and personalize financing packages for those entering agriculture. We have been expanding our presence and deepening our commitment to all agricultural customers, from small and part-time operators to large agribusinesses. Above all, we have worked hard to remain a reliable source of funding in rural Texas, and we look forward to serving stockholders in the times ahead.

Ben R. Novosad

Ben R. Novosad
Chief Executive Officer

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, 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 auditors, 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 Audit Committee of the board of directors has oversight responsibility for the Association's systems of internal controls and financial reporting. The Audit Committee consults regularly with management and meets periodically with the independent auditors and the internal auditors to review the scope and results of their work. The independent auditors and internal auditors have direct access to the Audit Committee.

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 knowledge and belief.

Ben R. Novosad

Ben R. Novosad, Chief Executive Officer
March 6, 2012

Phillip Munden

Phillip Munden, Chairman, Board of Directors
March 6, 2012

Don VandeVanter

Don VandeVanter, Chief Financial Officer
March 6, 2012

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Association's principal executives and principal financial officers are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process (1) designed by, or under the supervision of the Association's principal executives and principal financial officers, (2) effected by its board of directors, management and other personnel and (3) monitored for adherence to by the board's Audit Committee through the Association's Internal Audit and Credit Review staff to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2011. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2011, internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in internal control over financial reporting as of December 31, 2011.

Ben R. Novosad

Ben R. Novosad, Chief Executive Officer
March 6, 2012

Don VandeVanter

Don VandeVanter, Chief Financial Officer
March 6, 2012

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of five directors of Capital Farm Credit, ACA (the Association). In 2011, the committee met four times and conducted business by conference call on six occasions. The committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from all audit activities. The committee's responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the Association's website. The committee approved the appointment of PricewaterhouseCoopers LLP (PwC) for 2011.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The committee's responsibilities include monitoring and overseeing these processes.

In this context, the committee reviewed and discussed the Association's audited consolidated financial statements for the year ended December 31, 2011, with management and PwC. The committee also reviews with PwC the matters required to be discussed by authoritative guidance, "The Auditor's Communication With Those Charged With Governance," and both PwC and the Association's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PwC its independence from Capital Farm Credit, ACA. The committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the outside auditor's independence. The committee has discussed with management and PwC other matters and received 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 the Association's Annual Report to Stockholders for the year ended December 31, 2011.

Kenton Kimball, Chairman

Additional Members: Richard Counts
Leigh Hudson
Wayne Wilson
Joe David Yates

March 6, 2012

FARM CREDIT ADMINISTRATION REQUIRED DISCLOSURES TO SHAREHOLDERS

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 to Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report.

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

DESCRIPTION OF PROPERTY

Capital Farm Credit, ACA (the Association) serves its 192-county territory through its main administrative office at 507 East 26th Street, Bryan, Texas, and through its accounting/administration, loan processing/review and marketing/operations offices, which are located in Lubbock, Hondo, Round Rock and Devine, Texas. Additionally, there are 68 lending offices located throughout the territory. The Association owns the office buildings in Alpine, Bellville, Bowie, Brady, Bryan, Canadian, Childress, Clifton, Crosbyton, Dalhart, Dayton, Devine, Dimmitt, Edna, El Campo, Gatesville, Goldthwaite, Hereford, Jourdanton, Kenedy, Kerrville, La Grange, Lamesa, Levelland, Littlefield, Lockhart, Lubbock, Madisonville, Mason, Matador, Muleshoe, Munday, Pampa, Perryton, Rosenberg, San Angelo, San Saba, Snyder, Sonora, Spur, Stamford, Taylor, Temple, Tulia, Uvalde, Vernon, Waco, Wheeler and Wichita Falls, free of debt. The Association leases office buildings in Abilene, Austin, Bay City, Bryan, Burnet, Conroe, Crockett, Edinburg, El Paso, Fredericksburg, Harlingen, Hondo, Katy, Laredo, Livingston, New Braunfels, Robstown, San Antonio and Seminole, Texas.

During 2009, the credit office buildings in Seymour and Sugar Land were closed as operations in these areas were consolidated with other credit offices in the Association's territory.

During 2010, the Association entered into negotiations for new leased office space for its Hondo location. The Hondo office relocated to its new leased space in March 2010 and sold its old building in November 2010. Also during 2010, the loan processing and credit review staff were consolidated and relocated to new leased office space located in Round Rock. During 2010, the El Campo, Brownfield, Rocksprings and Memphis, Tennessee offices were closed as operations in these areas were consolidated with other offices within the Association's territory.

During 2011, the Association began construction on a new credit office in Temple which is to be completed March of 2012. Also during March 2011, the Association closed the Graham credit office and consolidated its operations with the Wichita Falls office. During June 2011, the Livingston office relocated to its new leased space.

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 to Note 10 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 9 and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The Farm Credit System (System), is a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress. The description of contingent liabilities and intra-System financial assistance rights and obligations required to be disclosed in this section is incorporated herein by reference to Notes 2 and 15 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 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 the Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@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 Capital Farm Credit, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *isela.morales@capitalfarmcredit.com*. The Association's annual stockholder report is available on its website at *www.capitalfarmcredit.com* 75 days after the year end. Copies of the Association's annual stockholder report can also be requested 90 days after the year end.

CAPITAL FARM CREDIT, ACA

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

	December 31,				
	2011	2010	2009	2008	2007
Balance Sheet Data					
Assets					
Loans	**$ 4,932,437**	$ 5,096,642	$ 5,218,700	$ 5,271,307	$ 4,842,335
Less: allowance for loan losses	**(37,023)**	(45,294)	(46,732)	(23,646)	(15,805)
Net loans	**4,895,414**	5,051,348	5,171,968	5,247,661	4,826,530
Investments held-to-maturity	**19,523**	24,520	-	-	-
Investment in and receivable from the Bank	**96,364**	96,727	93,580	90,641	77,377
Other property owned, net	**6,220**	16,658	19,893	689	133
Other assets	**60,838**	71,161	96,498	100,489	110,625
Total assets	**$ 5,078,359**	$ 5,260,414	$ 5,381,939	$ 5,439,480	$ 5,014,665
Liabilities					
Obligations with maturities of one year or less	**$ 93,668**	$ 77,317	$ 59,596	$ 79,972	$ 90,187
Obligations with maturities greater than one year	**4,113,093**	4,348,643	4,543,528	4,620,305	4,254,901
Total liabilities	**4,206,761**	4,425,960	4,603,124	4,700,277	4,345,088
Members' Equity					
Capital stock and participation certificates	**21,856**	22,399	22,910	23,231	22,681
Non-qualified allocated retained earnings	**281,671**	243,561	184,905	144,794	76,995
Unallocated retained earnings	**567,030**	566,822	566,647	566,967	565,524
Accumulated other comprehensive income	**1,041**	1,672	4,353	4,211	4,377
Total members' equity	**871,598**	834,454	778,815	739,203	669,577
Total liabilities and members' equity	**$ 5,078,359**	$ 5,260,414	$ 5,381,939	$ 5,439,480	$ 5,014,665

	Year Ended December 31,				
Statement of Income Data					
Net interest income	**$ 161,841**	$ 157,498	$ 152,361	$ 144,078	$ 131,581
Provision for loan losses	**(2,169)**	(29,173)	(58,198)	(14,190)	(8,620)
Income from the Bank	**19,883**	24,344	20,121	15,706	14,464
Other noninterest income	**7,664**	13,932	13,129	15,216	14,916
Noninterest expense	**(60,299)**	(60,650)	(69,780)	(62,293)	(57,342)
(Provision for) benefit from income taxes	**(110)**	(46)	(7)	3	(37)
Net income	**$ 126,810**	$ 105,905	$ 57,626	$ 98,520	$ 94,962
Key Financial Ratios for the Year					
Return on average assets	**2.5%**	2.0%	1.1%	1.9%	2.0%
Return on average members' equity	**15.1%**	13.4%	7.7%	13.4%	14.9%
Net interest margin as a percentage of average earning assets	**3.4%**	3.2%	3.0%	2.9%	2.9%
Net charge-offs as a percentage of average loans	**0.2%**	0.6%	0.7%	0.1%	0.0%

CAPITAL FARM CREDIT, ACA

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

	December 31,				
	2011	2010	2009	2008	2007
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**17.2%**	15.9%	14.5%	13.6%	13.4%
Debt as a percentage of members' equity	**482.6%**	530.4%	591.0%	635.9%	648.9%
Allowance for loan losses as a percentage of loans	**0.8%**	0.9%	0.9%	0.4%	0.3%
Permanent capital ratio	**16.4%**	14.4%	13.2%	12.5%	12.9%
Core surplus ratio	**13.6%**	11.5%	12.2%	11.4%	12.4%
Total surplus ratio	**16.0%**	14.0%	12.8%	12.1%	12.4%
Net Income Distribution/Allocation					
Cash patronage paid	**$ 32,061**	$ 17,741	$ 22,784	$ 38,110	$ 25,889
Cash retirement of nonqualified written notices of allocation	**50,000**	15,000	-	-	6,020
Nonqualified notices of allocation	**88,202**	73,662	39,885	67,799	43,560

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(ALL DOLLAR AMOUNTS IN THOUSANDS)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Capital Farm Credit, ACA, including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA (collectively referred to as the Association) for the years ended December 31, 2011, 2010 and 2009, and should be read in conjunction with the accompanying consolidated financial statements.

Forward-Looking Information:

This annual report 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. The Association is impacted by factors that would impact any agricultural real estate lender. 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.

Commodity Review and Outlook

Capital Farm Credit's territory covers most of Texas except for the northeast quadrant. The acreage within this territory includes a broad spectrum of agriculture commodities, land types, production seasons and farming and ranching cultures and practices. This diversity allows the Association to have a loan portfolio comprised of a broad range of commodities with varied influences, risks, opportunities and customers. While most of the production and revenue is generated by farmers and ranchers that are fully engaged in managing large full-scale operations, there are also many part-time farm and ranch operators. Part-time operators have revenue from nonagricultural sources and many of these operators invest heavily in their agriculture operations with their time and money.

The following is a review and outlook of some of the key commodities served by the Association and a summary of industries that impact our part-time producers. The percentages shown were determined based on the outstanding loan volume tied to the specific type of operation or commodity as of December 31, 2011.

<u>Livestock (58.6 percent of the loan portfolio)</u> – While Texas is best known for cattle production, other types of commercial livestock operations, such as poultry, sheep, goats and horses, are spread across the state. All livestock producers were adversely impacted by the 2011 drought and extreme heat and some were impacted by disastrous wildfires. Producers struggled with supplying enough feed and water for most of the year. These conditions resulted in higher production costs and caused many producers to liquidate some or all of their herds throughout the summer and fall. Fortunately for those that liquidated, prices throughout 2011 were high compared to recent years.

Ranchers in Texas reduced their herd size by an average of 38 percent — or between 600,000 to 800,000 head of cattle — causing a 12 percent to 16 percent drop in the nation's supply. It will take several years of calving, restocking and importing cattle to rebuild herds. Fewer head of cattle available to fill feedlots and go into meat markets along with stable to strong demand for beef, poultry, pork and other meats has the outlook for livestock prices to remain at record highs for most of 2012. Expansion and growth of herds is likely to occur slowly as producers will be hesitant to rebuild herds with expensive replacements and until hay, forage and feed reserves can be established. While livestock prices are expected to be strong, the costs of feed will also be high and the availability of forage and water will remain scarce until drought conditions subside.

<u>Crops (19.1 percent of the loan portfolio)</u> – The vastness and variety of the Association's territory permits a wide range of crops to be produced. While fruits and vegetables are significant to some parts of the territory, corn, wheat, cotton and grain sorghum are the largest

cash crops. The drought resulted in poor growing conditions across all portions of Texas in 2011. While many producers use irrigation, the expense associated with running irrigation pumps and restricted water usage (because of receding water tables or restrictions imposed by authorities that control water usage), did not allow producers to irrigate as much as needed to produce typical yields. However, because of high prices in 2011, those that produced a near average crop yield were profitable. Dryland producers in most areas did not produce a crop in 2011 but most of those with crop insurance were able to maintain viability. The insurance payments, coupled with lower expenses for production and harvesting, allowed insured operations to have a profitable year.

Cash grain and cotton prices were strong for most of 2011 but trended down at the end of the year. With strong global demand, grain inventories, both globally and in Texas, will be lower than in previous years. The demand, along with tight supplies, is expected to keep prices at profitable levels for producers if growing conditions are favorable. Recent rains across some portions of Texas have improved planting conditions but many areas of the state remain dry and producers expect to face restrictions on irrigation again unless ample rainfall is supplied to raise water tables.

Dairy (2.2 percent of the loan portfolio) – Dairy operators benefited from higher milk prices in 2011 as compared to the previous two years. Dairy farmers used the increased revenue to rebuild herds that were liquidated during unprofitable years and in other cases, pay down debt or build cash reserves. The 2011 drought and heat in Texas added stress to cows and caused milk production per head to decline. Also, for those dairies that do not produce most of their own feed, the prices paid for feed increased because feed had to be transported from a greater distance. Even with strains on production and higher costs, those managers with favorable milk contracts were profitable in 2011.

Because many dairy operators have increased their herd size, production in 2012 should be greater than in 2011. The increased production will enable well managed operations to continue to be profitable. Similar to other agriculture operations, production levels and costs and the resulting profitability will depend on weather conditions. If the adverse weather conditions of 2011 continue, and should a decrease in milk prices occur, the profit margins will be eroded.

Timber (3.0 percent of the loan portfolio) – Timber production is limited to the eastern portion of the Association's territory. Timber markets weakened in late 2011 due to the extended slump in the housing market and continued dry weather across Texas. Hardwood saw logs were the only bright spot as demand from remodeling activities, oil industries and overseas customers boosted prices for hardwood products. The impact of wildfires last summer and fall continues to influence the market as fire-damaged timber products were sold at discounted prices. The depressed demand since 2008 has kept prices at low levels and caused timber producers to experience periods of very limited revenue. These conditions have resulted in economic stress for timber producers. The outlook for 2012 is better as recent economic reports suggest a stronger demand for new home construction in Texas. However, a full economic turnaround for this industry is still not expected until future years.

Hunting and recreation (5.9 percent of the loan portfolio) – Metropolitan areas are spread across the state and these centers of population are surrounded by areas of land that support wildlife production. Land owners across the Association's territory have met demand for hunting and recreation with a profitable business model that includes various types of lease arrangements and may also include a variety of services (e.g. cabins, meals, guides, etc.) with the leases. However, since most of the demand is driven by the availability of disposable income, the economic downturn in many industries in 2010 and 2011 lessened the demand for leases and services. As such, revenues from hunting and recreation decreased in 2011 after a similar slowdown in 2010.

Improvement in this industry in 2012 is likely to occur as general economic factors have recently shown improvement. The improvement in unemployment, manufacturing, and construction will result in more revenue and more disposable income and these will result in more demand. Some of the improvement will depend on environmental conditions such as range conditions, river and creek flowage, wildfires and wildflowers. Improvement in all of these is needed for the demand to return to pre-2010 levels.

Other (11.2 percent of the loan portfolio) – There are many part-time producers in Texas that support their agricultural operations with non-agricultural income. Many of these operators work in the health services or the oil and gas industry. The demographics of Texas are favorable for continued viability and strengthening in the health care industry. The recent discovery and development of vast oil and gas deposits in the state, plus the long-term existence of oil and gas production, servicing, refining and distributing, cause the outlook for this industry to be favorable as well.

General economic conditions in Texas were not as adverse during the most recent recession as in other states but Texas' economy is not isolated from the national economy. Unemployment, home construction and manufacturing have shown positive signs in Texas in recent months. However, until the factors that drive sustained economic recovery are more favorable across the nation, there continues to be a neutral to slightly negative outlook for the general economy.

