Strength • Dependability • Service

Quarterly Report
To Stockholders

Quarter Ended June 30, 2012

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

August 2, 2012

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 June 30, 2012. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2011 Annual Report of the Association. Results for interim periods are not necessarily indicative of results to be expected for future periods.

The general economy continues to slowly improve with positive growth in the national gross domestic product, and small declines in the unemployment rates over the last several quarters. Growing conditions are much improved this year in comparison to last year at this time in many areas. However, some areas are still experiencing stressed crops and pasture conditions due to the lack of rainfall. While 2012 is generally improved, there is still a long way to go in the production cycle for most parts of the Association's territory to determine whether producers continue to recover from the 2011 drought.

Significant Events:

The board of directors approved a $126,602 patronage distribution for 2011. $38,400 of this distribution was 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 $50,000 in non-qualified allocated equities. These equities represented $10,295, $18,805, and $20,900 from those allocated in 2006, 2007 and 2008, respectively. These equity retirements benefited stockholders at a time when many were confronting extra expenses and difficult decisions in a record drought.

For 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.

Loan Portfolio:

Total loan volume was $5,032,174 at June 30, 2012. This compares with loan volume owned by the Association at December 31, 2011 of $4,932,437. This represents an increase of $99,737, or approximately 2 percent. More than half of this increase is from a rise in production volume as crop and pasture conditions are significantly improved from 2011 in some parts of the Association's territory. The Association has also seen some smaller increases in its real estate mortgage, agribusiness, and communication loan portfolios. The Association is hopeful that this growth in loan volume will continue with the improved weather conditions and with the Association's increased marketing efforts and new loan programs.

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

		June 30, 2012	**%**		December 31, 2011	%
Nonaccrual loans	**$**	**122,662**	**83.1**	$	138,105	86.1
Loans 90 days past due and still accruing interest		**737**	**0.5**		4,925	3.1
Formally restructured loans		**12,288**	**8.3**		11,127	6.9
Other property owned, net		**11,896**	**8.1**		6,220	3.9
Total	**$**	**147,583**	**100.0**	$	160,377	100.0

The quality of the Association's loan portfolio improved with a $12,794 decrease in high-risk assets since the previous year's end. This improvement was a direct result of the $15,443 decrease in nonaccrual loans during the first six months of 2012. Most of this reduction was from repayments received on some of these nonaccrual loans. Part of the reduction was due to a few large loans being transferred to other property owned.

The decrease of $4,188 in 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 $1,161 during the first six months of 2012. 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.

Other property owned increased $5,676 during the first six months of 2012. This increase is attributable to the foreclosure on two out-of-territory real estate loans, a dairy, and a lease receivable. 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 six months ended June 30, 2012 was $73,481 as compared to $60,011 for the six months ended June 30, 2011, an increase of $13,470, or 22.4 percent.

The improvement in net income was affected by an increase in net interest income, an increase in noninterest income and a decrease in the provision for loan losses. Net interest income was $83,070 for the first six months of 2012 as compared to $80,137 for the same time period in 2011. Noninterest income was $17,928 for the first six months of 2012 as compared to $10,729 for the same time period in 2011. The Association reversed provision for loan losses in the amount of $362 for the six months ended June 30, 2012, as compared to provision expense of $4,180 for the same period in 2011.

Net interest income increased by $2,933 during the first six months of 2012 compared to the same time period for 2011. Interest margins on loans continue to improve as the Association's cost of funds decrease and the amount of capital relative to loans increases. Some of this improvement has been offset by a decline in interest rates charged to customers. The effects of changes in average volume and interest rates on net interest income in the six months ended June 30, 2012, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the six months ended June 30, 2012		For the six months ended June 30, 2011	
	Average Balance	**Interest**	Average Balance	Interest
Accrual loans and investments	**$ 4,829,457**	**$ 128,713**	$ 4,836,382	$ 136,286
Interest-bearing liabilities	**4,138,927**	**45,643**	4,262,973	56,149
Impact of capital	**$ 690,530**		$ 573,409	
Net interest income		**$ 83,070**		$ 80,137

