CAPITAL FARM CREDIT

Strength • Dependability • Service

Quarterly Report To Stockholders

Quarter Ended September 30, 2011

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA (the 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 quarterly 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' (FCB) 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 annual consolidated financial statements are examined 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 control 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 the internal auditors have direct access to the Audit Committee.

The undersigned certify that this quarterly 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

Phillip Munden

Phillip Munden,
Chairman, Board of Directors

Don VandeVanter

Don VandeVanter,
Chief Financial Officer

November 4, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars 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 quarter ended September 30, 2011. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2010 Annual Report of the Association. Results for interim periods are not necessarily indicative of results to be expected for future periods.

The economy continues to show positive economic growth since late 2009. Commodity prices continue to improve, positively affecting agricultural producers. Leading economic indicators are pointing to slow economic growth and the expectation is for this trend to continue throughout the last quarter of 2011. The overriding concern facing the Association is the drought and recent wildfires across much of Texas which is severely affecting crop and pasture conditions. The drought was evident early enough for farmers to limit planting, and exposure has also been mitigated by crop insurance. While credit quality is not expected to change substantially, production loan volume will be substantially below normal for the year for the Association.

Cattle producers in general have done well due to record cattle prices experienced this year. Since 2010, high feed costs and good cattle prices have resulted in reduced herd sizes. Drought and wildfires in the region have intensified this trend, as the loss of thousands of acres of grazing land has moved more cattle to feedlots. The movement of cattle to feedlots may start to reduce the above normal profit margin that cattle producers have experienced this year.

Significant Events:

The board of directors approved a $105,723 patronage distribution for 2010. $32,156 of this distribution was paid in cash in April 2011. $73,567 of this distribution was made in the form of nonqualified allocated earnings distributions. The owners of these distributions will not pay federal income taxes until the earnings are retired. It is the board's intention with this allocation and future allocations to assign ownership of the earnings of the Association, allow the stockholders to benefit more fully from the earnings of the Association, and to create a method to make future earnings distributions in the form of cash. While there is not a planned retirement of allocated earnings, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of any outstanding allocated earnings can be made.

In September 2010, the board of directors approved a resolution to retire $15,000 in allocated earnings which was paid to stockholders in December 2010. The retirement was a partial distribution of the earnings allocated in 2006, 2007, and 2008.

In September 2011, the board of directors approved a resolution to retire $50,000 in allocated earnings which are to be paid to stockholders in November 2011. The retirement is a partial distribution of the earnings allocated in 2006, 2007, and 2008. This cash distribution, in the midst of one of the worst droughts in history, is based on the Association's commitment to operate as a cooperative for the benefit of its stockholders.

Loan Portfolio:

Total loan volume was $4,893,892 at September 30, 2011. This compares with loan volume owned by the Association at December 31, 2010 of $5,096,642. This represents a decrease of $202,750, or approximately 4.0 percent. This reduction is a result of normal amortization of the loan portfolio as real estate business continues to be slow, and production loan volume has been significantly reduced by the drought.

The following table summarizes the Association's components and trends of high-risk assets:

		September 30, 2011	%		December 31, 2010	%
Nonaccrual loans	**$**	**159,819**	**89.2**	$	197,002	91.2
Loans 90 days past due and still accruing interest		**91**	**0.1**		1,300	0.6
Formally restructured loans		**12,242**	**6.8**		1,005	0.5
Other property owned, net		**6,987**	**3.9**		16,658	7.7
Total	**$**	**179,139**	**100.0**	$	215,965	100.0

The quality of the Association's loan portfolio has significantly improved with a $36,826 decrease in high-risk assets since the previous year's end. The Association experienced a $37,183 decrease in nonaccrual loans during the first nine months of 2011. This decrease related primarily to the repayment of several large nonaccrual loans and the reinstatement of loans to accrual status.

The decrease of $1,209 in some loans that are 90 or more days past due and still accruing interest is evidence that loans are moving through the servicing and collection process. 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.

Formally restructured loans increased $11,237 during the first nine months of 2011. The Association is cooperating 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 reinstated to accrual status during the period. Both of these loans are now performing in accordance with the terms of the restructured agreement.

