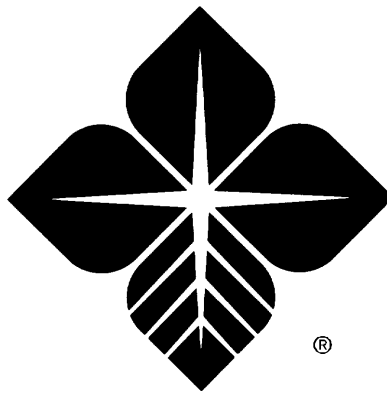


AGTEXAS FARM CREDIT SERVICES

2011 Quarterly Report Third Quarter



For the Quarter Ended September 30, 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 nine months ended September 30, 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:

During the 3rd quarter, the Board of Directors approved the payment of the 2000 qualified allocated surplus of \$2,142,374. The distribution is anticipated to occur prior to this fiscal year end.

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.

The earnings year-to-date is strong with a 2.07% return on assets. Credit quality remains very good with 97.9% 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 14.1% as of September 30, 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 will 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 September 30, 2011, including nonaccrual loans and sales contracts, were \$534,455,958 compared to \$543,218,563 at December 31, 2010, reflecting a decrease of 1.6 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.9 percent at September 30, 2011, compared to 0.7 percent at December 31, 2010.

The Association recorded \$1,628 in recoveries and \$56,665 in charge-offs for the quarter ending September 30, 2011, and \$286,165 in recoveries and \$3,495 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 September 30, 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.

	September 30, 2011		December 31, 2010	
	Amount	%	Amount	%
Nonaccrual	\$ 5,060,103	68.4%	\$ 3,792,543	80.8%
90 days past due and still accruing interest	1,434,486	19.4%	-	0.0%
Formally restructured	662,854	9.0%	-	0.0%
Other property owned, net	243,970	3.2%	901,170	19.2%
Total	<u>\$ 7,401,413</u>	<u>100.0%</u>	<u>\$ 4,693,713</u>	<u>100.0%</u>

The 90 days past due and accruing interest is related to a 100% government guaranteed loan.

Results of Operations:

The Association had net income of \$3,509,989 for the quarter ending September 30, 2011, as compared to net income of \$3,192,324 for the same period in 2010 reflecting an increase of 10.0 percent. Net interest income was \$4,329,264 for the three months ending September 30, 2011, compared to \$4,435,498 for the same period in 2010. Interest income for the three months of 2011 decreased by \$502,734, or 6.5 percent, from the same period of 2010, primarily due to declines in yields on earning assets coupled with a small increase in average loan volume. Interest expense for the three months of 2011 decreased by \$396,500, or 11.9 percent, from the same period of 2010 due to a decrease in interest rates offset by a small increase in average debt volume. Average loan volume for the third quarter of 2011 was \$565,853,891, compared to \$559,024,218 in the third quarter of 2010. The average spread on the loan portfolio for the third quarter of 2011 was 2.76 percent, compared to 2.84 percent in the third quarter of 2010.

The effects of change in average volume and interest rates on net interest income for the nine month period are presented in the following tables:

	For the Nine months ended Sept 30,				2011 vs. 2010	
	9/30/2011		9/30/2010		Increase (decrease) due to:	
	Average Balance	Interest	Average Balance	Interest	Rate	Volume
Loans including investments	\$ 547,569,987	\$ 20,986,668	\$ 533,199,158	\$ 21,202,850	-944,709	728,527
Interest-bearing liabilities	491,773,596	8,789,499	484,424,576	10,144,259	1,508,656	-153,896
Impact of capital	<u>\$ 55,796,391</u>		<u>\$ 48,774,582</u>			
Net interest income		<u>\$ 12,197,169</u>		<u>\$ 11,058,591</u>	<u>563,947</u>	<u>574,631</u>
	Average Yield		Average Yield			
Total yield on interest-earning assets	5.12%		5.32%			
Cost of interest-bearing liabilities	2.39%		2.80%			
Net interest spread	2.73%		2.52%			

The Association's return on average assets for the nine months ended September 30, 2011, was 2.07 percent compared to 1.96 percent for the same period in 2010. The Association's return on average equity for the nine months ended September 30, 2011, was 17.49 percent, compared to 18.08 percent for the same period in 2010.

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.

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.