	Average Yield	Average Yield
Yield on loans	**5.36%**	5.68%
Cost of interest-bearing Liabilities	**2.22%**	2.66%
Net interest margin	**3.14%**	3.02%

	2012 vs. 2011		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ (195)**	**$ (7,378)**	**$ (7,573)**
Interest expense	**(1,638)**	**(8,868)**	**(10,506)**
Net interest income	**$ 1,443**	**$ 1,490**	**$ 2,933**

The Association's noninterest income increased from $10,729 in the first six months of 2011 to $17,928 in the first six months of 2012. The majority of this difference is the result of an increase in other income of $5,247. This increase is due to a refund in the amount of $4,729 in Farm Credit System Insurance Corporation (FCSIC) premiums for excess reserves distributed from the Insurance Fund. The Association has received a patronage refund over the last several years from the Farm Credit Bank of Texas (FCB). This refund is paid annually to the Association in December by a direct reduction in its Note payable to FCB. For the first six months of 2011, the Association accrued 0.30 percent of its average Note payable balance. In its 2012 Capital plan, the FCB has declared its intention to pay 0.40 percent of the average Note payable. Therefore, the Association's patronage income is $1,665 more in the first six months of 2012 than the same period in 2011.

The Association continues to see an improvement in its provision for loan losses with the improvement in credit quality. As discussed previously, high risk assets have decreased $12,794 during the first six months of 2012. In addition, substandard loans as a percentage of total loans decreased from 4.6 percent at December 31, 2011 to 3.7 percent at June 30, 2012. With the decrease in the risk in the Association's portfolio, the Association has been able to lower its allowance for loan losses. Therefore, the Association has recorded negative provision of $362 for the first six months of 2012, versus provision expense of $4,180 for the first six months of 2011.

Noninterest expenses increased $1,210 in the first six months of 2012 as compared to the same time period in 2011. This increase is attributable to an increase of $1,878 in loss on other property owned. The Association recognized a loss on one of its foreclosed properties based upon a new appraisal and a reevaluation on the marketability of the property. Partially offsetting this increase was a decrease in the pension plan funding expense of $785 compared to the same time period in 2011. The Association also had some increases in advertising and public and member relations as the Association is placing additional emphasis on loan growth in 2012.

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 $4,200,155 at June 30, 2012, as compared to $4,104,831 at December 31, 2011. This increase in note payable to the Bank since December 2011 is the result of the increase in the Association's loan portfolio and the payment of the patronage distributions payable that was outstanding at December 31, 2011. The direct loan carried a weighted average interest rate of 2.22 percent for the six months ended June 30, 2012, compared to 2.56 percent for the year ended December 31, 2011. 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 2012. 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 $944,974 at June 30, 2012. This represents an increase of $73,376 from the December 31, 2011 total capital level of $871,598. This increase in capital is a direct result of the Association's net income for the period. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at June 30, 2012 was 16.55 percent. The Association's core surplus ratio and total surplus ratio at June 30, 2012 were 13.84 percent and 16.11 percent, respectively, which is in compliance with the FCA's minimum ratio requirements of 3.5 percent and 7.0 percent, respectively.

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)