Other property owned declined $9,671 during the first nine months of 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 $849 during the nine months ended September 30, 2011. The Association is actively working with local realtors to ensure properties are accurately valued on the Association's books and that proactive marketing activities are in place.

Management continues to be alert to portfolio trends and has attempted to identify and report problem loans as quickly as possible. Management strives to implement proactive steps and allocate resources to work with distressed borrowers to either work through temporary repayment problems or to orderly liquidate collateral to repay the loan when the borrower's operation is no longer viable. In addition, management has in place processes to evaluate, identify and monitor counter party risk that could have an adverse impact on the loan portfolio.

Results of Operations:

The Association's net income for the nine months ended September 30, 2011 was $96,250 as compared to $74,343 for the nine months ended September 30, 2010, an increase of $21,907, or 29.5 percent.

The improvement in net income was primarily affected by an increase in net interest income and a decrease in the provision for loan losses. Provision for loan loss was $1,688 for the nine months ended September 30, 2011, as compared to $26,314 for the same period in 2010. The reduction in loan losses is a direct result of the Association's improving loan portfolio quality, as discussed above.

Net interest income increased by $2,150 during the first nine months of 2011 as compared to the same time period for 2010. Interest margins on loans continue to improve as market rates and the Association's cost of funds decrease. This improvement has been partially offset by the continued decline in loan volume. Average yields on production loans were impacted by a reduction in loan volume as drought conditions significantly impacted the borrowing needs of producers. The effects of changes in average volume and interest rates on net interest income in the nine months ended September 30, 2011, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the nine months ended September 30, 2011		For the nine months ended September 30, 2010	
	Average Balance	**Interest**	Average Balance	Interest
Accrual loans	**$ 4,820,924**	**$ 203,203**	$ 5,002,487	$ 220,045
Interest-bearing liabilities	**4,231,431**	**82,772**	4,462,073	101,764
Impact of capital	**$ 589,493**		$ 540,414	
Net interest income		**$ 120,431**		$ 118,281

	Averages	Averages
Yield on loans	**5.64%**	5.88%
Cost of interest-bearing liabilities	**2.62**	3.05
Net interest margin	**3.02%**	2.83%

	2011 vs. 2010		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ (7,986)**	**$ (8,856)**	**$ (16,842)**
Interest expense	**5,260**	**13,732**	**18,992**
Net interest income	**$ (2,726)**	**$ 4,876**	**$ 2,150**

The Association's noninterest income decreased from $25,941 in the first nine months of 2010 to $16,596 in the first nine months of 2011. Part of this variance is the result of a decrease in other income of $5,417. This decrease is due to a refund in the amount of $4,637 in Farm Credit System Insurance Corporation (FCSIC) premiums for excess reserves attributed to the Insurance Fund received during the first nine months of 2010. Furthermore, the decrease is also caused by the implementation of authoritative accounting guidance for loan origination fee income and the related origination costs. This 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. This guidance resulted in the capitalization of $3,235 of loan origination fees during the first nine months of 2011. This guidance was not utilized by the Association during the first nine months of 2010.

Noninterest expenses decreased $4,519 in the first nine months of 2011 as compared to the same time period in 2010. Most of this decrease is attributable to a decrease in the losses on other property owned of $3,420. The Association's losses on other property owned in the first nine months of 2010 was a result of the recognition of declining values of real estate acquired through foreclosure, especially in transitional real estate.

The Association's noninterest expenses also reflects a decrease in salaries and employee benefits of $1,368 for the first nine months of 2011, compared to the same time period in 2010. These expenses for 2011 were influenced by the aforementioned implementation of the authoritative accounting guidance for loan origination fee income and the costs related to the loan origination. Absent the amortization of the costs to originate loans, salary and benefits expense would have increased by $1,804 in the first nine months of 2011.

Liquidity and Funding Sources:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the FCB. The FCB 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 FCB. The Association had an outstanding balance of $4,078,324 at September 30, 2011, as compared to $4,338,554 at December 31, 2010. This decrease in note payable to the Bank and related accrued interest payable since December 2010 is the result of the reduction in the Association's loan portfolio. The direct loan carried a weighted average interest rate of 2.62 percent for the nine months ended September 30, 2011, compared to 2.98 percent for the year ended December 31, 2010. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the FCB and is governed by a financing agreement.