	September 30, 2011	December 31, 2010
Note payable to the bank	\$ 473,211,654	\$ 488,366,560
Accrued interest on note payable	921,079	1,089,137
Total	\$ 474,132,733	\$ 489,455,697

Capital Resources:

The Association's capital position increased by \$6,643,455 at September 30, 2011, compared to December 31, 2010. The Association's debt as a percentage of members' equity was 7.03:1 as of September 30, 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 September 30, 2011, was 14.1 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2011, were 13.5 and 13.5 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

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 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 public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard did not impact the association's financial condition or results of operations, but did result in significant additional disclosures.

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 are 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 or results of operations but did result 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.

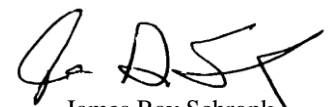
The Texas Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District's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

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


James Ray Schronk
Chairman, Board of Directors


Jerry Spruill
Chief Financial Officer
October 22, 2011

AGTEXAS FARM CREDIT SERVICES

CONSOLIDATED BALANCE SHEET

	September 30, 2011 (unaudited)	December 31, 2010
<u>ASSETS</u>		
Cash	\$ 621,543	\$ 1,792,912
Investments	4,932,485	5,752,116
Loans	534,455,958	543,218,563
Less: allowance for loan losses	(3,677,684)	(3,666,664)
Net loans	<u>530,778,274</u>	<u>539,551,899</u>
Accrued interest receivable	8,473,811	8,584,910
Investment in and receivable from the bank:		
Capital stock	9,797,195	9,797,195
Other	1,776,664	1,713,079
Other property owned, net	243,970	901,170
Premises and equipment	2,748,848	2,563,860
Other assets	807,315	432,097
Total assets	<u><u>\$ 560,180,105</u></u>	<u><u>\$ 571,089,238</u></u>
<u>LIABILITIES</u>		
Note payable to the bank	\$ 473,211,654	\$ 488,366,560
Advance conditional payments	9,694,546	6,282,174
Accrued interest payable	926,229	1,089,137
Drafts outstanding	269,457	1,312,210
Allocated equities payable	2,142,374	-
Patronage distributions payable	-	2,170,000
Other liabilities	4,146,746	8,723,513
Total liabilities	<u><u>490,391,006</u></u>	<u><u>507,943,594</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,569,215	2,611,845
Allocated retained earnings	9,488,845	11,631,153
Unallocated retained earnings	57,833,028	49,033,012
Accumulated other comprehensive income (loss)	(101,989)	(130,366)
Total members' equity	<u>69,789,099</u>	<u>63,145,644</u>
Total liabilities and members' equity	<u><u>\$ 560,180,105</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)

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
<u>INTEREST INCOME</u>				
Loans	\$ 7,185,993	\$ 7,673,961	\$ 20,736,170	\$ 20,843,934
Investments	78,901	93,667	250,498	358,916
Total interest income	<u>7,264,894</u>	<u>7,767,628</u>	<u>20,986,668</u>	<u>21,202,850</u>
<u>INTEREST EXPENSE</u>				
Note payable to the bank	2,931,303	3,329,127	8,772,634	10,131,231
Advance conditional payments	4,327	3,003	16,865	13,028
Total interest expense	<u>2,935,630</u>	<u>3,332,130</u>	<u>8,789,499</u>	<u>10,144,259</u>
Net interest income	<u>4,329,264</u>	<u>4,435,498</u>	<u>12,197,169</u>	<u>11,058,591</u>
<u>PROVISION FOR LOAN LOSSES</u>				
	<u>98,259</u>	<u>247,170</u>	<u>356,724</u>	<u>733,982</u>
Net interest income after provision for loan losses	<u>4,231,005</u>	<u>4,188,328</u>	<u>11,840,445</u>	<u>10,324,609</u>
<u>NONINTEREST INCOME</u>				
Income from the bank:				
Patronage income	541,992	405,734	1,562,558	1,195,422
Loan fees	28,508	224,112	154,944	586,093
Refunds from Farm Credit System				
Insurance Corporation	-	-	-	533,641
Financially related services income	889,324	612,843	1,633,823	1,286,079
Gain on sale of securities	432,316	-	432,316	582,680
Gain (loss) on sale of premises and equipment, net	-	25,531	36,991	121,567
Other noninterest income	2,428	1,855	71,235	59,702
Total noninterest income	<u>1,894,568</u>	<u>1,270,075</u>	<u>3,891,867</u>	<u>4,365,184</u>
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,937,308	1,343,442	4,826,235	4,222,617
Directors' expense	34,580	44,012	126,808	138,254
Purchased services	52,206	59,432	248,653	273,061
Travel	99,624	78,973	292,229	207,952
Occupancy and equipment	133,279	207,441	473,423	635,285
Communications	31,165	37,439	99,979	107,080
Advertising	29,228	37,877	109,980	96,083
Public and member relations	60,510	38,067	182,573	139,500
Supervisory and exam expense	41,701	40,725	123,149	122,753
Insurance Fund premiums	53,479	46,491	151,443	133,941
Loss on other property owned, net	78,409	185,000	79,693	185,420
Other noninterest expense	64,095	147,180	230,209	298,170
Total noninterest expenses	<u>2,615,584</u>	<u>2,266,079</u>	<u>6,944,374</u>	<u>6,560,116</u>
Net income	<u>\$ 3,509,989</u>	<u>\$ 3,192,324</u>	<u>\$ 8,787,938</u>	<u>\$ 8,129,677</u>