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
Loans	**$ 5,032,174**	$ 4,932,437
Less: Allowance for losses	**(33,652)**	(37,023)
Net loans	**4,998,522**	4,895,414
Cash	**175**	1,286
Accrued interest receivable - loans	**46,937**	44,386
Accrued interest receivable - investments	**253**	194
Investments – held-to-maturity	**18,134**	19,523
Investment in and receivable from the FCB:		
Capital stock	**84,404**	84,404
Receivable	**12,371**	11,960
Other property owned, net	**11,896**	6,220
Premises and equipment, net	**11,194**	10,875
Other assets	**7,502**	4,097
Total assets	**$ 5,191,388**	$ 5,078,359
LIABILITIES		
Note payable to the FCB	**$ 4,200,155**	$ 4,104,831
Advanced conditional payments	**8,304**	9,580
Accrued interest payable	**7,261**	8,262
Drafts outstanding	**2,697**	6,272
Patronage distributions payable	**3**	38,402
Unfunded post retirement medical obligation	**18,151**	17,730
Other liabilities	**9,843**	21,684
Total liabilities	**4,246,414**	4,206,761
MEMBERS' EQUITY		
Capital stock and participation certificates	**21,915**	21,856
Non-qualified allocated retained earnings	**281,676**	281,671
Unallocated retained earnings	**640,511**	567,030
Accumulated other comprehensive income	**872**	1,041
Total members' equity	**944,974**	871,598
Total liabilities and members' equity	**$ 5,191,388**	$ 5,078,359

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

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

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	**For the six months ended June 30, 2012**	For the six months ended June 30, 2011
INTEREST INCOME				
Loans	**$ 64,310**	$ 67,073	**$ 128,241**	$ 135,696
Investments	**234**	285	**472**	590
Total interest income	**64,544**	67,358	**128,713**	136,286
INTEREST EXPENSE				
Note payable to the FCB and others	**22,300**	27,696	**45,643**	56,149
Net interest income	**42,244**	39,662	**83,070**	80,137
PROVISION FOR LOAN LOSSES				
Provision for (reversal of) loan losses	**851**	(100)	**(362)**	4,180
Net interest income after provision for losses	**41,393**	39,762	**83,432**	75,957
NONINTEREST INCOME				
Patronage income from the FCB	**4,603**	3,724	**9,163**	7,498
Loan fees	**1,197**	1,226	**2,571**	2,284
Other income	**5,654**	241	**6,194**	947
Total noninterest income	**11,454**	5,191	**17,928**	10,729
NONINTEREST EXPENSES				
Salaries and employee benefits	**6,928**	6,799	**13,644**	13,863
Loss on other property owned, net	**2,540**	419	**2,502**	624
Pension plan funding expense	**1,230**	1,623	**2,460**	3,245
Occupancy and equipment	**603**	534	**1,470**	1,360
Travel	**585**	572	**1,036**	945
Farm Credit System insurance premium	**517**	648	**1,032**	1,309
Advertising	**451**	327	**885**	614
Public and member relations	**386**	323	**975**	779
Purchased services and allocations	**378**	352	**812**	1,186
FCA supervisory and exam expense	**341**	346	**682**	693
Communications	**246**	220	**456**	404
Directors' expense	**195**	163	**360**	350
Other expenses	**622**	591	**1,535**	1,267
Total noninterest expenses	**15,022**	12,917	**27,849**	26,639
Income before federal income tax	**37,825**	32,036	**73,511**	60,047
Federal income tax	**15**	36	**30**	36
NET INCOME	**$ 37,810**	$ 32,000	**$ 73,481**	$ 60,011
Other comprehensive loss:				
Change in postretirement benefit plans	**(85)**	(105)	**(169)**	(209)
Income tax expense related to items of other comprehensive income	**-**	-	**-**	-
Other comprehensive loss, net of tax	**(85)**	(105)	**(169)**	(209)
COMPREHENSIVE INCOME	**$ 37,725**	$ 31,895	**$ 73,312**	$ 59,802