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

The Association will continue to fund its operations through direct borrowings from the FCB, retained earnings, member stock and funds held in trust. It is management's opinion that funds available to the Association are sufficient to fund its operations for the next twelve months. See Note 5 to the consolidated financial statements, "Note payable to the Farm Credit Bank of Texas" for a discussion on the Association's borrowing obligations and limitations with FCB.

Capital Resources:

The Association's capital position remains strong, with total capital of $879,780 at September 30, 2011. This represents an increase of $45,326 from the December 31, 2010 total capital level of $834,454. This increase in capital is primarily the result of the Association's net income of $96,250, offset by the aforementioned decision to retire $50,000 of allocated earnings. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at September 30, 2011 was 16.22 percent. The Association's core surplus ratio and total surplus ratio at September 30, 2011 were 12.49 percent and 15.78 percent, respectively, which is in compliance with the FCA's minimum ratio requirements of 3.5 percent and 7.0 percent, respectively.

Because of these strong capital ratios, the board of directors approved the retirement of $50,000 in allocated earnings related to the years 2006, 2007 and 2008. This cash payment is to be delivered in November 2011 and should be a great benefit to the stockholders, especially those impacted by the current drought.

December 31, 2010 Core Surplus Ratio Correction:

In December 2010, the Association retired $15,000 of allocated earnings related to the years 2006, 2007, and 2008. After the retirement, the Association had remaining unretired allocated earnings of $30,346, $39,519, and $61,781, for the years 2006, 2007, and 2008, respectively for a total of $131,646 relating to all three years. FCA regulations 615.5301 (b)(1)(ii) requires any remaining allocated equities that were allocated the same year as those retired to be excluded from core surplus. These allocated earnings were not excluded from core surplus in the calculation as of December 31, 2010 as reported in the 2010 Annual Report to Stockholders. The Association had not retired any allocated earnings prior to this retirement since December 2007, which was a partial retirement of the 2006 allocation. The remaining unretired allocated earnings from 2006 were properly reflected. Therefore, all core surplus ratio disclosures prior to December 2010 were accurate.

The following table reflects the reported and adjusted core surplus ratios as of December 31, 2010:

	December 31, 2010 As Disclosed	**December 31, 2010 As Adjusted**
Core Surplus Ratio	**13.4%**	**11.5%**

The adjustment to the December 31, 2010 core surplus ratios was not material and therefore did not require a restatement of the 2010 Annual Report to Stockholders.

Relationship with the Farm Credit Bank of Texas:

The Association's statutory obligation to borrow only from the FCB is discussed in Note 5 to the consolidated financial statements, "Note Payable to the Farm Credit Bank of Texas," included in this quarterly report.

The FCB's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 5 to the consolidated financial statements, "Note Payable to the Farm Credit Bank of Texas," included in this quarterly report.

The FCB provides computer systems to support the critical operations of the Association. The Association also has operating systems and facility-based systems that are not supported by the FCB. The FCB also provides other services the Association can utilize.

The Association's financial condition may be impacted by factors that affect the FCB as discussed in Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly report. The financial condition and results of operations of the FCB may materially affect the stockholders' investment in the Association.

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 annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Capital Farm Credit, ACA, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the Association's quarterly and annual stockholder reports are also available on its Website at *www.capitalfarmcredit.com* or can be requested by e-mailing *isela.morales@capitalfarmcredit.com*.

CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEET
(Dollars in thousands)

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
Loans	**$ 4,893,892**	$ 5,096,642
Less: Allowance for losses	**(40,931)**	(45,294)
Net loans	**4,852,961**	5,051,348
Cash	**91**	5,691
Accrued interest receivable - loans and Investments	**56,851**	50,588
Investments – held-to-maturity	**20,194**	24,520
Investment in and receivable from the FCB:		
Capital stock	**88,855**	88,855
Receivable	**15,837**	7,872
Other property owned, net	**6,987**	16,658
Premises and equipment, net	**10,760**	11,128
Other assets	**6,300**	3,754
Total assets	**$ 5,058,836**	$ 5,260,414
LIABILITIES		
Notes payable to the FCB	**$ 4,078,324**	$ 4,338,554
Advanced conditional payments	**14,305**	3,706
Accrued interest payable	**8,505**	10,089
Drafts outstanding	**-**	7,163
Patronage distributions payable	**50,003**	32,063
Unfunded post retirement medical obligation	**17,263**	16,562
Other liabilities	**10,656**	17,823
Total liabilities	**4,179,056**	4,425,960
MEMBERS' EQUITY		
Capital stock and participation certificates	**21,884**	22,399
Allocated retained earnings	**193,465**	243,561
Unallocated retained earnings	**663,072**	566,822
Accumulated other comprehensive income	**1,359**	1,672
Total members' equity	**879,780**	834,454
Total liabilities and members' equity	**$ 5,058,836**	$ 5,260,414