Significant Events:

On October 1, 2008, Capital Farm Credit, ACA and First Ag Credit, FCS (First Ag) merged to form Capital Farm Credit, ACA as permitted by the 1987 Act. The merger was accounted for similar to the pooling of interests method of accounting. Accordingly, the financial statements and financial information for all years presented have been restated to include the accounts and results of operations of Capital and First Ag as if the merger had been in effect for all periods presented.

The board of directors approved a $126,602 patronage distribution for 2011. $38,400 of this distribution will be paid in cash in March 2012. $88,202 of this distribution was made in the form of nonqualified allocated equity distributions, which means the owners of these distributions do not pay federal income taxes until the equities are retired. It is the board's intention with this allocation and future allocations to assign ownership of the earnings of the Association, allowing the stockholders to benefit more fully from the earnings of the Association and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of these equities can be made.

In November 2011, as part of the evaluation of its capital position, the Association retired $50 million in non-qualified allocated equities. These equities represented $10,295, $18,805 and $20,900 from those allocated in 2006, 2007 and 2008. These equity retirements came at a time when many were confronting extra expenses and difficult decisions in a record drought.

During 2010 the board of directors approved a $105,723 patronage distribution. $32,061 of this distribution was paid in cash in April 2011. $73,662 of this distribution was made in the form of nonqualified allocated equity distributions. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of these equities can be made.

In 2011, the Association received income in the form of a direct loan patronage of $17,613 from the Farm Credit Bank of Texas (Bank), representing 0.42 percent on the average daily balance of the Association's direct loan with the Bank. During 2011, the Association also received $2,168 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of $102 from the Bank in 2011, representing 0.65 percent on the year's average daily balance of participations in capital markets loans with patronage commitments.

As more fully disclosed in the Directors and Senior Officers section of this report, the board engaged a compensation consultant in 2010 to evaluate the Association's existing incentive plan. As a result, effective January 1, 2011, the board approved two new incentive plans. The Association implemented both plans to maintain its competitiveness in the marketplace in order to continue to attract and retain quality employees. Both plans replaced the existing three-part incentive plan.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term real estate mortgage loans, production and intermediate-term loans and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed and index-based interest rates. For all loan products, the Association is able to lock an interest rate spread for the pricing term of the loan. When the pricing term expires on a loan, the Association is subject to a new cost of funds from the Bank. However, the Association is then also able to establish a new interest spread on the loan to the customer. Pricing terms range from one month on index-based products, and from 90 days to 30 years on fixed-rate products. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and five- to 20-year maturities comprising the majority of the mortgage loans. 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.

The Association's loan volume continued to decline in 2011. During 2011, 2010 and 2009, loan volume decreased 3 percent, 2 percent and 1 percent, respectively. During 2009 and 2010, economic conditions weakened across the globe. In response to this change, Association management implemented more restrictive lending standards which, coupled with a slowdown in demand, impacted growth during 2009 and 2010. In 2011, the Association's loan volume was most affected by the drought as demand for production volume "dried up" with the weather. While the Association's real estate mortgage portfolio declined 2.5 percent in 2011, the production portfolio declined more than 13 percent. This can be attributed to the significant lack of rainfall as ranchers liquidated livestock herds during the year and many farmers did not incur normal production expenses as crops failed to mature. The credit quality of the portfolio improved over the past 12 months as overall economic conditions improved. Loans classified as acceptable improved to 91.6 percent of the total portfolio at December 31, 2011 from 88.2 percent at December 31, 2010. Overall, there has been no significant change in the geographical distribution of the portfolio or the types of loans that comprise the portfolio. The composition of the Association's loan portfolio, including principal less funds held of $4,932,437, $5,096,642 and $5,218,700 as of

December 31, 2011, 2010 and 2009, respectively, is described more fully in detailed tables in Note 4 to the consolidated financial statements, "Loans and Allowance for Loan Losses."

At December 31, 2011, 2010 and 2009, the Association held 13, 13 and 13 transactions respectively, which are reported as loans on the consolidated balance sheet totaling $12,081, $11,810 and $11,869 and with remaining commitments of $120, $3,723 and $3,653 extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

Purchase and Sales of Loans:

The Association has obtained loan guarantees from the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the Bank in the form of standby commitments to purchase qualifying loans. At December 31, 2011, 2010 and 2009, loans totaling $51,772, $59,839 and $96,830, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $246, $286 and $337 in 2011, 2010 and 2009, respectively, and are reflected in "other noninterest expense" in the consolidated statement of income.

The Association buys and sells loan participations with other lenders in order to diversify its loan portfolio from a commodity and geographical standpoint. As of December 31, 2011, 2010 and 2009, purchased participations totaled $511,073, $492,541 and $598,137, or 10.4 percent, 9.7 percent and 11.5 percent of total loans, respectively. Included in these amounts are participations purchased from entities outside the Bank and its related associations collectively referred to as the "District" of $142,882, $180,775 and $224,508, or 2.9 percent, 3.5 percent and 4.3 percent of total loans, respectively. The Association has also sold loan participations of $58,855, $79,873 and $88,314 as of December 31, 2011, 2010 and 2009, respectively.

Investments:

During 2010, the Association exchanged loans totaling $27,975 for Farmer Mac guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long Term Standby Commitments to Purchase (LTSCP) Agreement with Farmer Mac. These loans were sold to Farmer Mac and then repurchased in the form of a guaranteed AMBS investment. The primary objective in pursuing the AMBS conversion alternative is to reduce the Association's credit exposure to Farmer Mac by putting the Association in a position to benefit from the United States Treasury line of credit (under Section 8.13 of the Farm Credit Act), which is only available for the payment of Farmer Mac's guarantee obligations on securities, not for its obligations under the LTSCP program. No gain or loss was recognized in the financial statements as a result of the exchange transaction. These AMBS are included in the Association's consolidated balance sheet as held-to-maturity investments at an amortized cost balance of $19,523 and $24,520 at December 31, 2011 and 2010, respectively. The Association continues to service the loans included in those transactions.

Risk Exposure:

High-risk assets include nonaccrual loans, loans which 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:

	2011		2010		2009	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 138,105**	**86.1%**	$ 197,002	91.2%	$ 147,883	84.0%
90 days past due and still accruing interest	**4,925**	**3.1%**	1,300	0.6%	7,057	4.0%
Formally restructured	**11,127**	**6.9%**	1,005	0.5%	1,229	0.7%
Other property owned, net	**6,220**	**3.9%**	16,658	7.7%	19,893	11.3%
Total	**$ 160,377**	**100.0%**	$ 215,965	100.0%	$ 176,062	100.0%

At December 31, 2011, 2010 and 2009, loans that were considered impaired were $154,157, $199,307 and $156,169, representing 3.1 percent, 3.9 percent and 3.0 percent of loan volume, respectively. For 2011, nonaccrual loans decreased $58,897, while formally restructured loans increased $10,122, and loans 90 days past due but still accruing interest increased $3,625. Almost all of the decreases in nonaccrual loans for 2011 are related primarily to the repayment of several large nonaccrual loans and the reinstatement of loans to accrual status as economic conditions improved, collection efforts were successful, and borrowers returned to viability. Increases in formally restructured loans resulted from the Association's cooperation with distressed borrowers to work through temporary repayment problems, where possible. These restructurings may include a modification of loan terms to accommodate the financial difficulties of the customer. The increase in restructured loans for 2011 is primarily related to two ethanol loans that were actually restructured in 2009 but were classified as nonaccrual until 2011 when they were reinstated to accrual status. Both of these loans are now performing in accordance with the terms of the restructured agreement. Most of the balance of loans that are 90 or more days past due and still accruing interest at December 31, 2011 is comprised of three loans to two different customers. Two of these loans have since been renewed and one is in process of collection. Loans that remain in this category are to customers that have a documented plan that details how and when the amount owed will be paid.

The economic recession of 2009 and 2010 had a significant effect on the Association portfolio. While most industries were negatively impacted during this time, the biofuels, fed cattle, dairy and timber industries experienced a very high level of financial stress. Significant volatility in grain, fuel, milk and meat prices led to significant losses in the respective industries. The stress in these industries was the primary driver that resulted in the increase in nonaccrual loans in 2009 and 2010.

Many agriculture producers enjoyed higher prices and improved yields beginning in 2010 and into 2011, and economic factors in many industries stabilized or improved. However, even with the higher revenues in agriculture, some producers continued to have sluggish loan performance. For those producers, the current year's performance has not been sufficient to cure adverse conditions that developed in previous years. Similarly, some businesses, both agricultural and other, continued to be unable to perform to an acceptable level. Because of the inability to show quick improvement in financial and loan performance, a number of borrowers that had their loans downgraded in 2009 or 2010 continued with the same classification.

Other property owned declined $10,438 during 2011. The Association is making progress in liquidating properties obtained through foreclosure. However, the market still shows signs of weakness as the Association recognized losses associated with these dispositions of $1,160 during 2011. The Association is actively working with local real estate agents to ensure properties are accurately valued on the Association's books and that proactive marketing plans are in place.

Management has continued to implement safe and sound lending standards and proactive practices designed to identify and work with distressed borrowers. While these practices alone cannot offset the impact of the adverse economic factors in the past several years, promptly addressing problem loans with restructuring options, instituting monitoring and collection plans and effectively marketing foreclosed properties has resulted in a significant decrease in the portfolio of problem assets. Management also continues to routinely evaluate and monitor counterparty and collateral risks in an effort to avoid concentrations that could result in excess exposure to a single counterparty or type of collateral. The loan portfolio management practices in place have been designed to ensure loans and industries with actual or potential problems are promptly identified, monitored and addressed in a manner that allows the lending staff to work with problem customers and industries through periods of adversity.

Except for the relationship between installment due date and seasonal cash-flow capacities of certain borrowers, the Association is not affected by any seasonal characteristics.

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:

	2011	2010	2009
Allowance for loan losses - beginning of year	**$ 45,294**	$ 46,732	$ 23,646
Provision for loan losses	**2,169**	29,173	58,198
Loans charged off	**(16,581)**	(32,511)	(35,457)
Recoveries	**6,141**	1,900	345
Allowance for loan losses - end of year	**$ 37,023**	$ 45,294	$ 46,732
Allowance for loan losses to total loans	**0.8%**	0.9%	0.9%
Allowance for loan losses to nonaccrual loans	**26.8%**	23.0%	31.6%
Allowance for loan losses to impaired loans	**24.0%**	22.7%	29.9%
Net charge-offs to average loans	**0.2%**	0.6%	0.7%

The year-end allowance for loan losses is based upon estimates that consider the general financial strength of the overall economy and the agricultural economy, specifically, the Association's loan portfolio composition, credit administration and prior loan loss experience. The Association calculates its allowance in two parts, specific allowances and a general allowance. The Association evaluates all loans classified as impaired for a specific allowance. This specific allowance is based upon the value of the collateral securing the loan relative to the loan amount outstanding. Allowance for loan losses of $17,452, $18,181 and $20,556 were specifically related to impaired loans totaling $154,157, $199,307 and $156,169 at December 31, 2011, 2010 and 2009, respectively. These specific allowances represent 9.3 percent, 9.1 percent and 13.2 percent of the impaired loans at December 31, 2011, 2010 and 2009, respectively. The Association continues to maintain a moderately high level of specific allowance for loan losses due to the significant loan charge-offs of $16,581, $32,511 and $35,457 experienced in 2011, 2010 and 2009, respectively. The 2011 charge-offs were experienced in the transitional properties (real estate properties surrounding metropolitan areas), timber, dairy and feedlot industries. Most of the significant loan charge-offs in 2010 were limited to transitional properties and the feedlot industry. The 2009 loan charge-offs were sustained in a number of industries, including ethanol, feedlot, timber, transitional properties, dairy and utilities. The Association believes most of these loan losses are a direct result of the financial stress caused by the economic recession which began in 2009. The decline in the general economy has led to significant reductions in land prices for areas surrounding large cities and resulted in the losses in the Association's transitional properties. The sharp volatility in commodity prices in 2009 and 2010 also resulted in significant losses for some agricultural and biofuel producers. During 2010 and 2011, high feed grain prices compounded by drought conditions continued to put a strain on the cattle and dairy producers.

While the Association has been watchful to recognize losses on specific loans, action was also taken in 2009 and 2010 to increase its general allowance due to the increased level of nonaccrual loans and other high-risk assets in the Association's portfolio. The Association increased its general allowance significantly in 2009 and 2010 to recognize this increased risk. The Association uses industry-based loan pools to calculate its general allowance on the loans that are not analyzed specifically. With the improved portfolio quality in 2011, the Association decreased the general allowance. Risk factors are applied to the loan volume in each industry pool based upon current economic conditions and the credit quality of the loans in that pool. Total allowances on loans not considered impaired were $19,571, $27,113 and $26,176 at December 31, 2011, 2010 and 2009, respectively. The allowance for loan losses at December 31, 2011 is considered adequate by management to recognize for inherent losses in the loan portfolio.

Results of Operations:

The Association's net income for the year ended December 31, 2011, was $126,810 as compared to $105,905 for the year ended December 31, 2010, reflecting an increase of $20,905 or 19.7 percent. The Association's net income for the year ended December 31, 2009 was $57,626. Net income increased $48,279, or 83.8 percent, in 2010 versus 2009. Changes in net income from year to year were significantly influenced by provision for loan losses recognized each year. Provision for loan loss expense was $2,169, $29,173 and $58,198 in 2011, 2010 and 2009, respectively. The provision for loan loss expense is directly affected by the level of high risk assets in the Association's portfolio and the overall credit quality of the Association's loan portfolio.

Net interest income for 2011, 2010 and 2009 was $161,841, $157,498 and $152,361, reflecting increases of $4,343, or 2.8 percent, for 2011 versus 2010 and $5,137, or 3.4 percent, for 2010 versus 2009. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on loans and cost of debt. During 2011 volume decreased slightly, but the Association benefited from reduced cost of funding from the Bank as funding rates remained low. The Association was able to offer borrowers funding at a reduced rate while still increasing the net spread associated with new loans or refinancing of existing debts. 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:

	2011		2010		2009	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 4,802,987**	**$ 269,392**	$ 4,982,641	$ 289,914	$ 5,099,015	$ 307,038
Interest-bearing liabilities	**4,194,918**	**107,551**	4,446,023	132,416	4,597,597	154,677
Impact of capital	**$ 608,069**		$ 536,618		$ 501,418	
Net interest income		**$ 161,841**		$ 157,498		$ 152,361

	Average Yield	Average Yield	Average Yield
Yield on loans	**5.61%**	5.82%	6.02%
Cost of interest-bearing liabilities	**2.56%**	2.98%	3.36%
Net interest margin	**3.05%**	2.84%	2.66%

	2011 vs. 2010			2010 vs. 2009		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income	**$ (10,453)**	**$ (10,069)**	**$ (20,522)**	$ (7,007)	$ (10,117)	$ (17,124)
Interest expense	**(7,479)**	**(17,386)**	**(24,865)**	(5,099)	(17,162)	(22,261)
Net interest income	**$ (2,974)**	**$ 7,317**	**$ 4,343**	$ (1,908)	$ 7,045	$ 5,137

Interest income for 2011 decreased by $20,522, or 7.1 percent, compared to 2010, due to a drop in average volume of loans outstanding for 2011 and the decrease in interest rates. Interest expense for 2011 decreased by $24,865, or 18.8 percent, compared to 2010, also affected by the decline in volume and a decrease in interest rates. The net interest margin increased 0.21 percent to 3.05 percent in 2011 from 2.84 percent in 2010. The net interest margin increased 0.18 percent to 2.84 percent in 2010 from 2.66 percent in 2009.