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 Non-qualified Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2010	$ 22,399	$ 243,561	$ 566,822	$ 1,672	$ 834,454
Net income	-	-	60,011	-	60,011
Other comprehensive loss	-	-	-	(209)	(209)
Capital stock/participation certificates issued	1,275	-	-	-	1,275
Capital stock/participation certificates/					-
allocated equities retired	(1,652)	(95)	-	-	(1,747)
Balance at June 30, 2011	22,022	243,466	626,833	1,463	893,784
Net income	-	-	66,799	-	66,799
Other comprehensive loss	-	-	-	(422)	(422)
Capital stock/participation certificates issued	1,288	-	-	-	1,288
Capital stock/participation certificates/					
allocated equities retired	(1,454)	(50,000)	-	-	(51,454)
Patronage distributions declared:					
Cash	-	-	(38,400)	-	(38,400)
Nonqualified allocations	-	88,202	(88,202)	-	-
Other adjustments	-	3	-	-	3
Balance at December 31, 2011	21,856	281,671	567,030	1,041	871,598
Net income	-	-	73,481	-	73,481
Other comprehensive loss	-	-	-	(169)	(169)
Capital stock/participation certificates issued	1,572	-	-	-	1,572
Capital stock/participation certificates/					
allocated equities retired	(1,513)	-	-	-	(1,513)
Other adjustments	-	5	-	-	5
Balance at June 30, 2012	**$ 21,915**	**$ 281,676**	**$ 640,511**	**$ 872**	**$ 944,974**

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, 2011 are contained in the 2011 Annual Report to Stockholders. These unaudited second quarter 2012 consolidated financial statements should be read in conjunction with the 2011 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 Farm Credit Bank of Texas (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 December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. It is the Association's policy to not participate in the use of derivatives, but the Association will have some financial instruments that are affected by these disclosure requirements. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact the financial condition or results of operations, but will result in additional disclosures.

In September 2011, the 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. The adoption will not impact the Association's combined financial condition or results of operations.

In June and December 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. 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. This guidance did not change the items that must be reported in other comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). The December 2011 guidance deferred the effective date for the presentation of reclassification adjustments. 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 does not impact financial condition or results of operations, but resulted 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 clarify certain aspects of the fair value measurement and disclosure requirements. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 31, 2011. The adoption of this guidance did not impact the financial condition or results of operations but resulted in additional disclosures.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring (TDR)," 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 adoption of this guidance did not have an impact on the Association's financial condition or results of operations, but did result in additional disclosures.

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:

June 30, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Gain (Losses)	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 18,134	$ -	$ 70	$ 18,204	4.95%	3.77

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

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	**June 30, 2012**	**%**	December 31, 2011	%
Production agriculture:				
Real estate mortgage	**$ 3,998,619**	**79.5**	$ 3,978,145	80.7
Production and term	**506,802**	**10.1**	452,870	9.2
Agribusiness	**354,262**	**7.0**	344,862	7.0
Rural residential real estate	**79,241**	**1.5**	75,392	1.5
Communication	**40,037**	**0.8**	28,269	0.6
Energy	**30,347**	**0.6**	25,335	0.5
Mission related investments	**19,266**	**0.4**	21,116	0.4
Lease receivables	**3,600**	**0.1**	6,290	0.1
Water and waste disposal	**-**	**-**	158	-
Total	**$ 5,032,174**	**100.0**	$ 4,932,437	100.0

At June 30, 2012, the Association held 7 transactions, which are reported as loans on the consolidated balance sheet totaling $10,241 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 purchases or sells 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 the balances of participations purchased and sold as of June 30, 2012:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 85,103	$ 41,977	$ 6,841	$ -	$ 91,944	$ 41,977
Production and intermediate term	104,488	1,802	-	-	104,488	1,802
Agribusiness	229,339	30,525	1,015	-	230,354	30,525
Communication	40,037	-	-	-	40,037	-
Energy	30,347	-	-	-	30,347	-
Lease receivables	3,509	-	-	-	3,509	-
Mission Related	5,321	-	4,554	-	9,875	-
Total	$ 498,144	$ 74,304	$ 12,410	$ -	$ 510,554	$ 74,304