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF INCOME
(Dollars in thousands)
(UNAUDITED)

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	**For the nine months ended September 30, 2011**	For the nine months ended September 30, 2010
INTEREST INCOME				
Loans and Investments	**$ 66,916**	$ 72,539	**$ 203,203**	$ 220,045
INTEREST EXPENSE				
Note payable to the FCB and others	**26,623**	33,170	**82,772**	101,764
Net interest income	**40,293**	39,369	**120,431**	118,281
PROVISION FOR LOAN LOSSES				
Provision for (reversal of) loan losses	**(2,492)**	18,083	**1,688**	26,314
Net interest income after provision for losses	**42,785**	21,286	**118,743**	91,967
NONINTEREST INCOME				
Patronage income from the FCB	**3,646**	3,969	**11,144**	11,078
Loan fees	**1,917**	3,655	**4,201**	8,195
Other income	**304**	218	**1,251**	6,668
Total noninterest income	**5,867**	7,842	**16,596**	25,941
NONINTEREST EXPENSES				
Salaries and employee benefits	**6,207**	7,070	**20,070**	21,438
Pension plan funding expense	**1,623**	1,536	**4,868**	4,607
Farm Credit System insurance premium	**636**	566	**1,945**	1,706
Occupancy and equipment	**561**	564	**1,921**	1,965
Travel	**547**	447	**1,492**	1,216
Purchased services and allocations	**480**	812	**1,666**	2,374
Advertising	**356**	301	**970**	836
FCA supervisory and exam expense	**346**	330	**1,039**	991
Public and member relations	**337**	278	**1,116**	1,003
Loss (gain) on other property owned, net	**226**	(328)	**849**	4,269
Communications	**218**	203	**623**	588
Directors' expense	**119**	156	**469**	640
Other expense	**749**	728	**2,018**	1,932
Total noninterest expenses	**12,405**	12,663	**39,046**	43,565
Income before federal income tax	**36,247**	16,465	**96,293**	74,343
Federal income tax	**7**	-	**43**	**-**
Net income	**$ 36,240**	$ 16,465	**$ 96,250**	$ 74,343

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)
(UNAUDITED)

	Capital Stock/ Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2009	$ 22,910	$ 184,905	$ 566,647	$ 4,353	$ 778,815
Comprehensive Income:					
Net income	-	-	74,343	-	74,343
Change in postretirement benefit plans	-	-	-	(324)	(324)
Total comprehensive income	-	-	74,343	(324)	74,019
Capital stock/participation certificates issued	1,993	-	-	-	1,993
Capital stock/participation certificates retired	(2,368)	(15,000)	-	-	(17,368)
Patronage distributions declared:					
Other	-	(18)	(7)	-	(25)
Balance at September 30, 2010	22,535	169,887	640,983	4,029	837,434
Comprehensive income:					
Net income	-	-	31,562	-	31,562
Change in postretirement benefit plans	-	-	-	(2,357)	(2,357)
Total comprehensive income	-	-	31,562	(2,357)	29,205
Capital stock/participation certificates issued	682	-	-	-	682
Capital stock/participation certificates retired	(818)	-	-	-	(818)
Patronage distributions declared:					
Cash	-	-	(32,061)	-	(32,061)
Other	-	12	-	-	12
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	-	-	96,250	-	96,250
Change in postretirement benefit plans	-	-	-	(313)	(313)
Total comprehensive income	-	-	96,250	(313)	95,937
Capital stock/participation certificates issued	1,895	-	-	-	1,895
Capital stock/participation certificates/ allocated equities retired	(2,410)	(50,000)	-	-	(52,410)
Patronage distributions declared:					
Other	-	(96)	-	-	(96)
Balance at September 30, 2011	**$ 21,884**	**$ 193,465**	**$ 663,072**	**$ 1,359**	**$ 879,780**

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

CAPITAL FARM CREDIT, ACA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Capital Farm Credit, ACA including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively referred to as the "Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders (farmers, ranchers, rural home owners and certain farm-related businesses) for qualified agricultural purposes in 192 counties in the state of Texas.