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	-	-	8,129,677	-	8,129,677
Change in unrealized gains (losses) on investment securities	-	-	-	(416,053)	(416,053)
Change in postretirement benefit plans	-	-	-	(57,575)	(57,575)
Total comprehensive income	-	-	8,129,677	(473,628)	7,656,049
Capital stock/participation certificates and allocated retained earnings issued	600,295	-	-	-	600,295
Capital stock/participation certificates and allocated retained earnings retired	(583,175)	-	-	-	(583,175)
Stock equalization	-	-	-	-	-
Dividends declared	-	-	-	-	-
Equity issued or re-characterized upon merger	-	-	-	-	-
Equity retired or re-characterized upon merger	-	-	-	-	-
Patronage refunds:					
Cash	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	-	(505)	-	(505)
Balance at September 30, 2010	\$ 2,610,115	\$ 10,701,153	\$ 50,884,113	\$ 71,934	\$ 64,267,315
Balance at December 31, 2010	\$ 2,611,845	\$ 11,631,153	\$ 49,033,012	\$ (130,366)	\$ 63,145,644
Comprehensive income					
Net income	-	-	8,787,938	-	8,787,938
Change in postretirement benefit plans	-	-	-	28,377	28,377
Total comprehensive income	-	-	8,787,938	28,377	8,816,315
Capital stock/participation certificates and allocated retained earnings issued	334,440	-	-	-	334,440
Capital stock/participation certificates and allocated retained earnings retired	(377,070)	-	-	-	(377,070)
Patronage refunds:					
Cash	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	(2,142,308)	12,078	-	(2,130,230)
Balance at September 30, 2011	\$ 2,569,215	\$ 9,488,845	\$ 57,833,028	\$ (101,989)	\$ 69,789,099

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 third quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Stockholders.

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.
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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.

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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.
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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.

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

In April 2011, the FASB issued its guidance entitled, “A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring,” which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For 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 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 public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard did not impact the association’s financial condition or results of operations, but did result in additional disclosures.

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 are 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 did result 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 September 30, 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:

	September 30, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 4,932,485	\$ 165,661	\$ -	\$ 5,098,146	6.3%

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
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:

Loan Type	September 30, 2011	December 31, 2010
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 367,553,729	\$ 365,167,970
Production and intermediate term	149,326,215	160,368,259
Agribusiness:		
Loans to cooperatives	2,605,197	3,192,638
Processing and marketing	7,613,986	5,595,564
Farm-related business	2,195,922	2,848,151
Communication	381,671	450,521
Energy	-	-
Water and waste disposal	-	-
Rural residential real estate	4,607,759	5,413,421
International	171,479	182,039
Lease receivables	-	-
Total	<u>\$ 534,455,958</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 the balances of participations purchased and sold at September 30, 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	\$ 2,754,350	\$ 8,446,303	\$ -	\$ 5,839,119	\$ 2,754,350
Production and intermediate term	4,660,088	-	-	-	4,660,088	-
Agribusiness	6,428,694	-	-	-	6,428,694	-
Communication	381,671	-	-	-	381,671	-
Total	<u>\$ 14,224,803</u>	<u>\$ 8,446,303</u>	<u>\$ -</u>	<u>\$ 5,839,119</u>	<u>\$ 14,224,803</u>	<u>\$ 14,285,422</u>

Mission-Related and Other Loans Available-for-Sale

A summary of the amortized cost and fair value of mission-related and other investment securities available-for-sale is as follows:

<u>September 30, 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	81,542,943	-	-	81,542,943	4.8%

<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	4.3%

Mission-Related and Other Loans Held-to-Maturity

A summary of the amortized cost and fair value of mission-related and other investment securities held-to-maturity is as follows:

<u>September 30, 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	3,883,981	-	-	3,883,981	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	3,930,242	-	-	3,930,242	6.6%

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

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Nonaccrual loans:		
Real estate mortgage	\$ 3,710,112	\$ 1,140,260
Production and intermediate term	813,450	1,579,667
Agribusiness	-	531,808
Communication	381,671	450,518
Rural residential real estate	154,870	90,290
Total nonaccrual loans	5,060,103	3,792,543
Accruing restructured loans:		
Real estate mortgage	131,523	-
Production and intermediate term	111,065	-
Agribusiness	420,266	-
Total accruing restructured loans	662,854	-
Accruing loans 90 days or more past due:		
Real estate mortgage	1,434,486	-
Total nonperforming loans	7,157,443	3,792,543
Other property owned	243,970	901,170
Total nonperforming assets	\$ 7,401,413	\$ 4,693,713

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 as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2011	December 31, 2010
Real estate mortgage		
Acceptable	95.6 %	95.9 %
OAEM	1.9	1.2
Substandard/doubtful	2.5	2.9
	<u>100.0</u>	<u>100.0</u>
Production and intermediate term		
Acceptable	95.8	94.6
OAEM	3.5	2.9
Substandard/doubtful	0.7	2.5
	<u>100.0</u>	<u>100.0</u>
Agribusiness		
Acceptable	79.3	63.1
OAEM	16.8	27.5
Substandard/doubtful	3.9	9.4
	<u>100.0</u>	<u>100.0</u>
Communication		
Acceptable	-	-
OAEM	-	-
Substandard/doubtful	100.0	100.0
	<u>100.0</u>	<u>100.0</u>
Rural residential real estate		
Acceptable	96.6	98.4
OAEM	-	-
Substandard/doubtful	3.4	1.6
	<u>100.0</u>	<u>100.0</u>
International		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
Total Loans		
Acceptable	95.3	94.7
OAEM	2.6	2.3
Substandard/doubtful	2.1	3.0
	<u>100.0 %</u>	<u>100.0 %</u>

The following table provides an age analysis of past due loans (including accrued interest) as of September 30, 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	Recorded Investment 90 Days and acc:
Real estate mortgage	\$ 5,776,764	\$ 2,967,433	\$ 8,744,197	\$ 358,809,532	\$ 367,553,729	\$ 1,434,484
Production and intermediate term	682,164	854,487	1,536,651	147,789,564	149,326,215	-
Loans to cooperatives	-	-	-	2,605,197	2,605,197	-
Processing and marketing	-	-	-	7,613,986	7,613,986	-
Farm-related business	-	-	-	2,195,922	2,195,922	-
Communication	-	-	-	381,671	381,671	-
Energy and water/waste disposal	-	-	-	-	-	-
Rural residential real estate	-	-	-	4,607,759	4,607,759	-
International	-	-	-	171,479	171,479	-
Lease receivables	-	-	-	-	-	-
Total	\$ 6,458,928	\$ 3,821,920	\$ 10,280,848	\$ 524,175,110	\$ 534,455,958	\$ 1,434,484

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment. Additional impaired loan information is as follows:

	At September 30, 2011			For the Three Months Ended September 30, 2011		For the Nine Months Ended September 30, 2011	
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	\$ 97,963	\$ 97,963	\$ 28,700	\$ 97,963	\$ -	\$ 94,021	\$ -
Production and intermediate term	679,594	979,594	465,000	878,843	-	1,124,688	-
Communication	263,376	263,376	300,000	265,122	-	267,407	-
Rural residential real estate	70,454	70,454	8,000	71,313	-	57,784	789
Total	\$1,111,387	\$1,411,387	\$801,700	\$ 1,313,241	\$ -	\$1,543,900	\$ 789
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$5,148,160	\$5,211,401	\$ -	\$ 4,664,167	\$ 25,283	\$3,583,564	\$103,642
Production and intermediate term	244,921	2,731,210	-	418,865	1,941	455,005	6,825
Processing and marketing	420,266	420,266	-	443,059	6,734	455,760	20,819
Farm-related business	-	-	-	-	-	23,469	108,091
Communication	118,295	118,295	-	166,451	-	174,800	-
Rural residential real estate	84,415	85,519	-	85,336	-	87,443	-
Total	\$6,016,057	\$8,566,691	\$ -	\$ 5,777,878	\$ 33,958	\$4,780,041	\$239,377
Total impaired loans:							
Real estate mortgage	\$5,246,123	\$5,309,364	\$ 28,700	\$ 4,762,130	\$ 25,283	\$3,677,585	\$103,642
Production and intermediate term	924,515	3,710,804	465,000	1,297,708	1,941	1,579,693	6,825
Processing and marketing	420,266	420,266	-	443,059	6,734	455,760	20,819
Farm-related business	-	-	-	-	-	23,469	108,091
Communication	381,671	381,671	300,000	431,573	-	442,207	-
Rural residential real estate	154,869	155,973	8,000	156,649	-	145,227	789
Total	\$7,127,444	\$9,978,078	\$801,700	\$ 7,091,119	\$ 33,958	\$6,323,941	\$240,166