During December 2010, the Association implemented authoritative accounting guidance that changed the practice of recognizing loan origination and commitment fees at or prior to inception of the loan to netting loan origination fees with origination costs. The resulting net fee is then deferred and amortized over the life of the loan using the straight line method. Costs directly related to the loan origination will include the portion of employee salaries and benefits directly related to loan origination. The adoption of this guidance was not material to the Association's financial condition or results of operations.

Noninterest income for 2011 decreased by $10,729, or 28.0 percent, compared to 2010, due to the decrease in patronage received from the Bank of $4,461 and a decrease in other income of $5,657. Of the decrease in other income, $5,003 was a result of the 2010 refund in the Farm Credit System Insurance Corporation (FCSIC) premium for excess reserves attributed to the Insurance Fund. The Bank decreased the patronage paid to the Association from 0.50 percent of the Association's average direct note with the Bank paid in 2010 to 0.42 percent in 2011. The Bank increased the patronage paid to the Association from 0.40 percent of the Association's average direct note with the Bank paid in 2009 to 0.50 percent in 2010. Loan fee income was $4,028 less in 2010 than in 2009. The majority of this reduction between 2010 and 2009 was a result of the change in the accounting for deferral of loan origination fees. In addition, new loan business slowed in 2010 and origination fee income was less than in prior years.

Provision for loan losses was $2,169 for 2011, as compared to $29,173 for 2010. The reduction in loan losses is a direct result of the Association's improving loan portfolio quality, as discussed in the risk exposure section of the management and discussion analysis.

Noninterest expenses consist primarily of salaries, employee benefits, purchased services and Insurance Fund premiums. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. Noninterest expenses for 2011 decreased $351, or 0.6 percent, compared to 2010. Losses on other property owned decreased $4,532 as a result of a decline in expenses associated with other property owned maintenance and disposition as the total volume of other property owned declined. This decrease was significantly offset by an increase of $4,351 in salaries and employee benefits as employees were hired during 2011 to staff positions in anticipation of pending retirements. In addition, there was an increase in incentives accrued during 2011 as compared to 2010 with the Association's improved financial performance. Incentives accrued during 2011 are reflective of the Association's record-setting earnings and achievement of other goals established for 2011. These changes in noninterest expenses were offset in part by a net decrease in all other expenses of $170.

For the year ended December 31, 2011, the Association's return on average assets was 2.5 percent, as compared to 2.0 percent and 1.1 percent for the years ended December 31, 2010 and 2009, respectively. For the year ended December 31, 2011, the Association's return on average members' equity was 15.1 percent, as compared to 13.4 percent and 7.7 percent for the years ended December 31, 2010 and 2009, respectively. The Association's return on average assets and return on average member's equity were significantly increased by the aforementioned improvements in net income.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank could 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 $4,104,831, $4,338,554 and $4,531,494 as of December 31, 2011, 2010 and 2009, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.56 percent, 2.98 percent and 3.36 percent at December 31, 2011, 2010 and 2009, 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 the result of the reduction in the Association's loan portfolio and the increase in members' equity through the Association's net earnings for the past three years. The Association's average loan portfolio funded by the Association's equity was $608,069, $536,618 and $501,418 for the years 2011, 2010 and 2009, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2011, was $4,844,632 as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans. The indebtedness continues in effect until the expiration date of the general financing agreement, which is October 1, 2012, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the bank 30 calendar days prior written notice, or in all other circumstances, upon giving the Bank 120 days prior written notice. We anticipate that the Association's direct loan will be renewed.

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 2012. 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 $871,598, $834,454 and $778,815 at December 31, 2011, 2010 and 2009, 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 loan loss accounts. The Association's permanent capital ratio at December 31, 2011, 2010 and 2009 was 16.4 percent, 14.4 percent and 13.2 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, 2011, 2010 and 2009 was 13.6 percent, 11.5 percent and 12.2 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 stockholders' investment in the Association. The Association's total surplus ratio at December 31, 2011, 2010 and 2009 was 16.0 percent, 14.0 percent and 12.8 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

The Association has been able to maintain solid levels of capital and strong capital ratios, while declaring patronage refunds in cash to its stockholders in the amounts of $38,400, $32,061 and $17,741 in 2011, 2010 and 2009, respectively. The board of directors also issued $88,202, $73,662 and $39,885 in nonqualified written notices of allocation in 2011, 2010 and 2009, respectively. In addition, the Association retired $50,000 and $15,000 of previously allocated nonqualified written notices of allocation in November 2011 and December 2010, respectively. See Note 10 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 9 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access additional capital from 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 this Management's Discussion and Analysis and in Note 9 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 13 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize. 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 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. As of April 2011, the Bank only bills associations for direct pass through expenses and no longer bills for allocated expenses.

DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	ELECTED/ EMPLOYED	TERM EXPIRES
Phillip Munden	Chairman & Stockholder-Elected Director	2009	2013
Danny Parker	Vice Chairman & Stockholder-Elected Director	2009	2013
Paul Aelvoet	Stockholder-Elected Director	2010	2014
Keith Corzine	Stockholder-Elected Director	2009	2012
Richard Counts*	Director-Elected Director	2009	2013
Dale Crenwelge	Stockholder-Elected Director	2009	2013
Kelly Gaskins	Stockholder-Elected Director	2010	2014
Dan Henard, Jr.	Stockholder-Elected Director	2009	2012
Dale Hoelscher	Stockholder-Elected Director	2011	2015
Leigh Hudson*	Director-Elected Director	2009	2012
Kenton B. Kimball	Stockholder-Elected Director	2011	2015
John Malazzo	Stockholder-Elected Director	2011	2015
Terry McAlister	Stockholder-Elected Director	2010	2014
Lance D. Morris	Stockholder-Elected Director	2011	2015
Gary L. Palousek	Stockholder-Elected Director	2011	2015
Carl Sample	Stockholder-Elected Director	2009	2012
Roy Allan Schmidt	Stockholder-Elected Director	2009	2013
Lloyd Shoppa*	Director-Elected Director	2009	2014
James L. Wedel	Stockholder-Elected Director	2009	2013
Wayne Wilson	Stockholder-Elected Director	2009	2012
Lowell Woodward	Stockholder-Elected Director	2010	2014
Joe David Yates	Stockholder-Elected Director	2010	2014
Ben R. Novosad	Chief Executive Officer	1976	----
Eric C. Rothe	Executive Vice President, Lending	1984	----
Don VandeVanter	Senior Vice President, CFO	1999	----
Kenny S. Brown	Senior Vice President, Policy & Compliance	2000	----
Mark L. Hiler	Senior Vice President, COO	1980	----
Patricia A. Gonzales	Senior Vice President, Accounting & Administration	1999	----
Roy A. West	Regional Senior Vice President, Credit	1998	----
Mark Loveland	Regional Senior Vice President, Credit	1997	----
Jay Stewart	Regional Senior Vice President, Credit	2001	----
Darrin Mercer	Vice President, Internal Audit & Credit Review	2011	----

*Director-Elected Director: a director-appointed director who is not a stockholder, director, officer, employee or agent of a Farm Credit System institution (other than as an Outside Director of the Association or its subsidiaries).

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

Phillip Munden and his wife, Darlene, run a cow-calf and stocker operation in Bosque County. Mr. Munden graduated from Sul Ross University with both a B.S. in range animal science and an M.S. in animal nutrition. He has been a Farm Credit customer of both PCA and FLBA since the late '70s, while serving jointly on both boards for several years. He has served on the Capital Farm Credit Board since its merger with the Heart of Texas PCA. After having previously been elected as chairman of the compensation committee, as well as vice chairman of the board, he was elected board chairman in 2009 and re-elected in 2010 and 2011. Annually he has attended the Director Development Programs sponsored by the Farm Credit Bank of Texas for continuing education. He is currently chairman of the Bosque County Soil & Water Conservation board; he is a member of Texas and Southwestern Cattle Raisers Association; and he is a member of the Walnut Springs Memorial Methodist Church and chairs the Administrative Council.

Danny Parker served proudly for three years in the U.S. Army and attended Texas A&I University in Kingsville, Texas. Mr. Parker and his wife, Barbara, have farmed and ranched cotton, vegetables, grain, and cattle for 33 years in Uvalde and Zavala counties. He is currently serving as executive director of the Gulf Compress in Corpus Christi, is a member of the Uvalde County Extension program Council, the Texas and Southwestern Cattle Raisers Association and the Cattle Feeders Association, and is a stockshow committeeman. He and his family attend the First Baptist Church in Uvalde.

Paul Aelvoet has ranched and farmed in Medina County for over 30 years. He has been the 4-H club manager for over 20 years and is a past director of the Medina County Farm Bureau, Texas Limousin Association and the Medina County Fair. Mr. Aelvoet is director of the Medina County Jr. Livestock Show and is also a member of the Association's Governance Committee.

Keith Corzine resides in the Stamford community and has been a member of the Association since 1977. He is involved in farming cotton and wheat, as well as raising cattle in Haskell and Stonewall counties. He serves on the board of directors of Capital Farm Credit where he is a member of the governance committee. He also serves on the board of the Farmers Co-op Gin and Elevator of Stamford, along with serving on the executive committee of the Rolling Plains Cotton Growers and as an alternate for Cotton Incorporated. He is a former board member of the Tri-Area Livestock Association, the Farmers Union, Sagerton Water Supply Corporation, and past board member of First Ag Credit ACA and Rolling Plains PCA. He is a member of Faith Lutheran Church in Sagerton, Texas.

Richard Counts started serving as a director-elected director in February 2005. Mr. Counts retired as a CPA and audit partner with Arthur Andersen, LLP in June 1996. He has served as a financial consultant for various companies from 1996 through 2005. Mr. Counts has served on the Association's audit committee since March 2005.

Dale Crenwelge operates agricultural and investment properties in Central and West Texas. Mr. Crenwelge obtained his B.S. degree in civil engineering from Texas A&M University in 1981, and became employed as project engineer by Conoco. He subsequently returned to Texas A&M, earning his MBA in 1985. Mr. Crenwelge became a real estate broker and investor, owning ranch, commercial real estate and residential development properties. He has served as trustee of the American Realty Trust. Mr. Crenwelge served as trustee and president of the Comfort ISD School Board, presently serves as trustee of the Ambleside School in Fredericksburg, presently serves as a director on the Hill Country Higher Education Foundation, and has been active in the Kerrville, Fredericksburg, Boerne and Comfort Chambers of Commerce. Mr. Crenwelge is a current member of the Texas Farm Bureau, the Texas Wildlife Association and the Centurions of Kendall County.

Kelly Gaskins and his brother farm approximately 7,500 acres of dry-land cotton and 170 acres of irrigated cotton in Howard, Martin and Dawson counties. They also own a ditching company. Mr. Gaskins has a bachelor's and master's degrees from Texas A&M University. He has served on the Howard County Farm Bureau Board and has been vice president and chairman of the Sales Committee for the Howard County Jr. Livestock Association. He served on the policy and by-laws committee for First Ag Credit and has attended seven Director Development Programs. He was also a member of First Ag Credit's CAPs program, and served on the governance committee for Capital Farm Credit. He is currently serving on the compensation committee for Capital Farm Credit. He is also president of the board for the Knott Co-op Gin, fire chief for the Knott Volunteer Fire Department and a member of the Knott Church of Christ. Mr. Gaskins has been a past Farmer of the Year for Howard County, 4-H Adult Leader of the Year for Howard County, and received an Honorary American Farmer FFA degree.

Dan Henard, Jr. has been a member of the Association since 1960. He resides in the Wellington community where he is involved in farming cotton, peanuts and wheat, as well as raising livestock. He is presently serving on the board of the Mesquite Ground Water District and Salt Fork Soil and Water Conservation Board. He is the finance chairman of the First United Methodist Church of Wellington. He formerly served organizations such as the Rolling Plains Resource Conservation & Development Council, Farmers Cooperative Society, Wellington Lions Club, Collingsworth County Hospital Board, Collingsworth County ASCS Committee and Collingsworth County Museum Board. He has attended all director development schools by the District Bank and SMU School of Banking as well. He has a bachelor's degree in range science from Texas A&M University. He also represents the Association and serves on the board for the Farm Credit Council.

Dale Hoelscher is a farmer/rancher from Falls County and has been engaged in farming and ranching for over 25 years. Mr. Hoelscher and his brother operate over 4,000 acres with a main crop of corn and rotate a few acres of wheat in Bell, Falls and Milam counties. He and his brother also run a cow/calf operation. Mr. Hoelscher held a position of secretary while serving on the Bell Falls Electric Co-op. He is a member of the Westphalia Knights of Columbus, Westphalia Volunteer Fire Department and the Catholic Church of the Visitation. He received the Falls County Young Farmer of the Year Award in 1997. He served on the Heart of Texas PCA Board for four years and was on the Audit Committee, attended several director classes and the state convention. Mr. Hoelscher was elected to the Capital Farm Credit board of directors in June 2009 and currently serves on the Association's compensation committee.

Leigh Hudson resides in Dallas where she and her husband own an advertising agency. She has over 20 years of experience in a variety of industries including internet hosting, IT consulting, real estate and advertising. She began her career working in public accounting with Arthur Andersen. She graduated from Texas Christian University with a B.B.A. in accounting and is licensed as a certified public accountant.

Kenton B. Kimball owns and manages a 4,000-acre farm and stocker cattle operation in Sherman County. He has served as president on the Stratford Independent School Board and Stratford Hospital Board. He has served on the Sherman County Economic Development Board, Sherman County Livestock Show Board, Sherman County Soil and Conservation Board and Sherman County Appraisal Board. He has a B.B.A with a major in finance from Kansas State University. He serves as chairman of the audit committee for Capital Farm Credit.

John Malazzo is the owner and operator of John Malazzo Farms in Burleson and Brazos counties. He raises cotton, corn, milo, hay and F-1 replacement heifers. Mr. Malazzo graduated with a B.S. in agricultural economics from Texas A&M University. He was named Conservation Rancher of the Year in 1996 by the Region III Soil and Water Conservation Districts of Texas. Mr. Malazzo served as a director of Heart of Texas PCA through its merger with Capital Farm Credit. He currently serves as a director of Capital Farm Credit as well as Producers Co-op Association of Bryan, a large regional co-op, the Texas Cotton Growers Cooperative Association – Taylor Compress, a cotton warehousing co-op, as well as the Farm Service Agency – USDA Burleson County Committee. He is past director and agricultural representative of the Post Oak Savannah Underground Water Conservation District, the Burleson County Fair Association, the Burleson County 4-H and FFA Commercial Heifer Show and Sale, the Burleson County Field Crops Committee, the Burleson County Beef & Forage Committee, the Extension Program Council and the Extension Leadership Advisory Board. He attends St. Mary's Catholic Church in Caldwell.

Terry McAlister has a diversified farming and ranching operation in Wichita and Wilbarger counties which he has operated with his family for 36 years. Mr. McAlister studied farm and ranch management at Vernon Regional Jr. College, completed the Texas A&M Extension Master Marketer Program in 1997 and 1998, and the Southwest Graduate School of Banking's Director Development Program years 2001 – 2008, 2010 and 2011. Terry currently participates in the Texas A&M TEPAP (Texas Executive Program for Ag Producers), serves on the Wichita County Farm Bureau board of directors, and is the Wichita County Representative for the Northern Rolling Plains Boll Weevil Eradication Committee. A reoccurring board member for the North Texas Rehabilitation Center, he has been an active participant of their Livestock Auction Committee for well over 30 years. He formerly served as a director on the Red River Federal Land Bank Board and as chairman until its successful merger. During his 10 years on the First Ag Credit Board, Mr. McAlister served on various committees, including the long range planning, audit, building, planning and the credit standards committees. He presently serves on the governance committee. In 1981 Wichita County recognized McAlister as Result Demonstrator of the Year and in 1988 as Conservation Farmer of the Year. He was the Producer Alternate Delegate Member of the National Cotton Council of America 2001 through 2006.