The Association is a lending institution of the Farm Credit System (System) which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act.)

A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of December 31, 2010 are contained in the 2010 Annual Report to Stockholders. These unaudited third quarter 2011 consolidated financial statements should be read in conjunction with the 2010 Annual Report to Stockholders.

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

The FCB and its related associations are collectively referred to as the "District." The Association's financial condition may be affected by factors that affect the FCB. The financial condition and results of operations of the FCB may materially affect stockholders' investment in the Association. Upon request, stockholders of the Association will be provided the Tenth Farm Credit District's Annual Report to Stockholders, which includes the combined financial statements of the FCB 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 FCB 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 Farm Credit System Insurance Corporation.

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012 for non-public entities. The amendments should be applied retrospectively for all prior periods presented.

In June 2011, the Financial Accounting Standards Board (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 provides 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 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. Early application is not permitted.

In January 2011, the Financial Accounting Standards Board (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 nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The Association is currently evaluating the impact of adoption of this Standard on the financial condition or results of operations. The adoption will result in additional disclosures.

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

Effective January 1, 2010, the Bank and related Associations adopted Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements and Disclosures," which improves disclosures about fair value measurements by increasing transparency in financial reporting. The guidance provides for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on the Association's financial condition and results of operations.

NOTE 2 — 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:

September 30, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 20,194	$ -	$ (62)	$ 20,132	4.91%	3.99

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitment 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.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

Long-term real estate mortgage loans generally have maturities ranging up to 30 years. Short-term and intermediate-term production and equipment loans have maturities of 10 years or less. Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years.)

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

A summary of loans follows:

Industry	**September 30, 2011**	**%**	December 31, 2010	%
Production agriculture:				
Real estate mortgage	**$ 4,016,522**	**82.1**	$ 4,080,935	80.0
Production and term	**424,949**	**8.7**	523,406	10.3
Agribusiness	**321,513**	**6.6**	356,354	7.0
Rural residential real estate	**74,483**	**1.5**	75,097	1.5
Communication	**28,914**	**0.6**	30,869	0.6
Energy	**20,896**	**0.4**	23,549	0.5
Lease receivables	**6,455**	**0.1**	6,417	0.1
Water and waste disposal	**160**	**-**	15	-
Total	**$ 4,893,892**	**100.0**	$ 5,096,642	100.0

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

	September 30, 2011	**%**	September 30, 2010	%	December 31, 2010	%
Nonaccrual	**$ 159,819**	**92.8**	$ 190,608	99.1	$ 197,002	98.8
90 days past due and still accruing interest	**91**	**0.1**	711	0.4	1,300	0.7
Formally restructured	**12,242**	**7.1**	1,056	0.5	1,005	0.5
Total	**$ 172,152**	**100.0**	$ 192,375	100.0	$ 199,307	100.0

The Association has remaining commitments to borrowers whose loans were classified as impaired at September 30, 2011 of $3,684. The average recorded investment in impaired loans for the nine months ended September 30, 2011 was $193,597 compared to $182,002 at September 30, 2010. The Association recognized interest income of $4,156 on impaired loans for the nine months ended September 30, 2011 and $3,138 for the September 30, 2010 period.

A summary of the changes in the allowance for loan losses follows:

	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010	For the three months ended December 31, 2010
Beginning Balance	**$ 45,294**	$ 46,732	$ 47,491
Provision for loan losses	**1,688**	26,314	2,859
Charge offs	**(8,788)**	(26,149)	(6,362)
Recoveries	**2,737**	594	1,306
Ending Balance	**$ 40,931**	$ 47,491	$ 45,294

Impaired loans of $70,751 at September 30, 2011 had related specific allowance for loan losses of $13,849 as compared to impaired loans of $79,985 at September 30, 2010 which had related specific allowances for loan losses of $23,057. The remaining impaired loans carried no specific allowance for loan losses. Impaired loans for which no specific allowance was considered necessary are not included in the determination of the general allowance. However, impaired loans that were not analyzed for a specific allowance are considered in the determination of the general allowance for loan losses.