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

	June 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	**$ 80,594**	$ 104,009
Production and intermediate-term	**7,546**	7,538
Agribusiness	**32,962**	22,303
Communication	**775**	790
Residential Real Estate	**713**	504
Lease receivable	**72**	2,881
Mission related investments	**-**	80
Total nonaccrual loans	**$ 122,662**	$ 138,105
Accruing restructured loans:		
Real estate mortgage	**$ 5,813**	$ 5,843
Production and intermediate-term	**684**	680
Agribusiness	**5,791**	4,612
Total accruing restructured loans	**$ 12,288**	$ 11,135
Accruing loans 90 days or more past due:		
Real estate mortgage	**$ 511**	$ 172
Production and intermediate-term	**268**	2,144
Agribusiness	**-**	2,684
Total accruing loans 90 days or more past due	**$ 779**	$ 5,000
Total nonperforming loans	**$ 135,729**	$ 154,240
Other property owned	**11,896**	6,220
Total nonperforming assets	**$ 147,625**	$ 160,460

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:

	June 30, 2012	December 31, 2011
Real estate mortgage		
Acceptable	**94.3%**	92.8%
OAEM	**2.4%**	3.0%
Substandard/doubtful	**3.3%**	4.2%
	100.0%	100.0%
Production and intermediate-term		
Acceptable	**87.5%**	88.5%
OAEM	**9.7%**	8.2%
Substandard/doubtful	**2.8%**	3.3%
	100.0%	100.0%
Agribusiness		
Acceptable	**82.9%**	80.9%
OAEM	**6.8%**	7.8%
Substandard/doubtful	**10.3%**	11.3%
	100.0%	100.0%
Energy		
Acceptable	**65.7%**	80.5%
OAEM	**18.1%**	9.3%
Substandard/doubtful	**16.2%**	10.2%
	100.0%	100.0%
Water and waste disposal		
Acceptable	-	100.0%
OAEM	-	-
Substandard/doubtful	-	-
	-	100.0%
Communication		
Acceptable	**98.1%**	97.2%
OAEM	-	-
Substandard/doubtful	**1.9%**	2.8%
	100.0%	100.0%
Rural residential real estate		
Acceptable	**97.3%**	97.0%
OAEM	**1.5%**	1.8%
Substandard/doubtful	**1.2%**	1.2%
	100.0%	100.0%
Lease receivables		
Acceptable	**98.0%**	54.2%
OAEM	-	-
Substandard/doubtful	**2.0%**	45.8%
	100.0%	100.0%
Mission related investments		
Acceptable	**98.3%**	98.1%
OAEM	**0.8%**	1.5%
Substandard/doubtful	**0.9%**	0.4%
	100.0%	100.0%
Total Loans		
Acceptable	**92.8%**	91.6%
OAEM	**3.5%**	3.8%
Substandard/doubtful	**3.7%**	4.6%
	100.0%	100.0%

The following table provides an age analysis of past due loans (including accrued interest) as of June 30, 2012 and December 31, 2011:

June 30, 2012	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	Accrual Loans 90 Days or more past due
Real estate mortgage	$ 17,620	$43,263	$ 60,883	$ 3,954,463	4,015,346	$ 511
Production and intermediate term	4,555	3,733	8,288	507,150	515,438	268
Agribusiness	3,290	7,539	10,829	345,137	355,966	-
Communication	-	-	-	40,146	40,146	-
Energy	-	-	-	30,501	30,501	-
Rural residential real estate	1,819	245	2,064	96,517	98,581	-
Lease receivables	-	-	-	3,677	3,677	-
Mission related investments	-	-	-	19,456	19,456	-
Total	$ 27,284	$54,780	$ 82,064	$ 4,997,047	$5,079,111	$ 779

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	Accrual Loans 90 Days or more past due
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
Agribusiness	2,900	10,698	13,598	2,303	15,901	2,684
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. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of June 30, 2012 the total troubled debt restructured loans was $16,299, including $4,011 classified as nonaccrual and $12,288 classified as accrual, with specific allowance for loan losses of $206. As of June 30, 2012 commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $451.