Lance D. Morris resides in the Crosbyton community and has been a member of the Association since 1974. He and his brother are partners in a cotton and milo farming operation in Dickens, Floyd and Crosby counties. He currently serves on the AgFirst/FCBT Joint Plan Sponsor Committee and Defined Benefit Administration Committee. He is on the board of directors of Crosby County Fuel Association, Associated Cotton Growers and White River Municipal Water District. He serves as deacon and treasurer of First Baptist Church in Crosbyton. His past service includes the board of directors of the South Plains Association of Governments and the Crosby County Appraisal District. He served as mayor of Crosbyton from 1986 to 1996. He has a B.B.A. in accounting from Texas Tech University.

Gary L. Palousek is a self-employed farmer in Willacy County and has been raising cotton, milo and sugarcane for 39 years. Mr. Palousek has served as a board member for three ag cooperatives in Willacy County and as president of two, and is also director and secretary/treasurer of Willacy County Drainage District No. 2. He is a four-term member and past chairman of the county committee of the USDA/Farm Service Agency and a member of the nominating committee and member of the advisory committee of Magic Valley Electric Cooperative. Mr. Palousek also serves on the parish council of St. Anthony's Catholic Church in Raymondville.

Carl Sample is a rancher and poultry producer from Gonzales County. Mr. Sample is a life member of the San Antonio Livestock Exposition, where he served as a member of the calf scramble committee for more than 25 years. He is also a member of the Independent Cattleman's Association of Texas. He also serves on the finance and audit committees of Smiley United Methodist Church. He is a former director for the Gonzales County Underground Water Conservation District. Carl has a B.B.A. with a major in accounting from Baylor University.

Roy Allan Schmidt operates a cow-calf operation in Washington County and has been farming and ranching all of his life. He owns and operates LaBahia Antiques and Schmidt Construction LLC providing on-farm pond and brush work. He is director of Farm Services Agency of Washington County and treasurer for the Endowment Fund of Greenvine Emmanuel Lutheran Church. In addition to serving as a director of Capital Farm Credit for more than 20 years, Mr. Schmidt is a director of the Property Owners Association of Washington County. He served on the Burton Independent School District Board for nine years, is a member of the

Texas and Southwestern Cattle Raisers Association and of the American Legion Post 242. He attended Blinn College and has completed Director Development programs with the Southwestern Graduate School of Banking and the Farm Credit Bank of Texas.

Lloyd Shoppa is a businessman from Wharton, Texas. Mr. Shoppa started serving as director-elected director in February 2005. Mr. Shoppa is retired president of Bell Helicopter Textron, Inc. and currently owns six John Deere dealerships in South Texas. He is former president of the Hurst-Euless-Bedford (HEB) Rotary Club and Chamber of Commerce and has also served as president of the HEB School Board. Mr. Shoppa was inducted into the National Management Association Hall of Fame in 1997.

James L. Wedel is a farmer who presently farms 3500 acres in Bailey and Parmer counties. He has been a member of the Association since 1989, resides in Muleshoe and currently serves on the boards of the Texas Corn Producers, Corn Producers Association of Texas, Sunland, Inc. and Texas Organic Cotton Marketing Cooperative. He has a B.S. in agricultural economics from Texas Tech University.

Wayne Wilson operates a diversified stocker operation headquartered in Brazos County. Mr. Wilson also owns and operates LW Management Services, a consulting firm specializing in real estate, insurance and risk management. Mr. Wilson currently serves on the Association’s audit committee. He has served as chairman of the Association’s credit standards and limits committee and is a member on the planning and executive committees. Mr. Wilson also served on the Tenth District Farm Credit Council. Mr. Wilson is board chairman for Aggieland Pregnancy Outreach, a director of the Brazos Valley Groundwater Conservation District, vice chairman of Groundwater Management Area 12 and chairman of the State Brazos G Regional Water Planning Group. He also has served as secretary of the Brazos County Youth Commercial Heifer Show, president of Brazos County Farm Bureau, chairman of the Brazos County Beef and Forage Committee, treasurer of the Brazos County Extension Executive Board and on the Texas Farm Bureau State Young Farmer and Rancher Committee. Mr. Wilson attends Parkway Baptist Church in College Station, Texas.

Lowell Woodward was elected in 2005 and is currently serving on the Association’s compensation committee. He has been ranching in Pecos, Crockett and Brewster counties for more than 30 years operating a purebred Brangus cow-calf operation. He also raises fine wool sheep, market goats and Paint horses. He is a graduate of the Texas Christian University Ranch Management Program. Mr. Woodward has been recently re-elected as a director on the Rio Grande Electric Co-op Board after having previously served nine years. He is a Credentialed Cooperative Director. Mr. Woodward has been involved in the wind energy development in Pecos and Crockett counties since it began and continues to be influential in the development of green energy. Mr. Woodward is a founding director of Producers Marketing Cooperative Incorporated (PMCI). Mr. Woodward is also a director and committeeman of Texas Sheep and Goat Raisers Association and past director of the Region F Water Planning Group as well as past president of the Pecos County Farm Bureau. He was recognized as Pecos County Conservation Rancher of the Year. He is a pilot and member of the Aircraft Owners and Pilots Association. He is also a member of the Southwest Cattle Raisers and the Big Bend Livestock Show Association.

Joe David Yates resides in Castell, Llano County, Texas, and maintains a variety of business interests, both in traditional agriculture and less-traditional agriculture. Mr. Yates attended Angelo State University (ASU). Following college, Mr. Yates worked as an oil & gas landman before working in the wool and mohair industry. Mr. Yates returned to San Angelo where he managed San Angelo Wool & Mohair. Mr. Yates, along with his uncle, has operated ranches in Matagorda County and owns Bay City Feed in Bay City, Texas. They also have cow-calf operations in the Texas Hill Country, Hudspeth County and Otero County, New Mexico, plus a yearling ranch in Colfax and Union counties, New Mexico. Mr. Yates has also served as a Texas Sheep and Goat Raisers’ director and is a member of the Texas and Southwest Cattle Raisers Association. He is also involved with quarter-horse and thoroughbred racing and was appointed a national committee member of the AQHA Racing Committee.

Ben R. Novosad is president and chief executive officer of the Association. Mr. Novosad began his career with the Federal Land Bank Association of Bryan in 1976, and in 1986 was named president and chief executive officer. As a 1975 graduate of Texas A&M University, Mr. Novosad received his B.S. in agricultural economics. He currently serves on the Farm Credit System’s President’s Advisory Committee and the Farm Credit System’s Risk Management Committee. He also serves on the Texas Agricultural Lifetime Leadership Program (TALL) Advisory board of directors. In 2004, Mr. Novosad was inducted into the Tyrus R. Timm Honor Registry of Former Students of Agricultural Economics at Texas A&M University.

Eric C. Rothe currently serves as the Association’s executive vice president, lending. He had previously served as the CEO of Southwest Texas ACA. Prior to that time, he held positions with the Federal Land Bank of Texas in Austin and the Marfa and Uvalde Federal Land Bank Associations.

Don VandeVanter serves as senior vice president and chief financial officer for the Association. He is responsible for the financial administration and capital management of the Association. Mr. VandeVanter, a certified public accountant, has worked for the Association since 1999 and in Farm Credit since 1987. He is a 1984 graduate of the University of Texas with a degree in accounting. Prior to his time with Farm Credit, he worked in public accounting.

Kenny S. Brown is senior vice president/policy and compliance and has been with Capital Farm Credit since October 2000 when he was hired to coordinate the Association's internal credit review. In his current position since 2006, Mr. Brown is responsible for ensuring the Association takes steps to operate under safe and sound policies and in compliance with applicable laws and regulations. Mr. Brown has more than 20 years of experience in the Farm Credit System following his graduation from Louisiana State University in 1986.

Mark L. Hiler serves as the Association's senior vice president and chief operating officer, and was employed in 1980 with the Federal Land Bank Association of Uvalde. He served as chief executive officer of that Association prior to its merger with Southwest FLBA in 1995. He served Southwest as president/chief operating officer until its merger with Capital Farm Credit in 2006. Mr. Hiler holds a B.B.A. in finance and an M.S. in agriculture from Texas A&M University.

Patricia A. Gonzales serves as the Association's senior vice president, accounting and administration. She is responsible for managing the Association's accounting and human resources. She is a certified public accountant and was employed as chief financial officer in May 1999. She was previously employed as vice president/controller of the Farm Credit Bank of Texas for 12 years. Mrs. Gonzales also serves on the Farm Credit System Accounting Standards Work Group. Prior to her time with Farm Credit, she worked in public accounting.

Roy A. West was employed as chief credit officer in April 1998 and currently serves as the Association's regional senior vice president, credit. He was previously employed as director of credit of the Farm Credit Bank of Texas and vice president of the Capital of Texas Federal Land Bank Association.

Mark Loveland serves the Association as regional senior vice president, credit. Prior to his employment with the Association, he was chief credit officer of First Ag Credit, FCS. He has also held several positions with the Farm Credit Bank of Texas including director of credit operations, engineer/appraiser, mineral representative and loan officer. He has 29 years of service with the Farm Credit System.

Jay Stewart serves the Association as regional senior vice president, credit. Jay has 16 years of Farm Credit experience, including 11 years with Capital Farm Credit as branch manager and most recently as regional president, and has over six years with the Farm Credit Administration as a commissioned examiner. He received his B.S. and M.S. in agriculture and agricultural economics from Texas A&M University.

Darrin Mercer joined Capital Farm Credit in 2011 and serves as vice president of internal audit and credit review. He is responsible for the internal credit review and audit functions of the Association. Prior to joining the Association, he spent over seven years with the Farm Credit Administration as a commissioned examiner.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

In 2011 directors were compensated for their service to the Association in the form of an honorarium of $700 per month, $100 for each board meeting attended, $600 per meeting for Audit Committee meetings, $500 per meeting for committee meetings attended other than Audit Committee, $400 per meeting for all other meetings, $200 per meeting for conference calls and $200 for travel days when required. The board chairman and vice chairman were compensated $800 per meeting for each board meeting attended, and committee chairmen were also compensated $200 for each committee meeting in addition to the regular meeting compensation. The directors were also reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2011 was paid at the IRS-approved rate of 51 cents from January through June and 55.5 cents from July through the end of the year. A copy of the travel policy is available to stockholders of the association upon request.

Number of Days Served

Director	Board Meetings	Other Official Activities	Total Compensation in 2011
Paul Aelvoet	8	6	$ 11,500
Keith Corzine	14	11	13,400
Richard Counts	14	23	17,000
Dale Crenwelge	10	2	9,900
Kelly Gaskins	14	8	12,500
Dan Henard, Jr.	14	27	19,100
Dale Hoelscher	12	12	13,500
Leigh Hudson	10	26	17,600
Kenton B. Kimball	14	28	18,900
John Malazzo	14	14	14,700
Terry McAlister	14	11	13,400
Lance D. Morris	14	21	17,400
Phillip Munden	14	34	28,100
Gary L. Palousek	10	15	14,200
Danny Parker	14	17	21,300
Carl Sample	12	14	15,200
Roy Allen Schmidt	14	10	13,200
Lloyd Shoppa	6	14	13,300
James L. Wedel	14	15	14,500
Wayne Wilson	12	29	19,000
Lowell Woodward	14	20	15,500
Joe David Yates	12	11	12,800
			$ 346,000

During 2011 there were seven board meetings with each consisting of a two-day meeting.

The aggregate compensation paid to directors in 2011, 2010 and 2009 was $346,000, $522,400 and $517,200, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

	Committee					
Director	**Audit**	**Compensation**	**Governance**	**Executive**	**Other***	**Total**
Paul Aelvoet	$ -	$ -	$ 1,500	$ -	$ 1,200	$ 2,700
Keith Corzine	-	-	1,500	-	2,400	3,900
Richard Counts	1,800	-	-	500	3,600	5,900
Dale Crenwelge	-	-	1,000	-	-	1,000
Kelly Gaskins	-	2,000	-	-	1,200	3,200
Dan Henard Jr.	-	-	-	500	7,500	8,000
Dale Hoelscher	-	1,500	-	-	2,400	3,900
Leigh Hudson	2,400	-	-	500	3,600	6,500
Kenton B. Kimball	2,800	-	-	500	3,900	7,200
John Malazzo	-	-	1,900	500	2,400	4,800
Terry McAlister	-	-	1,500	-	2,400	3,900
Lance D. Morris	-	2,800	-	500	3,600	6,900
Phillip Munden	1,800	500	1,500	700	7,000	11,500
Gary L. Palousek	-	1,500	-	-	2,400	3,900
Danny Parker	1,200	2,000	-	500	2,400	6,100
Carl Sample	-	-	-	500	5,500	6,000
Roy Allen Schmidt	-	-	1,500	-	2,400	3,900
Lloyd Shoppa	-	1,000	-	-	2,400	3,400
James L. Wedel	-	2,000	-	-	2,400	4,400
Wayne Wilson	2,400	-	-	-	5,200	7,600
Lowell Woodward	-	2,000	-	-	2,400	4,400
Joe David Yates	1,800	-	-	-	1,200	3,000
	$ 14,200	$ 15,300	$ 10,400	$ 4,700	$ 67,500	$ 112,100

*Other includes the following meetings that were held: credit, director development, appreciation dinners, district nominating committee, Farm Credit Council, FCBT stockholder and FCA review.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $333,755, $352,336 and $330,789 in 2011, 2010 and 2009, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

A critical factor to the Association's success is its ability to attract, develop and retain staff that is knowledgeable and efficient in their ability to support the Association in the execution of its strategic objectives and delivery of Association results that maximize the value received by its membership. The Association operates utilizing a compensation program which focuses on the performance and contributions of its employees in achieving the Association's financial and operational objectives, all for the ultimate benefit of its membership. The Association's board of directors, through its Compensation Committee, establishes salary and incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure that salary and incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for the Association's evaluation and establishment of salary and incentive plans used by the Association.

Chief Executive Officer (CEO) Compensation Table and Policy

CEO Compensation

Name of Individual	Year	Salary (a)	Prior Year Incentives (b)	Current Year Incentives (c)	Deferred / Perquisite (d)	Other (e)	Total
Ben R. Novosad,	2011	$ 500,019	$ 113,171	$ 43,337	$ 863,400	$ 28,600	$ 1,548,527
CEO	2010	484,180	17,459	65,362	712,545	19,147	1,298,693
	2009	470,078	47,937	70,509	1,035,606	24,257	1,648,387

(a) Gross salary
(b) Profit sharing incentives earned in the prior year and paid in the current year and payout of 20 percent of deferred incentives previously accrued
(c) Cash payout of current year incentives earned
(d) Change in pension value and nonqualified deferred compensation earnings
(e) Includes contributions to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance

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, 2011:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2011
Ben R. Novosad	Farm Credit Bank of Texas Pension Plan	36.929	$ 2,202,337	$ -

The CEO of the Association participates in the Farm Credit Bank 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 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 "Year of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (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 statement reporting purposes with 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.

The CEO of the Association also participates in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (the Plan). The Plan is a defined contribution plan and is sponsored and maintained by the AgFirst/FCBT Plan Sponsor Committee for the benefit of the Participating Employers in the AgFirst Farm Credit Bank/Farm Credit Bank of Texas Agreement Regarding Employee Benefit Plans (the Administrative Agreement) and their eligible employees. One of the purposes of the Plan is to allow a means for participating employers to restore benefits lost due to limitations under the Internal Revenue Code as it relates to the Association's existing Pension Plan.

The Association has evaluated the benefits lost as a result of these limitations with regard to the CEO of the Association and is funding this shortfall over a five-year period using a five-year vesting schedule. The funding of this shortfall occurs annually. Contributions to the Plan for plan years 2011, 2010 and 2009 were $635,000, $473,000 and $797,000, respectively. At December 31, 2011 the remaining obligation of the Association is $635,000 which under the terms of this agreement will expire on December 31, 2012.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to all senior officers of the Association during 2011, 2010 and 2009. Amounts reflected in the table are presented in the year the compensation was paid.

