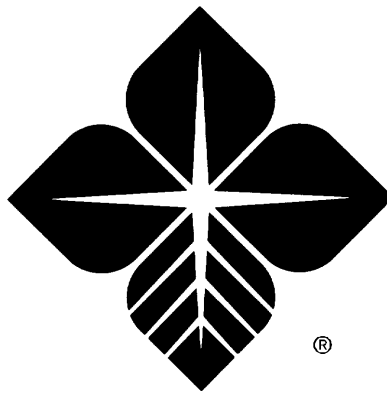


# **AGTEXAS FARM CREDIT SERVICES**

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## **2011 Quarterly Report First Quarter**



**For the Quarter Ended March 31, 2011**

## REPORT OF MANAGEMENT

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



Mitchell Harris  
Chief Executive Officer

*April 20, 2011*



James Ray Schronk  
Chairman, Board of Directors

*April 20, 2011*



Jerry Spruill  
Chief Financial Officer

*April 20, 2011*

**AGTEXAS FARM CREDIT SERVICES  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the AgTexas Farm Credit Services (Agricultural Credit Association), referred to as the Association, for the quarter and three months ended March 31, 2011. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2010 Annual Report to Stockholders.

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

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

**Significant Events:**

The Association made a cash patronage distribution of 50 basis points of each stockholders average 2010 loan(s) during the first quarter of 2011, along with 21 basis points of qualified allocations. The total cash distributed was \$2,158,174 and qualified allocations of \$930,067 totaling \$3,088,241 or 71 basis points of average patron loans.

First quarter earnings were strong with a 1.84% return on assets. Credit quality remains very good with 96.87% of loans acceptable and special mention. The capital and equity positions continue to strengthen largely due to Association earnings with the 90 day permanent capital ratio at 13.7% as of March 31, 2011.

The Association is experiencing severe drought conditions throughout the chartered lending territory. It is anticipated, due to the drought, the average production lending volume may decline during 2011 in comparison to previous years. The drought is not anticipated to adversely impact credit quality due to multi peril insurance coverage's and seasonal loan pay downs with exceptional 2010 production in the farming regions.

**Loan Portfolio:**

Total loans outstanding at March 31, 2011, including nonaccrual loans and sales contracts, were \$519,551,947 compared to \$543,218,563 at December 31, 2010, reflecting a decrease of 4.4 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.2 percent at March 31, 2011, compared to 0.7 percent at December 31, 2010.

The association recorded \$7,333 in recoveries and \$0 in charge-offs for the quarter ending March 31, 2011, and \$498,456 in recoveries and \$1,735,156 in charge-offs for the same period in 2010. The association's allowance for loan losses was 0.7 percent and 0.7 percent of total loans outstanding as of March 31, 2011, and December 31, 2010, respectively.

**Risk Exposure:**

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

	March 31, 2011		December 31, 2010	
	Amount	%	Amount	%
Nonaccrual	\$ 6,359,167	54.9%	\$ 3,792,543	80.8%
90 days past due and still accruing interest	4,317,016	37.3%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	901,170	7.8%	901,170	19.2%
Total	\$ 11,577,353	100.0%	\$ 4,693,713	100.0%

Included in the 90 days past due and still accruing interest is \$4,128,305 of 100% federal government guaranteed loans that are in the process of collection from the USDA.

**Investments:**

During the first quarter of 2010, the Association exchanged \$5,969,087 of mortgage loans for Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed security that previously were covered under a 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 transaction. The Association continues to service the loans included in this transaction. These investments in guaranteed securities are included in this report's Consolidated Balance Sheet as investments – held-to-maturity.

### Results of Operations:

The association had net income of \$2,446,801 for the three months ended March 31, 2011, as compared to net income of \$1,847,085 for the same period in 2010 reflecting an increase of 32.5 percent. Net interest income was \$3,660,294 for the three months ended March 31, 2011, compared to \$3,087,783 for the same period in 2010. Interest income for the first three months of 2011 decreased by \$4,999, or 0.1 percent, from the same period of 2010, primarily due to declines in yields on earning assets. Interest expense for the first three months of 2011 decreased by \$577,510, or 16.6 percent, from the same period of 2010 due to a decrease in interest rates offset and a decrease in average debt volume. Average loan volume for the first quarter of 2011 was \$513,864,715, compared to \$497,752,681 in the first quarter of 2010. The average note payable for the first quarter of 2011 was \$455,167,826 compared with \$472,338,897 during the same period in 2010. The average spread on the loan portfolio for the first quarter of 2011 was 2.53 percent, compared to 2.23 percent in the first quarter of 2010.

The association's return on average assets for the three months ended March 31, 2011, was 1.84 percent compared to 1.79 percent for the same period in 2010. The association's return on average equity for the three months ended March 31, 2011, was 15.55 percent, compared to 17.13 percent for the same period in 2010.