The Association did not restructure any loans that met the definition of TDR during the quarter ended June 30, 2012.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

The Association had no loans that met the accounting criteria as a troubled debt restructuring and that occurred from July 1, 2011 through June 30, 2012, and for which there was a payment default during that same period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Additional impaired loan information is as follows:

	At June 30, 2012			At December 31, 2011		
	Loan Balance	Unpaid Principal Balance[a]	Related Specific Allowance	Loan Balance	Unpaid Principal Balance[a]	Related Specific Allowance
Impaired loans with a related allowance for loan losses:						
Real estate mortgage	$ 35,912	$ 43,503	$ 3,570	$ 55,180	$ 67,170	$ 9,124
Production and intermediate term	3,296	4,880	1,668	2,402	4,017	935
Agribusiness	19,733	19,965	8,643	13,039	13,271	6,910
Communication	775	775	453	791	790	453
Rural residential real estate	214	214	49	25	39	3
Lease receivables	-	-	-	2,759	2,759	27
Mission related investments	-	-	-	-	-	-
Total	$ 59,930	$ 69,337	$ 14,383	$ 74,196	$ 88,046	$ 17,452
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	$ 50,979	$ 57,524	$ -	$ 54,762	$ 57,236	$ -
Production and intermediate term	5,172	9,693	-	7,960	12,436	-
Agribusiness	19,035	42,559	-	16,559	40,716	-
Communication	-	-	-	-	-	-
Rural residential real estate	499	589	-	478	568	-
Lease receivables	72	72	-	122	122	-
Mission related investments	-	-	-	80	95	-
Total	$ 75,757	$ 110,437	$ -	$ 79,961	$ 111,173	$ -
Total impaired loans:						
Real estate mortgage	$ 86,891	$ 101,027	$ 3,570	$ 109,942	$ 124,406	$ 9,124
Production and intermediate term	8,468	14,573	1,668	10,362	16,453	935
Agribusiness	38,768	62,524	8,643	29,598	53,987	6,910
Communication	775	775	453	791	790	453
Rural residential real estate	713	803	49	503	607	3
Lease receivables	72	72	-	2,881	2,881	27
Mission related investments	-	-	-	80	95	-
Total	$ 135,687	$ 179,774	$ 14,383	$ 154,157	$ 199,219	$ 17,452

[a]Unpaid principal balance represents the recorded principal balance of the loan.

	For the year-to-date Period Ended June 30, 2012		For the Year Ended December 31, 2011	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Real estate mortgage	$ 42,005	$ 9	$ 43,496	$ 625
Production and intermediate term	2,484	19	2,792	2
Agribusiness	18,532	193	17,547	31
Communication	784	-	1,012	-
Rural residential real estate	53	5	17	1
Lease receivables	1,379	-	2,800	-
Mission related investments	-	-	-	-
Total	$ 65,237	$ 226	$ 67,664	$ 659
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	$ 52,722	$ 423	$ 62,533	$ 1,603
Production and intermediate term	6,293	133	8,549	377
Agribusiness	17,180	627	17,986	512
Communication	-	-	-	-
Rural residential real estate	536	1	374	10
Lease receivables	86	-	47	8
Mission related investments	14	-	2	6
Total	$ 76,831	$ 1,184	$ 89,491	$ 2,516
Total impaired loans:				
Real estate mortgage	$ 94,727	$ 432	$ 106,029	$ 2,228
Production and intermediate term	8,777	152	11,341	379
Agribusiness	35,712	820	35,533	543
Communication	784	-	1,012	-
Rural residential real estate	589	6	391	11
Lease receivables	1,465	-	2,847	8
Mission related investments	14	-	2	6
Total	$ 142,068	$ 1,410	$ 157,155	$ 3,175