Name of Group	Year	Salary (a)	Prior Year Incentives (b)	Current Year Incentives (c)	Deferred / Perquisite (d)	Other (e)	Total
Aggregate No. of Senior Officers in Year Excluding CEO							
9	2011	$ 1,777,588	$ 307,057	$ 303,389	$ 401,572	$ 149,354	2,938,960
9	2010	1,649,007	22,105	212,731	485,977	158,508	2,528,328
9	2009	1,573,794	134,218	218,411	351,881	143,368	2,421,672

(a) Gross salary
(b) Profit sharing incentives earned in the prior year and paid in the current year and payout of 20 percent of deferred incentives previously accrued
(c) Cash payout of current year incentives earned
(d) Change in pension value and nonqualified deferred compensation earnings
(e) Includes contributions to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance

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.

Neither the CEO nor any other senior officer received non-cash compensation exceeding $5,000 in 2011, 2010 or 2009.

Additional Nonqualified Supplemental 401(k) Plan:

During 2011, the Association outlined plans for succession for key members of senior management that are reaching retirement eligibility. In conjunction with this plan, the Association evaluated the benefits lost due to limitations under the Internal Revenue Code as it relates to the Association's existing pension plan by one of its key members of senior management. As a result, the Association has entered into an agreement with one of its executive management team members that calls for discretionary contributions on their behalf into the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (the Plan). The Association has evaluated the need to provide for succession for this key position and to restore a portion of benefits lost, and as a result has developed a plan covering the period ending December 31, 2016 which will provide for time to train qualified candidates within the Association. The Association will begin the funding of this plan over a four-year period using a four-year vesting schedule. The funding of this plan occurs annually. At December 31, 2011 the total potential obligation to the Association is $1,000,000, with funding to begin in December 2012.

Incentive Plan for Officers and Employees:

During 2010, the Association Board's Compensation Committee (Committee) engaged a compensation consultant to assist with revisions to the Association's existing incentive plan. As a result, effective January 1, 2011, the board approved two new incentive plans. The Association implemented both plans to maintain its competitiveness in the marketplace to continue to attract and retain quality employees. Both plans replaced the three-part incentive plan used in 2010 and prior years. The Association believes that an annual (short-term) incentive plan (STI) based on individual and Association performance drives behavior that supports annual Association goals. The second new plan, the Long Term Incentive plan (LTI), was developed to reward Association leadership for achievement of the Association's long-term goals and objectives, as defined by the board. Both plans utilize parameters for measuring achievement at either threshold, target or superior performance levels. The LTI evaluates performance and is earned over a rolling three-year performance period.

Annual (Short-Term) Incentive Plan (STI)

The first new plan, the STI plan, is a balanced scorecard plan which rewards employees for achieving desired business goal objectives for the year. The STI is an annual plan that is administered by the Committee.

At the beginning of each plan year, the Committee reviews and approves STI plan performance objectives for the Association and the award matrix by which all incentives under the STI shall be calculated. Each STI plan participant is assigned an incentive award target calculated as a percentage of base pay which may be awarded if the Association and participant achieve target performance goals. Failure to meet minimum targets for goals will result in no incentive, while achievement at superior levels will result in the maximum incentive opportunity available at that salary grade. Potential individual award percentages vary based upon an employee's job grade level and are higher for those persons serving to direct performance of the Association which includes its senior lending staff and senior officers. Award payments vary depending upon the extent to which the Association goals are achieved.

For calendar year 2011, the Committee approved the following goal performance measures, weightings and performance goals:

		Performance Goals	
Performance Measures	**Weight**	**Target**	**Actual Performance**
Credit Quality	15%	94.50%	91.60%
Net Chargeoffs	15%	0.25%	0.21%
Nonearning Assets	30%	3.50%	2.90%
ROA	20%	1.91%	2.46%
ROE	20%	11.70%	15.07%
Total	100%		

As part of this plan the Association has also established parameters for goal performance which define threshold and superior levels of incentive opportunities when more or less than the targeted goals are achieved. If less than the threshold level of performance is achieved for a particular performance measure, no incentives will be awarded for that performance measure. Financial results for 2011 resulted in the Association's achievement of goal performance which overall exceeds targeted goals. As a result, the Committee approved and the Association accrued an estimated payment of $7,288,610 in STI incentives. As specified by the plan, these incentives are to be paid by March 15, 2012.

Long Term Incentive Plan (LTI)

The purpose of the Association's LTI is to offer a financial rewards package to key employees based on the long-term performance of the Association. The Committee is the administrator of the LTI. The Committee has retained the authority to review and approve plan participants, the incentives prior to payment, and the LTI metrics and goals as presented by the CEO and members of management. Any additions or deletions to the participant list must be submitted for Committee approval prior to the beginning of a performance period (the consecutive 36-month period beginning January 1 and ending December 31). Each participant is assigned an incentive award goal, calculated as a percentage of base salary at the beginning of the performance period at threshold, target and superior performance levels.

At the beginning of each calendar year, the board approves the LTI plan objectives for the Association and the award formula or matrix by which all awards under this plan are based. The 2011 LTI plan established goals and metrics which management and the board felt were long term in nature and fostered the long-term health and viability of the Association and its stockholders. These goals included growth, operating efficiency and capital distributions to the Association's stockholders. The Association's vision is to be the best provider of agricultural credit using the best people, best service, best financial performance and the best patronage program. The board believes the goals established for the LTI support this vision.

For calendar year 2011, the Committee approved the following goal performance measures, weightings and performance goals:

Performance Measures	Weight	Performance Goals Target
Capital Distributions as a percentage of average loan volume	33.3%	1.0%
3Yr Avg Growth Rate for period end on Accrual Loans	33.3%	4.0%
Ranking amoung Farm Credit System's Peer Group		
Annual Operating Expenses as % of		
Net Interest Income plus Other Income	33.4%	70th percentile

Financial results for 2011 resulted in progress towards the Association's efficiency and capital distribution goals at superior levels but no progress was made toward its growth goals. As a result, the Committee approved and the Association accrued $889,401 in LTI incentives which represents an estimation of the Association's current obligation under this plan.

Prior Years' Incentive Plan

For the years ended 2010 and 2009, the Association had a three-part incentive plan in place for all of its full-time employees including its officers. All full-time employees were eligible to earn an individual incentive up to 15 percent of their annual salaries based upon their individual performance objectives for a twelve month period ending September 30. In addition, employees could participate in a second and third incentive program based upon the Association's financial performance for the calendar year relative to other agricultural credit associations in the System. Financial performance was based upon the Association's credit quality, earnings, capital and growth relative to its peers in the System. If the Association's financial performance qualified the employees to participate in these incentives, the employees could earn up to an additional 10 percent of their annual salaries in each of these two incentives. The second incentive was paid in cash, and the third incentive was a matching amount earned in the year in which the financial performance was achieved, and payment was deferred for five years. At the end of each year, the Association credited the employee's Deferred Incentive Account (an Account) with an amount equal to the employee's Profit Sharing Incentive for such year. This Deferred Incentive accumulated in the Account. The Deferred Incentive was deemed to have been credited to the employee's Account on December 31 of the year for which the Deferred Incentive was earned. Employees receive payments of 20 percent of the employee's Account balance on each January 1, beginning on the fifth January 1 after the employee was first eligible to receive a Deferred Incentive. For 2009, the Association's financial performance did not qualify the employees to participate in any incentives other than the individual incentive. For 2010 the Association's financial performance qualified its employees to participate in the second and third incentive programs which totaled to $3,154,000, half of which was paid in 2011. With the dissolution of this incentive plan in 2011, all employees' accounts were paid in full in December 2011. The total amount of this payment was $2,668,000.

For 2010 the board of directors awarded some senior officers, as well as other employees, with an additional bonus. The total of these additional bonuses was $226,000.

Other

Employees who are assigned Association automobiles reimburse the Association for any personal miles above a pre-established limit at a board-established rate. Employees who use their personal automobile for business purposes were reimbursed during 2011 at the IRS-approved rate of 51 cents from January through June and 55.5 cents from July through the end of the year.

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.

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 13 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 director or senior officer on January 1, 2011, or at any time during the year just ended.

RELATIONSHIP WITH INDEPENDENT AUDITORS

No change in auditors has taken place since the last annual report to stockholders and no disagreements with auditors has occurred that the Association is required to report to the Farm Credit Administration under part 621 of the FCA regulations governing this disclosure.

Fees for professional services rendered for the Association by PricewaterhouseCoopers are as follows:

Service Category	Fees
Annual audit services	$ 124,500
Tax services	10,000
Other non-audit services	42,035
Total	$ 176,535

The other non-audit services were approved by the board's Audit Committee and included consulting regarding information technology best practices.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers dated March 6, 2012, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. Our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the Association or its members.

CAPITAL FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET
(dollars in thousands)

	December 31,		
	2011	2010	2009
Assets			
Cash	$ **1,286**	$ 5,691	$ 15,098
Loans	**4,932,437**	5,096,642	5,218,700
Less: allowance for loan losses	**(37,023)**	(45,294)	(46,732)
Net loans	**4,895,414**	5,051,348	5,171,968
Accrued interest receivable - loans	**44,386**	50,332	58,837
Accrued interest receivable - investments	**194**	256	-
Investments held-to-maturity	**19,523**	24,520	-
Investment in and receivable from the FCB:			
Capital stock	**84,404**	88,855	91,342
Receivable	**11,960**	7,872	2,238
Other property owned, net	**6,220**	16,658	19,893
Premises and equipment, net	**10,875**	11,128	12,325
Other assets	**4,097**	3,754	10,238
Total assets	$ **5,078,359**	$ 5,260,414	$ 5,381,939
Liabilities			
Note payable to the Bank	$ **4,104,831**	$ 4,338,554	$ 4,531,494
Advance conditional payments	**9,580**	3,706	3,996
Accrued interest payable	**8,262**	10,089	12,034
Drafts outstanding	**6,272**	7,163	8,925
Patronage distributions payable	**38,402**	32,063	17,760
Unfunded post retirement medical obligation	**17,730**	16,562	13,506
Other liabilities	**21,684**	17,823	15,409
Total liabilities	**4,206,761**	4,425,960	4,603,124
Members' Equity			
Capital stock and participation certificates	**21,856**	22,399	22,910
Non-qualified allocated retained earnings	**281,671**	243,561	184,905
Unallocated retained earnings	**567,030**	566,822	566,647
Accumulated other comprehensive income	**1,041**	1,672	4,353
Total members' equity	**871,598**	834,454	778,815
Total liabilities and members' equity	$ **5,078,359**	$ 5,260,414	$ 5,381,939

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF INCOME
(dollars in thousands)

	Year Ended December 31, 2011	2010	2009
Interest Income			
Loans	**$ 268,294**	$ 289,011	$ 307,038
Investments	**1,098**	903	-
Total interest income	**269,392**	289,914	307,038
Interest Expense			
Note payable to the Bank	**107,547**	132,414	154,675
Advance conditional payments	**4**	2	2
Total interest expense	**107,551**	132,416	154,677
Net interest income	**161,841**	157,498	152,361
Provision for Loan Losses			
Provision for loan losses	**2,169**	29,173	58,198
Net interest income after provision for loan losses	**159,672**	128,325	94,163
Noninterest Income			
Patronage income from the Bank	**19,883**	24,344	20,121
Loan fees	**5,967**	6,879	10,907
Financially related services income	**183**	199	233
Gain on sale of premises and equipment, net	**623**	294	866
Other noninterest income	**891**	6,560	1,123
Total noninterest income	**27,547**	38,276	33,250
Noninterest Expenses			
Salaries and employee benefits	**34,803**	30,452	30,934
Pension plan funding expense	**6,490**	6,143	9,205
Insurance Fund premiums	**2,543**	2,270	8,908
Occupancy and equipment	**2,521**	2,589	2,138
Purchased services	**2,353**	3,424	3,464
Travel	**2,081**	1,790	1,889
Public and member relations	**1,480**	1,292	1,286
Supervisory and exam expense	**1,380**	1,338	1,317
Loss on other property owned, net	**1,160**	5,692	5,364
Advertising	**1,391**	1,221	1,298
Communications	**888**	823	837
Directors' expense	**655**	1,256	848
Other noninterest expense	**2,554**	2,360	2,292
Total noninterest expenses	**60,299**	60,650	69,780
Income before income taxes	**126,920**	105,951	57,633
Provision for income taxes	**110**	46	7
Net income	**$ 126,810**	$ 105,905	$ 57,626

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(dollars in thousands)

	Capital Stock/ Participation Certificates	Retained Earnings Non-qualified Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2008	$ 23,231	$ 144,794	$ 566,967	$ 4,211	$ 739,203
Comprehensive income:					
Net Income	-	-	57,626	-	57,626
Change in postretirement benefit plans	-	-	-	142	142
Total comprehensive income	-	-	57,626	142	57,768
Capital stock/participation certificates issued	2,665	-	-	-	2,665
Capital stock/participation certificates retired	(2,986)				(2,986)
Patronage distributions declared:					
Cash	-	-	(17,741)	-	(17,741)
Other adjustments	-	226	(320)	-	(94)
Nonqualified allocations	-	39,885	(39,885)	-	-
Balance at December 31, 2009	22,910	184,905	566,647	4,353	778,815
Comprehensive income:					
Net Income	-	-	105,905	-	105,905
Change in postretirement benefit plans	-	-	-	(2,681)	(2,681)
Total comprehensive income	-	-	105,905	(2,681)	103,224
Capital stock/participation certificates issued	2,675	-	-	-	2,675
Capital stock/participation certificates retired	(3,186)	(15,000)	-	-	(18,186)
Patronage distributions declared:					
Cash	-	-	(32,061)	-	(32,061)
Other adjustments	-	(6)	(7)	-	(13)
Nonqualified allocations	-	73,662	(73,662)	-	-
Balance at December 31, 2010	22,399	243,561	566,822	1,672	834,454
Comprehensive income:					
Net income	-	-	126,810	-	126,810
Change in postretirement benefit plans	-	-	-	(631)	(631)
Total comprehensive income	-	-	126,810	(631)	126,179
Capital stock/participation certificates issued	2,563	-	-	-	2,563
Capital stock/participation certificates/ allocated equities retired	(3,106)	(50,000)	-	-	(53,106)
Patronage distributions declared:					
Cash	-	-	(38,400)	-	(38,400)
Other adjustments	-	(92)	-	-	(92)
Nonqualifed allocations	-	88,202	(88,202)	-	-
Balance at December 31, 2011	**$ 21,856**	**$ 281,671**	**$ 567,030**	**$ 1,041**	**$ 871,598**

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

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CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net income	**$ 126,810**	$ 105,905	$ 57,626
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**2,169**	29,173	58,198
Loss on other property owned, net	**1,160**	5,692	5,364
Depreciation and amortization	**992**	1,137	1,447
Gain on sale of premises and equipment, net	**(623)**	(294)	(866)
Decrease in accrued interest receivable	**6,008**	8,249	5,496
Decrease (Increase) in other assets	**(4,431)**	850	(7,426)
Decrease in accrued interest payable	**(1,827)**	(1,945)	(3,786)
Increase (decrease) in other liabilities	**4,398**	2,789	(4,675)
Net cash provided by operating activities	**$ 134,656**	$ 151,556	$ 111,378
Cash flows from investing activities:			
Decrease (increase) in loans, net	**$ 139,790**	$ 53,944	$ (18,018)
Cash recoveries of loans previously charged off	**6,141**	1,900	345
Sale (Purchase) of investment in the Bank	**4,451**	2,487	(3,174)
Increase in Investments held to maturity proceeds from maturities	**4,997**	-	-
Purchases of premises and equipment	**(716)**	(363)	(835)
Proceeds from sales of premises and equipment	**692**	717	1,346
Proceeds from sales of other property owned	**17,020**	8,626	10,599
Net cash provided by (used in) investing activities	**$ 172,375**	$ 67,311	$ (9,737)

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS
(dollars in thousands)

	2011	2010	2009
Cash flows from financing activities:			
Net (decrease) increase in note payable to the Bank	$ (233,723)	$ (192,940)	$ (72,991)
(Decrease) in drafts outstanding	(891)	(1,762)	(6,335)
Increase (Decrease) in advance conditional payments	5,874	(290)	(4,177)
Issuance of capital stock and participation certificates	2,563	2,675	2,665
Retirement of capital stock, participation certificates and allocated equities	(53,198)	(18,186)	(2,986)
Patronage distributions paid	(32,061)	(17,771)	(22,882)
Net cash used in financing activities	$ (311,436)	$ (228,274)	$ (106,706)
Net (decrease) in cash	(4,405)	(9,407)	(5,065)
Cash at the beginning of the year	5,691	15,098	20,163
Cash at the end of the year	$ 1,286	$ 5,691	$ 15,098
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned upon loan forclosure	$ 10,644	$ 14,991	$ 35,168
Financed sales of other property owned	2,902	-	-
Net loans charged off	16,581	32,511	35,457
Patronage distributions declared	38,400	32,061	17,741
Supplemental cash information:			
Cash paid during the year for:			
Interest	$ 109,378	$ 134,361	$ 158,463
Income taxes	29	13	7

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

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Capital Farm Credit, ACA, including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, 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 192 counties 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, 2011, the System was composed of four Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation), and various service and other organizations. With the merger of CoBank, ACB and U.S. AgBank, FCB effective January 1, 2012, the nation is currently served by three FCBs and one ACB.