The Association's income ratios, ROA and ROE, during 2011 exceeded the 2010 for the same reporting period. The 2011 income results were experienced from core business income while the 2010 income reflected \$528,527 of gains from the sale of SBA pool securities.

### Liquidity and Funding Sources:

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

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Note payable to the bank	\$ 461,778,357	\$ 488,366,560
Accrued interest on note payable	994,560	1,089,137
Total	<u>\$ 462,772,917</u>	<u>\$ 489,455,697</u>

### Capital Resources:

The Association's capital position increased by \$2,414,629 at March 31, 2011, compared to December 31, 2010. The Association's debt to members' equity was 7.29:1 as of March 31, 2011, compared to 8.04:1 as of December 31, 2010.

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 March 31, 2011, was 13.7 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at March 31, 2011, were 13.1 and 13.1 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

### Significant Recent Accounting Pronouncements:

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 delays 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 and guidance for determining what constitutes a troubled debt restructuring will be coordinated and is anticipated to be effective for periods ending after June 15, 2011.

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.

In January 2010, the FASB issued guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements (see footnote 6 to this report). Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the Association’s financial condition and results of operations but resulted in additional disclosures.

#### **Relationship with the Farm Credit Bank of Texas:**

The Association’s financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder’s investment in the Association. The Management’s Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2010 Annual Report of AgTexas Farm Credit Services more fully describes the Association’s relationship with the Bank.

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

The Association’s quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained on our website at [AgTexas.com](http://AgTexas.com) or by writing to AgTexas Farm Credit Services, P.O. Box 53240, Lubbock, Texas 79453 or calling 806-687-4068. Copies of the Association’s quarterly stockholder reports can also be requested by e-mailing [jspruill@agtexas.com](mailto:jspruill@agtexas.com).

**AGTEXAS FARM CREDIT SERVICES**

**CONSOLIDATED BALANCE SHEET**

	<b>March 31, 2011 (unaudited)</b>	December 31, 2010
<b><u>ASSETS</u></b>		
Cash	\$ 660,584	\$ 1,792,912
Investments	5,306,043	5,752,116
Loans	519,551,947	543,218,563
Less: allowance for loan losses	(3,733,170)	(3,666,664)
Net loans	<u>515,818,777</u>	<u>539,551,899</u>
Accrued interest receivable	6,211,322	8,584,910
Investment in and receivable from the bank:		
Capital stock	9,797,195	9,797,195
Other	632,774	1,713,079
Other property owned, net	901,170	901,170
Premises and equipment	2,521,899	2,563,860
Other assets	<u>1,439,406</u>	<u>432,097</u>
Total assets	<u><u>\$ 543,289,170</u></u>	<u><u>\$ 571,089,238</u></u>
<b><u>LIABILITIES</u></b>		
Note payable to the bank	\$ 461,778,357	\$ 488,366,560
Advance conditional payments	9,402,367	6,282,174
Accrued interest payable	1,004,051	1,089,137
Drafts outstanding	531,129	1,312,210
Patronage distributions payable	-	2,170,000
Other liabilities	<u>5,012,993</u>	<u>8,723,513</u>
Total liabilities	<u><u>477,728,897</u></u>	<u><u>507,943,594</u></u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	2,558,070	2,611,845
Allocated retained earnings	11,631,219	11,631,153
Unallocated retained earnings	51,491,891	49,033,012
Accumulated other comprehensive income (loss)	<u>(120,907)</u>	<u>(130,366)</u>
Total members' equity	<u><u>65,560,273</u></u>	<u><u>63,145,644</u></u>
Total liabilities and members' equity	<u><u>\$ 543,289,170</u></u>	<u><u>\$ 571,089,238</u></u>

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

**AGTEXAS FARM CREDIT SERVICES**  
**CONSOLIDATED STATEMENT OF INCOME**  
(unaudited)

	<b>Quarter Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b><u>INTEREST INCOME</u></b>		
Loans	\$ 6,477,958	\$ 6,399,551
Investments	87,997	171,403
Other	-	-
Total interest income	6,565,955	6,570,954
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the bank	2,898,537	3,477,331
Advance conditional payments	7,124	5,840
Total interest expense	2,905,661	3,483,171
Net interest income	3,660,294	3,087,783
<b><u>PROVISION FOR LOAN LOSSES</u></b>		
Net interest income after provision for loan losses	59,173	75,230
<b><u>NONINTEREST INCOME</u></b>		
Income from the bank:		
Patronage income	496,837	403,570
Loan fees	28,801	206,655
Financially related services income	326,321	307,583
Gain on sale of securities	-	528,527
Gain (loss) on sale of premises and equipment, net	5,640	96,037
Other noninterest income	38,374	34,431
Total noninterest income	895,973	1,576,803
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	1,210,452	1,425,542
Directors' expense	47,345	53,119
Purchased services	167,717	143,793
Travel	80,701	61,472
Occupancy and equipment	207,728	209,483
Communications	33,169	30,607
Advertising	26,865	23,558
Public and member relations	81,927	53,154
Supervisory and exam expense	40,725	41,014
Insurance Fund premiums	49,117	86,886
Loss on other property owned, net	358	420
Other noninterest expense	104,189	84,696
Total noninterest expenses	2,050,293	2,213,744
Net income	\$ 2,446,801	\$ 2,375,612