A summary of 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, 2011	$ 22,596	$ 4,018	$ 9,586	$ 537	$ 112	$ 125	$ 34	$ 15	$ 37,023
Charge-offs	(3,816)	(107)	(495)	-	-	-	-	(3)	(4,421)
Recoveries	1,081	92	235	-	-	4	-	-	1,412
Provision for loan losses	(3,482)	1,071	1,681	76	273	44	(28)	3	(362)
Balance at June 30, 2012	$ 16,379	$ 5,074	$ 11,007	$ 613	$ 385	$ 173	$ 6	$ 15	$ 33,652
Allowance for loan losses: Individually evaluated for impairment	$ 3,570	$ 1,668	$ 8,643	$ 453	$ -	$ 49	$ -	$ -	$ 14,383
Allowance for loan losses: Collectively evaluated for impairment	$ 12,809	$ 3,406	$ 2,364	$ 160	$ 385	$ 124	$ 6	$ 15	$ 19,269
Loans, including accrued interest:									
Ending Balance at June 30, 2012	$ 4,015,346	$ 515,438	$ 355,966	$ 40,146	$ 30,501	$ 98,581	$ 3,677	$ 19,456	$ 5,079,111
Ending balance for loans Individually evaluated for impairment	$ 86,891	$ 8,468	$ 38,768	$ 775	$ -	$ 713	$ 72	$ -	$ 135,687
Ending balance for loans Collectively evaluated for impairment	$ 3,928,455	$ 506,970	$ 317,198	$ 39,371	$ 30,501	$ 97,868	$ 3,605	$ 19,456	$ 4,943,424

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. See Note 2 to the 2011 Annual Report to Stockholders for a more complete description.

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 and are summarized below:

	Total Fair Value June 30, 2012	**Total Fair Value December 31, 2011**
Beginning Balance	**$ 2,006**	**$ 1,702**
Transfers In	**649**	**473**
Transfers Out	**-**	**-**
Other Market Changes	**79**	**(169)**
Assets held in non-qualified benefits trusts	**$ 2,734**	**$ 2,006**

For certain loans evaluated for impairment, the fair value is based upon the underlying collateral since these loans are collateral dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge 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 June 30, 2012	Total Fair Value December 31, 2011
Impaired Loans	**$ 91,390**	$ 128,999
Investments Held-to-Maturity	**18,204**	19,435
Other property owned	**11,896**	6,220
Total	**$ 121,490**	$ 154,654

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 $4,200,155 at 2.22 percent, and $4,104,831 at 2.58 percent for the six months ended June 30, 2012 and year ended December 31, 2011, 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 June 30, 2012, was $4,978,094, 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 $126,602 patronage distribution for 2011. $38,400 of this distribution was paid in cash in March 2012. $88,202 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.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The Association previously disclosed in its 2011 Annual Report, that it expected to contribute $4,920 to its pension plan in 2012, which will be $1,572 less than the 2011 contribution. Pension plan funding expense was $2,460 and $3,245 for the six months ended June 30, 2012 and 2011 respectively.

NOTE 8 — ACCUMULATED OTHER COMPREHENSIVE INCOME:

The new FASB standard for presentation of comprehensive income requires entities to present items of net income and other comprehensive income either in one continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The new standard eliminates the option to present items of other comprehensive income in the statement of changes in equity. The Association elected to present comprehensive income consistently in one continuous statement. The standard also requires disclosure of the changes in the accumulated balances for each component of other comprehensive income. For the periods reflected in the accompanying financial statements, the only component of accumulated other comprehensive income relates to postretirement benefit costs. The following table summarizes the changes in accumulated other comprehensive income (loss) for the six months ended June 30:

	2012	2011
Accumulated other comprehensive income at January 1	$ 1,041	$ 1,672
Amortization of prior service credit (costs) included in net period postretirement benefit cost	(169)	(209)
Amortization of actuarial gain included in net periodic postretirement benefit cost	-	-
Income tax expense related to items of other comprehensive income	-	-
Other comprehensive income (loss), net of tax	(169)	(209)
Accumulated other comprehensive income at June 30	$ 872	$ 1,463

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through August 2, 2012 which is the date the financial statements were issued and there are no significant events requiring disclosure as of this date.