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, 2011, the District consisted of the Bank, one FLCA and 16 ACA parent companies (including Capital Farm Credit, ACA), which have two wholly-owned subsidiaries, an 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 the associations, and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

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 associations, into the Insurance Fund, based on its annual average 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 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 Association's 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 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 Capital Farm Credit, PCA and Capital Farm Credit, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted Accounting Pronouncements: In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Compensation – Retirement Benefits – Multi-employer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multi-employer pension plan and a postretirement benefits plan other than pension, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2011 for public entities. The amendments should be applied retrospectively for all prior periods presented. The adoption of this Standard did not have an impact on the Association's financial condition or results of operations, but did result in additional disclosures.

   In June 2011, the FASB issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provide that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements:

   - A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income.

   - In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income and a total for comprehensive income.

   This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact the Association's financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

   In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

   1. Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities).
   2. Aligning the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets.
   3. Clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy.
   4. An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks.

5. Clarifying that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance.
6. Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of this guidance will not impact the Association's financial condition or results of operations, but will result in additional disclosure requirements.

In January 2011, the FASB issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession and (2) the debtor is experiencing financial difficulties. For public entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this Standard did not have an impact on the Association's financial condition or results of operations, but did result in additional disclosures.

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 banks.

C. Investment Securities: The Association's investments include mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac) for which the Association has the intent and ability to hold to maturity and which are consequently classified as held-to-maturity. Held-to-maturity investments are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Changes in the fair value of these investments are not recorded unless the investment is deemed to be other-than-temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a credit loss). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

Gains and losses on the sales of investments available-for-sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. The Association does not hold investments for trading purposes.

The Association holds additional investments in accordance with mission-related investment and other investment programs approved by the Farm Credit Administration. These programs allow the Association to make investments that further the System's mission to serve rural America. Mission-related investments for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

D. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 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. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

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 operations for any year presented. The guidance was implemented in 2010 for loans closed in 2010. In 2011 and 2010 the Association capitalized $4,461 and $4,510 in origination fees, and $5,613 and $4,579 in origination costs, primarily salaries and benefits related to the origination of loans, respectively. The net adjustment to yield on loans for 2011 and 2010 was an increase of $1,059 and $69 respectively.

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. 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.

Impaired 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. Additionally, all loans over 180 days past due are placed in nonaccrual status. 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). Loans are charged off at the time they are determined to be uncollectible.

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. 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.

Payments received on nonaccrual loans are generally applied to the loan asset. If collection of 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, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

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 one and nine 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 "nine" 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 year-end allowance for loan losses is based upon estimates that consider the general financial strength of the overall economy and the agricultural economy specifically, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. The Association calculates its allowance in two parts, specific allowances and a general allowance. The Association evaluates all loans classified as impaired for a specific allowance. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the loan balance and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using factors related to its risk-rating, and its commodity type.

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 average borrowing from the Bank. 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 a collection action, is recorded at fair value less estimated selling costs upon acquisition. 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 are included in loss on other property owned, net in the Consolidated 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 each asset. 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 which was 0.05 percent at December 31, 2011.

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) and are also eligible to participate in the Farm Credit Benefits Alliance 401(k) plan. Also, the Association sponsors a nonqualified defined contribution 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. 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. For the DB Plan, the Association recognized pension costs of $6,490, $6,143 and $9,205 for the years ended December 31, 2011, 2010 and 2009, respectively.

   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, 2011, made on their behalf into various investment alternatives. The Association recognized pension costs for the DC Plan of $817, $739 and $723 for the years ended December 31, 2011, 2010 and 2009, 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 $904, $859 and $875 for the years ended December 31, 2011, 2010 and 2009, respectively.

   In addition to the DB Plan, the DC Plan and the Farm Credit Benefits Alliance 401(k) plans above, the Association sponsors a defined contribution supplemental retirement plan. The purpose of the plan is (a) to provide eligible employees (those with compensation in excess of $100 in the immediately preceding tax year) of the Association who participate in the 401(k) plan with benefits in excess of the limitations on benefits imposed, (b) to allow a means for those employees to make pre-tax deferrals of additional amounts payable to them to a future payment date and (c) to allow a means for participating employers to provide discretionary deferred income to those employees. During 2010, the agreement covering the supplemental plan for the CEO was revised in order to fix the total obligation of the Association under the plan. This plan is a nonqualified 401(k) plan;

therefore, the associated liabilities are included in the Association's consolidated balance sheets in other liabilities. The expenses of the nonqualified plan included in the Association's employee benefit costs were $473, $635 and $806 for the years ended December 31, 2011, 2010 and 2009, respectively. During 2011, the Association established a new supplemental plan for a member of its senior management team. Contributions to this plan will be recognized beginning in 2012.

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. Association employees hired after January 1, 2004 will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums.

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 qualified 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.

Deferred income taxes have not been provided by the Association on patronage stock distributions from the Bank prior to January 1, 1993, the adoption date of FASB guidance on "Accounting for Income Taxes." Management's intent is (1) to permanently invest these and other undistributed earnings in the Bank, thereby indefinitely postponing their conversion to cash, or (2) to pass through any distribution related to pre-1993 earnings to Association borrowers through qualified patronage allocations.

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings. The Bank currently has no plans to distribute unallocated Bank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

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 assets 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 the Association's supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

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. The Association does not have any assets that fall within this level.

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, and certain loans and other property owned.

The fair value disclosures are disclosed in Note 14, "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 a 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 — INVESTMENTS:

Investments Held-to-Maturity

The Association's held-to-maturity investment consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 19,523	$ -	$ (88)	$ 19,435	4.92%	3.86

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 24,520	$ 245	$ -	$ 24,275	4.99%	4.26

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitments to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. The Association continues to service the loans included in the transaction. The Association did not have any mortgage-backed securities prior to 2010.

NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

	2011		2010		2009	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 3,978,145**	**80.7%**	$ 4,080,935	80.0%	$ 4,045,814	77.5%
Production and intermediate term	**452,870**	**9.2%**	523,406	10.3%	580,017	11.1%
Agribusiness	**344,862**	**7.0%**	356,354	7.0%	449,047	8.6%
Rural residential real estate	**75,392**	**1.5%**	75,097	1.5%	73,789	1.4%
Communication	**28,269**	**0.6%**	30,869	0.6%	34,283	0.7%
Energy	**25,335**	**0.5%**	23,549	0.5%	33,009	0.6%
Mission related investments	**21,116**	**0.4%**	-	0.0%	-	0.0%
Lease receivables	**6,290**	**0.1%**	6,417	0.1%	2,741	0.1%
Water and waste disposal	**158**	**0.0%**	15	0.0%	-	0.0%
Total	**$ 4,932,437**	**100.0%**	$ 5,096,642	100.0%	$ 5,218,700	100.0%

At December 31, 2011, the Association held 13 transactions, which are reported as loans on the consolidated balance sheet totaling $12,081 and with $120 remaining commitments extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

The Association has purchased and sold 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 as of December 31, 2011:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 75,987	$ 41,510	$ 40,134	$ 244	$ 116,121	$ 41,754
Production and intermediate term	87,959	-	-	-	87,959	-
Agribusiness	240,268	17,101	1,491	-	241,759	17,101
Communication	28,269	-	-	-	28,269	-
Energy	25,335	-	-	-	25,335	-
Mission related investments	11,630	-	-	-	11,630	-
Total	$ 469,448	$ 58,611	$ 41,625	$ 244	$ 511,073	$ 58,855

Loan Volume by Office:

Offices	**2011**	2010	2009
Agribusiness	**10.8%**	9.7%	11.7%
Dayton	**5.0%**	5.2%	5.5%
Kerrville	**4.4%**	4.4%	4.3%
Mason	**3.9%**	3.8%	3.9%
Bryan	**3.6%**	3.4%	3.3%
Austin	**3.4%**	3.6%	3.4%
Edna	**3.0%**	3.2%	3.2%
San Antonio	**2.7%**	2.7%	2.7%
Hondo	**2.7%**	2.5%	2.7%
Conroe	**2.7%**	2.5%	2.3%
Uvalde	**2.5%**	2.3%	2.2%
La Grange	**2.4%**	2.3%	2.3%
Devine	**2.3%**	2.4%	2.5%
Bellville	**2.2%**	2.2%	2.3%
Edinburg	**2.2%**	2.2%	2.2%
Wichita Falls	**2.2%**	1.8%	1.8%
Burnet	**2.0%**	1.9%	1.8%
Kenedy	**1.8%**	2.0%	1.9%
Hereford	**1.8%**	2.0%	2.1%
Laredo	**1.7%**	1.7%	1.2%
Madisonville	**1.6%**	1.5%	1.4%
Robstown	**1.6%**	1.6%	1.5%
El Campo	**1.6%**	2.0%	1.7%
Munday	**1.6%**	1.7%	1.6%
Dalhart	**1.5%**	1.7%	1.7%
Lockhart	**1.5%**	1.4%	1.2%
Fredericksburg	**1.3%**	1.1%	1.1%
Bowie	**1.3%**	1.2%	1.1%
San Angelo	**1.3%**	1.4%	1.3%
San Saba	**1.3%**	1.2%	1.2%
Temple	**1.3%**	1.4%	1.3%
Levelland	**1.1%**	1.1%	1.0%
Rosenberg	**1.1%**	1.0%	1.1%
Lubbock	**1.0%**	1.2%	1.1%
Waco	**1.0%**	1.1%	0.9%
Littlefield	**0.9%**	0.9%	0.9%
Jourdanton	**0.9%**	1.0%	1.0%
New Braunfels	**0.9%**	0.8%	0.7%
Lamesa	**0.9%**	1.1%	1.1%
Muleshoe	**0.9%**	0.8%	1.0%
Taylor	**0.8%**	0.9%	1.0%
Spur	**0.7%**	0.8%	0.8%
Bay City	**0.7%**	0.5%	0.5%
Stamford	**0.7%**	0.9%	0.9%
El Paso	**0.7%**	0.7%	0.7%
Alpine	**0.6%**	0.7%	0.7%
Crockett	**0.6%**	0.6%	0.5%
Goldthwaite	**0.6%**	0.6%	0.6%
Sonora	**0.6%**	0.7%	0.7%
Gatesville	**0.6%**	0.6%	0.5%
Childress	**0.6%**	0.7%	0.7%
All Other Offices	**4.9%**	5.3%	5.2%
Totals	**100.0%**	100.0%	100.0%

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.

	2011		2010		2009	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$ 2,892,772**	**58.6%**	$ 2,969,872	58.3%	$ 2,998,845	57.5%
Crops	**943,213**	**19.1%**	1,010,006	19.8%	1,034,136	19.8%
Hunting	**288,799**	**5.9%**	300,069	5.9%	304,451	5.8%
Timber	**150,296**	**3.0%**	174,826	3.4%	217,033	4.2%
Dairy	**106,834**	**2.2%**	104,576	2.1%	114,662	2.2%
Utilities	**70,234**	**1.4%**	70,748	1.4%	80,683	1.5%
Rural home loans	**62,587**	**1.3%**	59,433	1.2%	58,894	1.1%
Industrial/organic chemical	**47,262**	**1.0%**	61,437	1.2%	72,663	1.4%
Poultry	**45,268**	**0.9%**	37,950	0.7%	46,164	0.9%
Other	**325,172**	**6.6%**	307,725	6.0%	291,169	5.6%
Total	**$ 4,932,437**	**100.0%**	$ 5,096,642	100.0%	$ 5,218,700	100.0%

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 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.

To mitigate the risk of loan losses, the Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the Bank. The agreements, which will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2011, 2010 and 2009, loans totaling $51,772, $59,839 and $96,830, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $246, $286 and $337 in 2011, 2010 and 2009, respectively, and are reflected in "other noninterest expense" in the Consolidated Statement of Income.