	At December 31, 2010			or the Year Ended December 31, 201	
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate term	\$1,520,603	\$1,522,741	\$824,000	\$ 734,458	\$ 48,457
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$1,140,286	\$1,153,214	\$ -	\$ 2,318,007	\$106,016
Production and intermediate term	59,039	73,614	-	139,188	21,889
Processing and marketing	462,916	462,916	-	843,599	10,225
Farm-related business	68,892	68,892	-	80,645	-
Communication	450,518	458,532	-	410,862	-
Rural residential real estate	90,289	90,289	-	94,202	-
Total	\$2,271,940	\$2,307,457	\$ -	\$ 3,886,503	\$138,130
Total impaired loans:					
Real estate mortgage	\$1,140,286	\$1,153,214	\$ -	\$ 2,318,007	\$106,016
Production and intermediate term	1,579,642	1,596,355	824,000	873,646	70,346
Processing and marketing	462,916	462,916	-	843,599	10,225
Farm-related business	68,892	68,892	-	80,645	-
Communication	450,518	458,532	-	410,862	-
Rural residential real estate	90,289	90,289	-	94,202	-
Total	\$3,792,543	\$3,830,202	\$824,008	\$ 4,620,973	\$186,603

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

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Rural Residential Real Estate	International	Total
Allowance for Credit Losses:							
Balance at							
December 31, 2010	\$ 2,586,943	\$ 1,065,439	\$ 12,182	\$ -	\$ 2,089	\$ 11	\$ 3,666,664
Charge-offs	(15,290)	(341,375)	-	-	-	-	(356,665)
Recoveries	5,834	5,128	-	-	-	-	10,962
Provision for loan losses	93,897	(37,173)	-	300,000	-	-	356,724
Balance at							
September 30, 2011	\$ 2,671,384	\$ 692,019	\$ 12,182	\$ 300,000	\$ 2,089	\$ 11	\$ 3,677,685
Ending Balance:							
individually evaluated for impairment	\$ 36,700	\$ 465,000	\$ -	\$ 300,000	\$ -	\$ -	\$ 801,700
Ending Balance:							
collectively evaluated for impairment	\$ 2,634,684	\$ 227,019	\$ 12,182	\$ -	\$ 2,089	\$ 11	\$ 2,875,985
Recorded Investments in Loans Outstanding:							
Ending Balance at							
September 30, 2011	\$ 286,045,925	\$ 152,887,038	\$ 98,691,004	\$ 381,671	\$ 4,607,759	\$ 171,479	\$ 542,784,876
Ending Balance for loans individually evaluated for impairment							
	\$ 10,076,312	\$ 2,501,092	\$ -	\$ -	\$ -	\$ -	\$ 12,577,404
Ending Balance for loans collectively evaluated for impairment							
	\$ 275,969,613	\$ 150,385,946	\$ 98,691,004	\$ 381,671	\$ 4,607,759	\$ 171,479	\$ 530,207,472

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 Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During the nine months ending September 30, 2011, the Association did participate in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will

not be realized. For the nine months ending September 30, 2011, and 2010 net income for tax purposes was \$0 due to the declaration of 2011 patron sourced income as patronage.

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>September 30, 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 *	\$ -	\$ -	\$ 12,577,405	\$ 12,577,405
Other property owned	-	-	243,970	243,970
<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. The following represent a brief summary of the valuation techniques used for the associations’ assets and liabilities. For a more complete description, see Notes to the 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 months ended September 30,:

	Other Benefits	
	2011	2010
Service cost	\$ 57,423	\$ 54,930
Interest cost	116,994	110,583
Expected return on plan assets	-	-
Amortization of prior service costs	(74,601)	(76,458)
Amortizations of net (gain) loss	28,377	18,885
Net periodic benefit cost	<u>\$ 128,193</u>	<u>\$ 107,940</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 September 30, 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 November 2, 2011, which is the date the financial statements were issued.