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

**AGTEXAS FARM CREDIT SERVICES**

**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2009	\$ 2,592,995	\$ 10,701,153	\$ 42,754,941	\$ 545,562	\$ 56,594,651
Comprehensive income					
Net income	-	-	2,375,612	-	2,375,612
Change in unrealized gains (losses) on investment securities	-	-	-	(416,054)	(416,054)
FMAC security fair market value recognition	-	-	-	297,494	297,494
Change in postretirement benefit plans	-	-	-	(19,192)	(19,192)
Total comprehensive income	-	-	2,375,612	(137,752)	2,237,860
Capital stock/participation certificates and allocated retained earnings issued	134,975	-	-	-	134,975
Capital stock/participation certificates and allocated retained earnings retired	(163,940)	-	-	-	(163,940)
Patronage refunds:					
Cash	-	-	(506)	-	(506)
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-
Balance at March 31, 2010	<u>\$ 2,564,030</u>	<u>\$ 10,701,153</u>	<u>\$ 45,130,047</u>	<u>\$ 407,810</u>	<u>\$ 58,803,040</u>
Balance at December 31, 2010	\$ 2,611,845	\$ 11,631,153	\$ 49,033,012	\$ (130,366)	\$ 63,145,644
Comprehensive income					
Net income	-	-	2,446,801	-	2,446,801
Change in postretirement benefit plans	-	-	-	9,459	9,459
Total comprehensive income	-	-	2,446,801	9,459	2,456,260
Capital stock/participation certificates and allocated retained earnings issued	136,620	-	-	-	136,620
Capital stock/participation certificates and allocated retained earnings retired	(190,395)	-	-	-	(190,395)
Patronage refunds:					
Cash	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	66	12,078	-	12,144
<b>Balance at March 31, 2011</b>	<u>\$ 2,558,070</u>	<u>\$ 11,631,219</u>	<u>\$ 51,491,891</u>	<u>\$ (120,907)</u>	<u>\$ 65,560,273</u>

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

**AGTEXAS FARM CREDIT SERVICES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(UNAUDITED)

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

The AgTexas Farm Credit Services (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Brown, Cochran, Comanche, Crosby, Eastland, Ellis, Erath, Gaines, Garza, Hamilton, Hill, Hockley, Hood, Johnson, Lubbock, Lynn, Navarro, Parker, Somervell, Tarrant, Terry, Wise and Yoakum. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The significant accounting policies followed and the financial condition and results of operations of the Association as of and for the year ended December 31, 2010 are contained in the 2010 Annual Report to Stockholders. These unaudited first quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Stockholders.

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 delays 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 and guidance for determining what constitutes a troubled debt restructuring will be coordinated and is anticipated to be effective for periods ending after June 15, 2011.

In July 2010, the 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.

In January 2010, the FASB issued guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the association’s financial condition and results of operations but resulted in additional disclosures.

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended March 31, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

**NOTE 2 — INVESTMENTS:**

Effective February 1, 2010, \$5,969,087 of agricultural mortgage loans previously covered under a Long-Term Standby Commitment to Purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the Association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

	<b>March 31, 2011</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Weighted Average Yield</b>
Agricultural mortgage-backed securities	\$ 5,306,043	\$ 124,327	\$ -	\$ 5,430,370	6.4 %

	<b>December 31, 2010</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Weighted Average Yield</b>
Agricultural mortgage-backed securities	\$ 5,752,116	\$ 139,099	\$ -	\$ 5,891,215	6.3 %

**NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:**

A summary of loans follows:

<u>Loan Type</u>	<u>March 31, 2011 Amount</u>	<u>December 31, 2010 Amount</u>
Production agriculture:		
Real estate mortgage	\$ 363,899,766	\$ 365,167,970
Production and intermediate term	138,506,726	160,368,259
Agribusiness:		
Loans to cooperatives	2,955,376	3,192,638
Processing and marketing	5,474,230	5,595,564
Farm-related business	2,732,078	2,848,151
Communication	573,898	450,521
Rural residential real estate	5,231,304	5,413,421
International	178,569	182,039
Total	<u>\$ 519,551,947</u>	<u>\$ 543,218,563</u>

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 participations purchased and sold during the quarter ended March 31, 2011:

	Other Farm Credit Institutions		Non—Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 5,432,912	\$ 18,665,796	\$ -	\$ 3,898,748	\$ 5,432,912
Production and intermediate term	3,099,201	-	-	-	3,099,201	-
Agribusiness	5,677,953	-	-	-	5,677,953	-
Communication	573,895	-	-	-	573,895	-
Total	<u>\$ 14,783,961</u>	<u>\$ 18,665,796</u>	<u>\$ -</u>	<u>\$ 3,898,748</u>	<u>\$ 14,783,961</u>	<u>\$ 22,564,544</u>

#### Mission Related Loans Available-for-Sale:

The Association may hold mission-related loans that have security type characteristics. The Association accounts for these instruments as loans. They are guaranteed as to principal and interest recovery by U.S. Agencies (predominately USDA). These instruments have interest rates that are either fixed for contractual term or variable based on an index. The following is a summary of mission related loans available for sale:

<u>March 31, 2011</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Weighted Average Yield</u>
Asset-backed and other loans	\$ 34,945,985	\$ -	\$ -	\$ 34,945,985	4.7 %
<u>December 31, 2010</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Weighted Average Yield</u>
Asset-backed and other loans	\$ 26,748,137	\$ -	\$ -	\$ 26,748,137.00	4.3 %

#### Mission-Related and Other Investments Held-to-Maturity:

The Farm Credit Administration approves mission-related programs and other mission-related loans. The following is a summary of mission-related and other loans that are held to maturity:

<u>March 31, 2011</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Weighted Average Yield</u>
Mortgage-backed loans	\$ 3,953,026	\$ -	\$ -	\$ 3,953,026	6.6 %
<u>December 31, 2010</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Weighted Average Yield</u>
Mortgage-backed loans	\$ 3,986,676	\$ -	\$ -	\$ 3,986,676	6.6 %

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. An analysis of the allowance for loan losses follows:

	<b>March 31, 2011</b>	December 31, 2010
Balance at beginning of quarter	\$ 3,666,664	\$ 3,112,006
Provision for loan losses	59,173	1,791,358
Charge-offs	-	(1,735,156)
Recoveries	7,333	498,456
Balance at end of quarter	<u>\$ 3,733,170</u>	<u>\$ 3,666,664</u>

The following table presents information concerning impaired loans:

	<b>March 31, 2011</b>	March 31, 2010
Impaired loans with related allowance	\$ 2,073,132	\$ 3,907,342
Impaired loans with no related allowance	8,603,051	10,175,770
Total impaired loans	<u>\$ 10,676,183</u>	<u>\$ 14,083,112</u>
Allowance on impaired loans	\$ 1,170,500	\$ 2,001,750
Average impaired loans	\$ 8,148,378	\$ 13,483,676
Interest income on impaired loans for the quarter	\$ 77,967	\$ 56,734

#### **NOTE 4 — CAPITAL:**

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

#### **NOTE 5 — INCOME TAXES:**

AgTexas Farm Credit Services and its subsidiary are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. The Association has declared 2011 as a patron sourced earning year with patronage distributions to be made post fiscal year end results and audits. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the three months ended March 31, 2011, and 2010 net income for tax purposes are \$0 due to the Association's qualified patronage program.

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

#### **NOTE 6 — FAIR VALUE MEASUREMENTS:**

FASB 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 12 to the 2010 Annual Report to Stockholders for a more complete description.

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

<u>March 31, 2011</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans *	\$ -	\$ -	\$ 900,240	\$ 900,240
Other property owned	-	-	901,170	901,170

<u>December 31, 2010</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans *	\$ -	\$ -	\$ 3,792,544	\$ 3,792,544
Other property owned	-	-	901,170	901,170

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

### Valuation Techniques

As more fully discussed in Note 12 to the 2010 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For the valuation techniques used for the Associations' assets and liabilities with a complete description, see Note 12 to the 2010 Annual Report to Stockholders.

#### Loans

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

#### Other Property Owned

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

### NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of non-pension other postretirement employee benefits for the three months ended March 31:

	<u>Other Benefits</u>	
	<u>2011</u>	<u>2010</u>
Service cost	\$ 19,141	\$ 18,310
Interest cost	38,998	36,861
Expected return on plan assets	-	-
Amortization of prior service costs	(24,867)	(25,486)
Amortizations of net (gain) loss	9,459	6,295
Net periodic benefit cost	<u>\$ 42,731</u>	<u>\$ 35,980</u>

The Association previously disclosed in its financial statements for the year ended December 31, 2010, that it expected to contribute \$1,142,207 to its defined pension plan in 2011. As of March 31, 2011, \$1,142,207 of contributions has been made with no anticipation of further need for the current year.

**NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:**

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

**NOTE 9 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through May 3, 2011 which is the date the financial statements were issued with none to report.