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

	December 31, 2011	December 31, 2010	December 31, 2009
Nonaccrual loans:			
Real estate mortgage	**$ 104,009**	$ 127,712	$ 49,968
Production and intermediate-term	**7,538**	12,004	17,790
Agribusiness	**22,303**	52,687	78,125
Communication	**790**	1,082	1,464
Residential Real Estate	**504**	681	536
Lease receivable	**2,881**	2,836	-
Mission related invesments	**80**	-	-
Total nonaccrual loans	**$ 138,105**	$ 197,002	$ 147,883
Accruing restructured loans:			
Real estate mortgage	**$ 5,843**	$ 239	$ 344
Production and intermediate-term	**680**	775	905
Agribusiness	**4,612**	-	-
Total accruing restructured loans	**$ 11,135**	$ 1,014	$ 1,249
Accruing loans 90 days or more past due:			
Real estate mortgage	**$ 172**	$ 1,344	$ 1,543
Production and intermediate-term	**2,144**	-	5,574
Agribusiness	**2,684**	-	-
Total accruing loans 90 days or more past due	**$ 5,000**	$ 1,344	$ 7,117
Total nonperforming loans	**$ 154,240**	$ 199,360	$ 156,249
Other property owned	**6,220**	16,658	19,893
Total nonperforming assets	**$ 160,460**	$ 216,018	$ 176,142

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

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

The following table shows loans and related accrued interest classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2011	2010	2009
Real estate mortgage			
Acceptable	**92.8%**	90.3%	93.9%
OAEM	**3.0%**	4.5%	3.6%
Substandard/doubtful	**4.2%**	5.2%	2.5%
	100.0%	100.0%	100.0%
Production and intermediate-term			
Acceptable	**88.5%**	86.0%	89.9%
OAEM	**8.2%**	9.9%	6.0%
Substandard/doubtful	**3.3%**	4.1%	4.1%
	100.0%	100.0%	100.0%
Agribusiness			
Acceptable	**80.9%**	63.5%	60.8%
OAEM	**7.8%**	20.3%	18.0%
Substandard/doubtful	**11.3%**	16.2%	21.2%
	100.0%	100.0%	100.0%
Energy			
Acceptable	**80.5%**	100.0%	100.0%
OAEM	**9.3%**	-	-
Substandard/doubtful	**10.2%**	-	-
	100.0%	100.0%	100.0%
Water and waste disposal			
Acceptable	**100.0%**	100.0%	-
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0%	100.0%	-
Communication			
Acceptable	**97.2%**	96.5%	95.8%
OAEM	**-**	-	-
Substandard/doubtful	**2.8%**	3.5%	4.2%
	100.0%	100.0%	100.0%
Rural residential real estate			
Acceptable	**97.0%**	96.6%	96.8%
OAEM	**1.8%**	1.7%	1.6%
Substandard/doubtful	**1.2%**	1.7%	1.6%
	100.0%	100.0%	100.0%
Lease receivables			
Acceptable	**54.2%**	51.8%	94.5%
OAEM	**-**	3.2%	5.5%
Substandard/doubtful	**45.8%**	45.0%	-
	100.0%	100.0%	100.0%
Mission related investments			
Acceptable	**98.1%**	-	-
OAEM	**1.5%**	-	-
Substandard/doubtful	**0.4%**	-	-
	100.0%	-	
Total loans			
Acceptable	**91.6%**	88.2%	90.7%
OAEM	**3.8%**	6.1%	5.0%
Substandard/doubtful	**4.6%**	5.7%	4.3%
	100.0%	100.0%	100.0%

The following table provides an age analysis of past due loans including accrued interest, as of December 31, 2011:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	Loans >90 Days and Accruing
Real estate mortgage	$ 21,948	$ 67,517	$ 89,465	$ 3,904,107	$ 3,993,572	$ 172
Production and intermediate term	3,377	4,706	8,083	451,262	459,345	2,144
Loans to cooperatives	-	-	-	2,303	2,303	-
Processing and marketing	2,449	8,281	10,730	304,683	315,413	2,684
Farm-related business	451	2,417	2,868	25,724	28,592	-
Communication	-	-	-	28,379	28,379	-
Energy	-	-	-	25,375	25,375	-
Water and waste disposal	-	-	-	159	159	-
Rural residential real estate	595	271	866	95,143	96,009	-
Lease receivables	-	2,759	2,759	3,634	6,393	-
Mission related investments	-	-	-	21,283	21,283	-
Total	$ 28,820	$ 85,951	$ 114,771	$ 4,862,052	$ 4,976,823	$ 5,000

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

The following table presents additional information regarding troubled debt restructurings that occurred during the year ended December 31, 2011:

	Balance Pre-TDR designation	Balance Post-TDR designation
Troubled debt restructurings:		
Real estate mortgage	$ 5,352	$ 5,338
Production and intermediate term	2,469	2,414
Processing and marketing	1,099	1,024
Total	$ 8,920	$ 8,776

Balance of Pre-TDR designation represents quarter-end loans just prior to restructuring and post-TDR represents the quarter-end loans immediately following the restructuring.

There were no troubled debt restructurings that occurred within the previous 12 months for which there was a payment default during the period.

As of December 31, 2011 commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $431.

Additional impaired loan information is as follows:

	Loan Balance at 12/31/2011	Unpaid Principal Balance	Related Specific Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 55,180	$ 67,170	$ 9,124	$ 43,496	$ 625
Production and intermediate term	2,402	4,017	935	2,792	2
Processing and marketing	11,729	11,961	6,274	16,191	31
Farm-related business	1,310	1,310	636	1,356	-
Communication	791	790	453	1,012	-
Rural residential real estate	25	39	3	17	1
Lease receivables	2,759	2,759	27	2,800	-
Mission related investments	-	-	-	-	-
Total	$ 74,196	$ 88,046	$ 17,452	$ 67,664	$ 659
Impaired loans with no related specific allowance for loan losses:					
Real estate mortgage	$ 54,762	$ 57,236	$ -	$ 62,533	$ 1,603
Production and intermediate term	7,960	12,436	-	8,549	377
Processing and marketing	14,954	31,939	-	16,967	498
Farm-related business	1,605	8,777	-	1,019	14
Communication	-	-	-	-	-
Rural residential real estate	478	568	-	374	10
Lease receivables	122	122	-	47	8
Mission related investments	80	95	-	2	6
Total	$ 79,961	$ 111,173	$ -	$ 89,491	$ 2,516
Total impaired loans:					
Real estate mortgage	$ 109,942	$ 124,406	$ 9,124	$ 106,029	$ 2,228
Production and intermediate term	10,362	16,453	935	11,341	379
Processing and marketing	26,683	43,900	6,274	33,158	529
Farm-related business	2,915	10,087	636	2,375	14
Communication	791	790	453	1,012	-
Rural residential real estate	503	607	3	391	11
Lease receivables	2,881	2,881	27	2,847	8
Mission related investments	80	95	-	2	6
Total	$ 154,157	$ 199,219	$ 17,452	$ 157,155	$ 3,175

Unpaid principal balance represents the recorded principal balance of the loan.

The Association has remaining commitments to lend additional funds to 18 borrowers whose loans were classified as impaired at December 31, 2011 of $2,610.

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

	2011	2010	2009
Total interest income which would have been recognized under the original terms	**$ 12,861**	$ 11,621	$ 13,131
Less: interest income recognized	**3,175**	5,106	5,556
Interest income not recognized	**$ 9,686**	$ 6,515	$ 7,575

A summary of the changes in the allowance for loan losses and the ending balance including accrued interest of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Lease Receivable	Mission Related Investments	Total
Allowance for loan losses:									
Balance at December 31, 2010	$ 19,754	$ 9,197	$ 15,404	$ 487	$ 290	$ 132	$ 30	$ -	$ 45,294
Charge-offs	(10,230)	(1,206)	(5,056)	-	-	(74)	-	(15)	(16,581)
Recoveries	373	2,222	3,539	-	-	7	-	-	6,141
Provision for loan losses	12,701	(6,196)	(4,302)	50	(179)	60	5	30	2,169
Balance at December 31, 2011	$ 22,598	$ 4,017	$ 9,585	$ 537	$ 111	$ 125	$ 35	$ 15	$ 37,023
Allowance for loan losses: individually evaluated for impairment	$ 9,123	$ 935	$ 6,910	$ 454	$ -	$ 3	$ 27	$ -	$ 17,452
Allowance for loan losses: collectively evaluated for impairment	$ 13,475	$ 3,082	$ 2,675	$ 83	$ 111	$ 122	$ 8	$ 15	$ 19,571
Loans, including accrued interest:									
Ending Balance at December 31, 2011	$ 4,016,522	$ 437,035	$ 344,874	$ 28,687	$ 25,536	$ 96,474	$ 6,386	$ 21,309	$ 4,976,823
Ending balance for loans individually evaluated for impairment	$ 184,410	$ 14,827	$ 44,891	$ 791	$ 2,628	$ 1,139	$ 2,887	$ 95	$ 251,668
Ending balance for loans collectively evaluated for impairment	$ 3,832,112	$ 422,208	$ 299,983	$ 27,896	$ 22,908	$ 95,335	$ 3,499	$ 21,214	$ 4,725,155

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

	2011	2010	2009
Beginning balance	**$ 45,294**	$ 46,732	$ 23,646
Provision for loan losses	**2,169**	29,173	58,198
Loans charged off	**(16,581)**	(32,511)	(35,457)
Recoveries	**6,141**	1,900	345
Ending balance	**$ 37,023**	$ 45,294	$ 46,732

NOTE 5 – INVESTMENT IN THE FARM CREDIT BANK OF TEXAS

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities, not fair value, in the accompanying balance sheet. Estimating the fair value of the Association’s investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The Association owns 38.58 percent of the issued stock of the Bank as of December 31, 2011. As of that date, the Bank’s assets totaled $14,049,234 and members' equity totaled $1,210,356. The Bank’s earnings were $174,196 during 2011.

NOTE 6 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2011	2010	2009
Land and improvements	**$ 3,444**	$ 3,350	$ 3,419
Building and improvements	**11,949**	11,943	12,535
Furniture and equipment	**3,187**	3,095	3,261
Computer equipment and software	**1,861**	1,754	1,741
Automobiles	**1,091**	2,267	2,383
Construction in progress	**189**	-	-
	21,721	22,409	23,339
Accumulated depreciation	**(10,846)**	(11,281)	(11,014)
Total	**$ 10,875**	$ 11,128	$ 12,325

The Association leases office space in Abilene, Austin, Bay City, Bryan, Burnet, Conroe, Crockett, Edinburg, El Paso, Fredericksburg, Harlingen, Hondo, Katy, Laredo, Livingston, New Braunfels, Robstown, Round Rock, San Antonio and Seminole, Texas. Lease expense was $794, $791 and $679 for 2011, 2010 and 2009, respectively. Minimum annual lease payments for the next five years are as follows:

2011	794
2012	660
2013	376
2014	197
2015	103
Thereafter	238
Total	$ 2,368

NOTE 7 – OTHER PROPERTY OWNED, NET:

Net loss on other property owned consists of the following for the years ended December 31:

	2011	2010	2009
Gain on sale of other property owned	**$ 587**	$ 475	$ 324
Direct write-down of other property owned to fair value	**(1,676)**	(5,386)	(5,407)
Holding costs of other property owned	**(71)**	(781)	(281)
Net loss on other property owned	**$ (1,160)**	$ (5,692)	$ (5,364)

The Association has other property owned (OPO), which includes 17 properties totaling 2,009 acres. Of these properties, a great majority of the OPO balance includes real property which secured a participation loan and two loans in the real estate sector. All these properties have been individually appraised and the carrying amounts are not in excess of appraised values at December 31, 2011.

NOTE 8 – OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2011	2010	2009
Prepaid captive insurance premiuns	**$ 1,685**	$ 1,654	$ 1,574
Nonqualified deferred compensation trust	**2,006**	1,702	1,475
Other assets	**406**	398	7,189
Total	**$ 4,097**	$ 3,754	$ 10,238

Other liabilities comprised the following at December 31:

	2011	2010	2009
Accounts payable	**$ 10,560**	$ 6,202	$ 1,874
Annual vacation accrual	**2,024**	1,771	1,758
FCS insurance payable	**2,543**	2,270	8,908
Nonqualified deferred compensation payable	**2,006**	1,702	1,475
Other liabilities	**4,551**	5,878	1,394
Total	**$ 21,684**	$ 17,823	$ 15,409

NOTE 9 — 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 indebtedness continues in effect until the expiration date of the general financing agreement, which is October 1, 2012, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days prior written notice, or in all other circumstances, upon giving the bank 120 days prior written notice. We anticipate that the Association's direct loan will be renewed.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2011, 2010 and 2009, were $4,104,831 at 2.58 percent, $4,338,554 at 2.98 percent and $4,531,494 at 3.36 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, 2011, 2010 and 2009, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2011 was $4,844,639 as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans.

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 general 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, 2011, 2010 and 2009, the Association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 10 — MEMBERS' EQUITY:

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 B capital stock or participation certificates is equal to 2 percent of the loan amount, up to a maximum amount of one thousand dollars. 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 B 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 B and participation certificates to Class A stock. Class A 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 capital stock and participation certificates is made solely at the discretion of the Association's board of directors. At December 31, 2011, 2010 and 2009, the Association had $3, $3 and $98, respectively, of Class A stock.

All borrower stock and allocated equities are at-risk. Net losses recorded by the Association shall first be applied against unallocated retained earnings. To the extent such losses exceed unallocated retained earnings, such losses would be applied in accordance with Association bylaws and be borne first on a pro rata basis by holders of all allocated equities and then on a pro rata basis by all holders of Class A stock, Class B capital stock and participation certificates. In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall first be distributed to the holders of stock and participation certificates pro rata in proportion to the number of shares or units of stock or 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 such holders; second, to the holders of qualified allocated earnings on the basis of the oldest allocations first, until an amount equal to the balance outstanding in this account has been distributed to the holders; third, to the holders of nonqualified allocated earnings on the basis of the oldest notices first, until an amount equal to the total of all notices outstanding has been distributed to the holders; and fourth, any remaining assets of the Association shall be distributed to the members, in proportion to which the aggregate patronage of each such member bears to the total patronage of all such parties insofar as practicable, unless provided by law.

The Association may create and maintain an allocated surplus account consisting of earnings held therein and allocated to borrowers on a patronage basis pursuant to its bylaws. Allocated surplus may be evidenced by either "qualified written notices of allocation" or "non-qualified written notices of allocation," or both.

All allocations in the form of qualified written notices of allocation shall be issued in annual series and shall be identified by the year of issuance. Each such series shall be retired fully or on a pro rata basis, only at the discretion of the board, in order of issuance by years as funds are available. Currently, the Association has no qualified allocated equity outstanding.

All allocations in the form of non-qualified notices of allocation shall be issued in annual series and identified by the year of issuance. Each annual series may be subdivided between two or more classes. Each such series, or class thereof, shall be retired in the discretion of the board. Currently all of the Association's allocated equity is nonqualified.

In September 2011, the board of directors approved a resolution to retire $50,000 in non-qualified allocated equities which were paid to the stockholders in November 2011. The equities retired represented $10,295, $18,805 and $20,900 from those allocated in 2006, 2007 and 2008, respectively.

In September 2010, the board of directors approved a resolution to retire $15,000 in non-qualified allocated equities which were paid to the stockholders in December 2010. The equities retired represented $3,079, $5,640 and $6,281 from those allocated in 2006, 2007 and 2008, respectively.

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 patronage distributions were declared and paid in 2011, 2010 and 2009, respectively:

Date Declared	Non-Qualified Allocated Retained Earnings	Cash Patronage Amount	Cash Patronage Date Paid (Payable)
December 2011	**$ 88,202**	**$ 38,400**	**March 2012**
December 2010	$ 73,662	$ 32,061	April 2011
December 2009	$ 39,885	$ 17,741	March 2010

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, 2011 the Association is not prohibited from retiring stock or distributing earnings. Furthermore, neither the board of directors 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, 2011, were 16.4 percent, 13.6 percent and 16.0 percent, respectively.

The Association has a capital plan in place for 2012 with the objective of managing capital at a level that supports the growth of the Association's lending activities. The Association's plan is to continue to generate earnings to meet plan objectives, retire stock on paid loans in an orderly manner, and to pay patronage refunds to its stockholders as capital allows.

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, Class B stock and participation certificates outstanding at a par value of five dollars per share:

	2011	2010	2009
Class A stock	**563**	543	19,543
Class B stock	**4,212,886**	4,324,879	4,415,607
Participation certificates	**157,938**	154,435	146,759
Total	**4,371,387**	4,479,857	4,581,909

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes as $1,041, $1,672 and $4,353 as of December 2011, 2010 and 2009 respectively.

NOTE 11 — INCOME TAXES:

The provision (benefit from) income taxes follows for the years ended December 31:

	2011	2010	2009
Current federal tax	$ 110	$ 46	$ 7
Deferred federal tax	-	-	-
Provision for income taxes	$ 110	$ 46	$ 7

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:

	2011	2010	2009
Federal tax at statutory rate	43,153	$ 36,008	$ 19,593
Federal income tax attributable to:			
Income not subject to federal tax	(38,581)	(38,664)	(22,271)
Nondeductible provision for loan losses	(2,926)	4,033	5,508
Patronage distributions	(3,024)	-	-
Charge-offs on loans	1,356	(4,888)	(4,071)
Net operating loss carryforward	-	3,523	938
Other	132	34	310
Provision for income taxes	$ 110	$ 46	$ 7

Deferred tax assets and liabilities in accordance with FASB guidance, "Accounting for Income Taxes," result from the following at December 31:

	2011	2010	2009
Allowance for losses on loans	$ 3,549	$ 5,119	$ 5,974
Allowance for other property owned	93	621	19
Net operating loss carryfoward	7,377	4,461	938
Deferred tax assets	11,019	10,201	6,931
Valuation allowance	(11,019)	(10,201)	(6,931)
Net deferred tax asset	$ -	$ -	$ -

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings, including the following at December 31, 2011. Nonpatronage income is expected to be less than 5 percent of total taxable income (before patronage), and all patronage income is expected to be disbursed over time. The expected future tax rates are based upon enacted tax laws.