NOTE 4 — 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 the principal or most advantageous market for the asset or liability. The Association has some assets that are carried on its books at fair value including: assets held in non-qualified benefits trusts, loans that have been evaluated for impairment and other property owned.

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," of the 2010 Annual Report to Stockholders, 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 represents a brief summary of the valuation techniques used by the Association for assets and liabilities:

Assets held in non-qualified benefits trusts related to deferred compensation and supplemental retirement plans are classified with 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 asset values that are quoted in the marketplace. The assets held in non-qualified benefits trusts are measured at fair value on a recurring basis at September 30, 2011 and are summarized below:

	Total Fair Value September 30, 2011	Total Fair Value December 31, 2010
Beginning Balance	$ 1,702	$ 1,475
Transfers In	-	-
Transfers Out	-	-
Other Market Changes	407	227
Assets held in non-qualified benefits trusts	$ 2,109	$ 1,702

For certain loans evaluated for impairment, the fair value is based upon the underlying collateral since these 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. These loans are generally classified as Level 3. Level 3 valuation utilizes unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Other property owned is also generally classified as Level 3. The fair value is based upon the value of the property. Cost to sell represents transaction costs and are not included as a component of the asset's fair value.

These assets are measured at fair value on a non-recurring basis and are summarized below:

	Total Fair Value September 30, 2011	Total Fair Value December 31, 2010
Impaired Loans	**$ 172,152**	$ 199,307
Investments Held-to-Maturity	**20,132**	24,275
Other property owned	**6,987**	16,658
Total	**$ 199,271**	$ 240,240

NOTE 5 — NOTE PAYABLE TO THE FARM CREDIT BANK OF TEXAS:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the FCB. The FCB manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the FCB, under a general financing agreement between the FCB and the Association, represents demand borrowings by the Association to fund the majority of its loan advances to Association members. The indebtedness is collateralized by a pledge of substantially all of the Association's assets.

The total amount and the weighted average interest rate of the Association's direct loan from the FCB were $4,078,324 at 2.62 percent, and $4,338,554 at 2.98 percent for the nine months ended September 30, 2011 and year ended December 31, 2010, respectively. The FCB periodically reprices the rate on portions of the direct loan as the pricing terms expire.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2010, 2009 and 2008, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of September 30, 2011, was $4,810,365, 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.

NOTE 6 — MEMBERS EQUITY:

The board of directors approved a $105,723 patronage distribution for 2010. $32,156 of this distribution was paid in cash in April 2011. $73,567 of this distribution was made in the form of nonqualified allocated earnings distributions. The owners of these distributions will not pay federal income taxes until the earnings are retired since the earnings distributed were nonqualified. It is the board's intention with this allocation and future allocations to assign ownership of the earnings of the Association, allow the stockholders to benefit more fully from the earnings of the Association, and to create a method to make future earnings distributions in the form of cash. While there is not a planned retirement of allocated earnings, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of any outstanding allocated earnings can be made.

In September 2010, the board of directors approved a resolution to retire $15,000 in allocated earnings which were distributed to stockholders in December 2010. The retirement was a partial distribution of the earnings allocated in 2006, 2007, and 2008.

In September 2011, the board of directors approved a resolution to retire $50,000 in allocated earnings which are to be paid to stockholders in November 2011. The retirement is a partial distribution of the earnings allocated in 2006, 2007, and 2008 as follows:

	November 2011 Retirement	Remaining Allocated Earnings
2006	**$ 10,295**	**$ 20,057**
2007	**18,805**	**19,114**
2008	**20,900**	**40,623**
2009	**-**	**40,111**
2010	-	**73,560**
Total	**$ 50,000**	**$ 193,465**

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The Association previously disclosed in its 2010 Annual Report, that it expected to contribute $6,490 to its pension plan in 2011, which will be $346 more than the 2010 contribution. Pension plan funding expense was $4,868 and $4,607 for the nine months ended September 30, 2011 and 2010 respectively.

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 4, 2011 which is the date the financial statements were issued and there are no significant events requiring disclosure as of this date.