The Association recorded valuation allowances of $11,019, $10,201 and $6,931 at 2011, 2010 and 2009, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

NOTE 12 — 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. Also, the Association sponsors a nonqualified defined contribution 401(k) plan. These plans are described more fully in section I of Note 2, "Summary of Significant Accounting Policies."

The structure of the district's DB Plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon District combination only. The Association records current contributions to the DB Plan as an expense in the current year.

The DB Plan is noncontributory and benefits are based on salary and years of service. The legal name of the plan is the Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB Plan is not subject to any contractual expiration dates. The DB Plan's funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by the percentage approved by the plan sponsor. The plan sponsor is the board of directors of the Farm Credit Bank of Texas. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. Actuarial information regarding the DB pension plan accumulated benefit obligation and plan asset is calculated for the District as a whole and is presented in the District's Annual Report to Stockholders. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB Plan as of December 31, 2011.

The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
c. If the Association chooses to stop participating in some of its multi-employer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan, the Association's contributions, and the percentage of Association contribution to total plan contributions for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Funded status of plan	**64.9%**	71.6%	61.4%
Association's contribution	**$ 6,490**	$ 6,143	$ 9,205
Percentage of association's contribution to total contributions	**28.4%**	30.7%	28.8%

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB Plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 72.6 percent, 78.8 percent and 73.5 percent at December 31, 2011, 2010 and 2009, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care 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 the liability section of the Association's consolidated balance sheet.

In September 2006, the FASB issued guidance, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans in the balance sheet. The balance sheet recognition provisions of the guidance were adopted at December 31, 2007. The guidance also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, 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 Association 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 $205, net of taxes and increased the pension and other postretirement benefit liabilities by $205.

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

Disclosure Information Related to Retirement Benefits	2011	2010	2009
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 16,562**	$ 13,506	$ 13,284
Service cost	**492**	448	458
Interest cost	**930**	807	825
Plan participants' contributions	**136**	127	108
Plan amendments	**-**	-	-
Actuarial loss (gain)	**213**	2,249	(647)
Benefits paid	**(603)**	(575)	(522)
Accumulated postretirement benefit obligation, end of year	**$ 17,730**	$ 16,562	$ 13,506
Change in Plan Assets			
Association contributions	**487**	448	414
Plan participants' contributions	**136**	127	108
Benefits paid	**(623)**	(575)	(522)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Amounts Recognized in Consolidated Balance Sheet			
Current liabilities	**$ (602)**	$ (570)	$ (407)
Noncurrent Liabilities	**(17,128)**	(15,992)	(13,099)
Total	**$ (17,730)**	$ (16,562)	$ (13,506)
Amounts Recognized in Accumulated Other Comprehensive Income (AOCI)			
Net actuarial gain (loss)	**$ 1,251**	$ 1,037	$ (1,212)
Prior service credit	**(2,292)**	(2,709)	(3,141)
Total	**$ (1,041)**	$ (1,672)	$ (4,353)
Additional Information			
Increase in minimum liability included in other comprehensive income	**$ -**	$ -	$ 166
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2011**	12/31/2010	12/31/2009
Discount rate	**5.10%**	5.70%	6.05%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**8.5% /6.75%**	7.5%/6.5%	8.0%/7.0%
Health care cost trend rate assumed for next year - Rx	**8.00%**	10.00%	10.50%
Ultimate health care cost trend rate	**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	**2018**	2017	2017

Disclosure Information Related to Retirement Benefits		**2011**		2010		2009
Components of Net Postretirement Benefit Cost						
Service Cost	**$**	**492**	$	448	$	458
Interest cost		**930**		807		825
Amortization of:						
Unrecognized prior service credit		**(417)**		(433)		(432)
Net postretirement benefit cost	**$**	**1,005**	$	822	$	851
Adjustment to Retained Earnings Due to Change in Measurement Date	**$**	**-**	$	-	$	(205)
Other Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive Income						
Net Actuarial Loss (gain)	**$**	**214**	$	2,248	$	(647)
Prior Service Cost		**417**		433		432
Total Recognized in Other Comprehensive Income	**$**	**631**	$	2,681	$	(215)
AOCI Amounts Expected to be Amortized into Expense						
Unrecognized prior service cost		**(339)**		(417)		(432)
Unrecognized net loss		**-**		-		-
Total	**$**	**(339)**	$	(417)	$	(432)
Weighted-Average Assumptions Used to Determine Net Postretirement Benefit Cost						
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%/6.5%
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

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)		
Fiscal 2012	**$**	**582**
Fiscal 2013		**670**
Fiscal 2014		**741**
Fiscal 2015		**828**
Fiscal 2016		**911**
Fiscal 2017 to 2021		**5,469**
Expected Contributions		
Fiscal 2012	**$**	**582**

NOTE 13 — 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, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons for the Association amounted to $20,265, $36,291 and $40,896 at December 31, 2011, 2010 and 2009, respectively. During 2011, $18,274 of new loans were made and repayments totaled $34,300. In the opinion of management, no such loans outstanding at December 31, 2011, 2010 and 2009 involved more than a normal risk of collection.

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 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 $4,217, $4,580 and $11,563 in 2011, 2010 and 2009, respectively. As of April 2011, the Bank only bills associations for direct pass-through expenses and no longer bills for allocated expenses.

The Association received patronage payments from the Bank totaling $19,883, $24,344 and $20,121 during 2011, 2010 and 2009, respectively.

NOTE 14 — 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.

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 Association for assets and liabilities:

Assets held in nonqualified benefits trusts related to deferred compensation and supplemental retirement plans are classified as Level 1. Level 1 valuation utilizes quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The trust funds include investments that are actually traded and have quoted net assets values that are quoted in the marketplace. These assets are measured at fair value on a recurring basis and are summarized below:

	Total Fair Value December 31, 2011	Total Fair Value December 31, 2010	Total Fair Value December 31, 2009
Beginning Balance	**$ 1,702**	$ 1,475	$ 639
Transfers In	**473**	-	806
Other Market Changes	**(169)**	227	30
Assets held in non-qualified benefits trusts	**$ 2,006**	$ 1,702	$ 1,475

For certain loans evaluated for impairment under impairment 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 and judgment about current market conditions, specific issues related to 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 cost to sell, is less than the principal balance of the loan, a specific reserve is established.

Other property owned is also 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 cost, and are not included as a component of the asset's fair value.

These assets are measured at fair value on a nonrecurring basis and are summarized below:

	Total Fair Value December 31, 2011	Total Fair Value December 31, 2010	Total Fair Value December 31, 2009
Impaired Loans	**$ 128,999**	$ 199,307	$ 156,169
Investments Held-to-Maturity	**19,435**	24,275	-
Other property owned	**6,220**	16,658	19,893
Total	**$ 154,654**	$ 240,240	$ 176,062

NOTE 15 — 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 by the borrower. At December 31, 2011, $632,172 of commitments and $19,525 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 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.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. Standby letters of credit are recorded, at fair value, on the balance sheet by the Association. At December 31, 2011, there were no standby letters of credit included in other liabilities. Outstanding standby letters of credit have expiration dates ranging from January 6, 2012 to February 1, 2033. The maximum potential amount of future payments the Association is required to make under the guarantees is $18,967.

The Association also participates in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (the Plan). The Plan is a defined contribution plan and maintained for the benefit of the participating employers including the Association and its eligible employees. One of the purposes of the Plan is to allow a means for participating employers to restore benefits lost due to limitations under the Internal Revenue Code as it relates to the Association's existing Pension Plan. The Association has evaluated the benefits lost as a result of these limitations with regard to the CEO of the Association and has begun funding this shortfall over a five-year period using a five-year vesting schedule. During 2010, the agreement covering the supplemental plan for the CEO was revised in order to fix the total obligation of the Association under the plan. The funding of this shortfall occurs annually. Contributions to the

Plan for plan years 2011, 2010 and 2009 were $635,000, $473,000 and $797,000, respectively. At December 31, 2011 the remaining obligation of the Association is $635,000 which under the terms of this agreement will expire on December 31, 2012.

NOTE 16 — 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, 2011, 2010 and 2009. 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:

	2011		2010		2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Cash	**$ 1,286**	**$ 1,286**	$ 5,691	$ 5,691	$ 15,098	$ 15,098
Loans, net	**4,895,414**	**4,920,723**	5,051,348	5,042,811	5,171,968	5,157,797
Investments Held-to-Maturity	**19,523**	**19,435**	24,520	24,275	-	-
Nonqualified deferred compensation trust assets	**2,006**	**2,006**	1,702	1,702	1,475	1,475
Financial liabilities:						
Note payable to the Bank	**4,104,831**	**4,126,053**	4,338,554	4,331,221	4,531,494	4,519,078

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:

For cash and overnight investments, the carrying amount is a reasonable estimate of fair value. The fair value of term Federal funds sold and securities purchased under resale agreements is based on currently quoted market prices, which are reflective of current interest rates.

B. Investment Securities:

Includes available-for-sale investments for liquidity, mission-related and other purposes, as well as held-to-maturity investments. See Note 14 "Fair Value Measurements," for the valuation technique used to determine the fair value of investments.

C. 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. Management has no basis to determine whether the estimated fair values presented would be indicative of the assumptions and adjustments that a purchaser of the Association's loans would seek in an actual sale, which could be less.

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.

D. Assets held in nonqualified benefits trusts: These assets relate to deferred compensation and supplemental retirement plans. As discussed in Note 14, “Fair Value Measurements,” the fair value of these assets is quoted net asset values.

E. 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.

F. 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 17 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 are as follows:

	2011				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 40,476**	**$ 39,662**	**$ 40,293**	**$ 41,410**	**$ 161,841**
(Provision for) reversal of loan losses	**(4,280)**	**100**	**2,492**	**(481)**	**(2,169)**
Noninterest expense, net	**(8,185)**	**(7,762)**	**(6,545)**	**(10,370)**	**(32,862)**
Net income	**$ 28,011**	**$ 32,000**	**$ 36,240**	**$ 30,559**	**$ 126,810**

	2010				
	First	Second	Third	Fourth	Total
Net interest income	$ 39,504	$ 39,407	$ 39,369	$ 39,218	$ 157,498
Provision for loan losses	(1,633)	(6,597)	(18,083)	(2,860)	(29,173)
Noninterest expense, net	(10,751)	(2,053)	(4,821)	(4,795)	(22,420)
Net income	$ 27,120	$ 30,757	$ 16,465	$ 31,563	$ 105,905

	2009				
	First	Second	Third	Fourth	Total
Net interest income	$ 38,220	$ 36,656	$ 37,794	$ 39,691	$ 152,361
Provision for loan losses	(17,921)	(12,872)	(14,728)	(12,677)	(58,198)
Noninterest expense, net	(9,103)	(9,439)	(10,713)	(7,282)	(36,537)
Net income	$ 11,196	$ 14,345	$ 12,353	$ 19,732	$ 57,626

NOTE 18 – SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 6, 2012, which is the date the financial statements were issued or available to be issued. The Association is not aware of any subsequent events that would materially impact the financial statements as presented.

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

The Association has a policy to make a concerted effort to finance young, beginning, or small farmers and ranchers, and producers or harvesters of aquatic products (YBS program). For purposes of the Association's YBS program, young producers are defined as those age 35 or younger. Beginning producers are defined as a producer with 10 years or less of experience at farming, ranching, and producing or harvesting aquatic products. A small producer is defined as one who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products. Using statistics obtained from a United States Department of Agriculture census and information from the Association's loan accounting records as of June 30, 2011, the following table compares the percentage of YBS farmers in the Association's territory (based on USDA data) with the percentage of YBS customers in the Association's loan portfolio. While the measurement (farmers) used in the USDA census information is not directly comparable to the measurement (customers) used by the Association, the statistics presented herein serve as a quantitative measurement of the Association's success in attracting and making loans to young, beginning and/or small farmers that live or have operations in the Association's territory.

In the following table, 4.0 percent of the farmers in the Association's territory are "Young" farmers while 17.4 percent of our customers that live or operate in the Association's territory meet the "Young" criterion. The same explanation applies to the Beginning and Small categories.

FARMERS, RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS CLASSIFIED AS:	FARMERS IN TERRITORY	ASSOCIATION CUSTOMERS
Young	4.0%	16.9%
Beginning	30.7%	63.2%
Small	95.3%	84.1%

At December 31, 2011, the Association had the following number of loans and volume outstanding in its YBS Program (loans may fit in one, two or all three categories):

YOUNG		BEGINNING		SMALL	
Number of Loans	Volume	Number of Loans	Volume	Number of Loans	Volume
3,878	$574,314	13,352	$2,925,041	17,943	$3,351,328

The Association maintains a policy that directs management to implement a program that strives to fully utilize its resources to: (A) attract and retain YBS customers, (B) implement lending programs and/or services that meet the needs of YBS customers and (C) develop quantitative standards that may be used to measure the number of YBS customers served as compared to the number in the CFC territory. Management has implemented programs to address each component:

Attract and retain YBS customers – The employees of Capital Farm Credit are involved in working with youth livestock programs that have historically produced individuals that become farmers and ranchers in the future. Hundreds of hours are spent annually serving in various capacities that promote livestock shows and sales for youth across the state and Capital Farm Credit spends thousands of dollars sponsoring and contributing to these programs. These programs are spread across the state and include county, regional and statewide shows and involve both 4-H and FFA programs.

In addition, CFC sponsors and supports programs and organizations around the state that are targeted at young, beginning or small farmers or ranchers, some in cooperation with various county and state-wide organizations but also with the Texas AgriLife Extension Service. These programs have been successful in helping to educate and provide knowledge and other resources to farmers and ranchers that are taking steps to increase their involvement in agriculture and/or the size of their operations.

The involvement and support of these programs also helps YBS farmers/ranchers become aware of Capital Farm Credit and understand how its loan programs can be of value to them as they improve or expand their current operations but also aids them in improving or expanding their operation whether they do business with Capital Farm Credit or not.

Implement lending programs and/or services that meet the needs of YBS customers – The Association implemented a policy that permits the Association to provide constructive credit to serve any financing need of YBS customers that are taking demonstrated steps to become more fully engaged as a full-time farmer or rancher. Also, the Association has adopted underwriting standards that contain flexible criteria that permit the credit needs of customers to be met when the customer falls short of meeting an established standard but has one or more compensating strengths to offset the area of weakness. These flexible criteria, while still requiring reasonable and prudent underwriting standards, allows customers that engage in agriculture operations less than full-time to have the capital resources they need to begin or grow the operations. In addition, the Association cooperates with government agencies to structure loans with third party guarantees when the applicant does not have sufficient equity or proven repayment sources to qualify for credit by themselves. These cooperative efforts allow YBS customers to begin an agriculture operation, maintain their operation through stressful periods or make expansions in herd size, facilities or acreage.

Develop quantitative standards that may be used to measure the number of YBS customers served as compared to the number in the CFC territory – In each year's business plan, the board establishes YBS goals and develops quantitative standards to measure the level of success in achieving the established goals. The business plan also defines how and when the standards will be measured and assigns responsibility to an officer for monitoring, tracking and reporting the standards. The progress in achieving the goals is reported to the board of directors each quarter. Through this process, the board is able to evaluate if the programs implemented by management are successful in achieving the goals in the business plan and are successful in achieving compliance with the board's policy direction to serve the needs of YBS customers.

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Report of Independent Auditors

To the Board of Directors and Members of
Capital Farm Credit, 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 Capital Farm Credit, ACA and subsidiaries (the Association) at December 31, 2011, 2010, and 2009, 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 6, 2012

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