

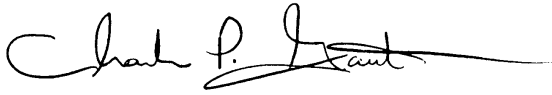
2011 Quarterly Report



For the 1st 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.



Charles P. Gant
Chief Executive Officer/President
May 9, 2011



Barnett L. Baker
Chairman, Board of Directors
May 9, 2011



Sharla Chambers
Chief Financial Officer
May 9, 2011

TEXAS LAND BANK, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Texas Land Bank, ACA (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.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners, and certain farm-related businesses, primarily in the 16-county Central Texas area located in the I-35 Corridor between the metropolitan areas of Dallas/Fort Worth and Austin. The Association's loan volume consists of long-term rural real estate mortgage loans, production and intermediate-term loans, farm-related business loans and rural home loans.

The primary commodity source for the Association's loan portfolio is livestock, excluding dairy and poultry. Cattle prices have been stable and are being aided by lower inventory numbers. However, grain prices and feed costs have increased and are now pressuring production costs. Export sales have been improving and ongoing demand for meat protein and supply management in meat production have continued to provide support for meat prices. Crop producers are more optimistic now with the prospect of improved grain and cotton prices; however, the lack of adequate rainfall is a concern in being able to produce adequate yields to benefit from current prices.

Producers in the loan portfolio are also affected by fuel and fertilizer costs, which are impacted by changes in fuel oil and natural gas prices, and continue to be a major consideration in planning processes. While fuel oil and natural gas prices are lower than previous historic highs, market volatility could continue to put upward pressure on these prices.

The global economy is continuing to improve and is creating a greater demand for our agricultural commodities. In addition, the overall general local economy continues to outperform the national economy and provide stability for off-farm income sources. The Association has significant monthly payment loan volume and loans to borrowers that are not dependent solely upon farm income for repayments. Thus, the Association does not experience large fluctuations due to seasonal characteristics.

Risk Exposure:

Total loans outstanding at March 31, 2011, including nonaccrual loans and sales contracts, were \$436,592,483 compared to \$437,291,603 at December 31, 2010, reflecting a decrease of 0.2 percent.

Nonaccrual loans as a percentage of total loans outstanding were 0.6 percent at March 31, 2011, compared to 0.3 percent at December 31, 2010. The Association recorded \$51,304 in recoveries and \$83,430 in charge-offs for the quarter ending March 31, 2011, and \$0 in recoveries and \$0 in charge-offs for the same period in 2010. The Association's allowance for loan losses was 0.2 percent and 0.2 percent of total loans outstanding as of March 31, 2011, and December 31, 2010, respectively. Management and the Association Audit Committee have reviewed the composition of the loan portfolio and feel that loans that could present a problem have been satisfactorily identified and adjustments have been appropriately made in order to ensure that the allowance for loan loss balance is adequate at this time.

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	\$ 2,756,591	85.0%	\$ 1,127,210	76.4%
90 days past due and still accruing interest	140,700	4.3%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	347,430	10.7%	347,430	23.6%
Total	\$ 3,244,721	100.0%	\$ 1,474,640	100.0%

Total high risk assets as of March 31, 2011, were \$3,244,721, as compared to \$1,474,640, which represented a 120.0 percent increase, primarily as a result of an increase in nonaccrual loan volume. The Association's portfolio included nonaccrual loans in the amount of \$2,756,591, as compared to \$1,127,210, which represented a 144.5 percent increase from December 31, 2010. The increase is primarily related to a large participation loan originated by another association in the District, of which the Association owned approximately \$1.2 million, which was moved to nonaccrual during the first quarter of 2011 as a result of volatility in the borrower's operations and weak repayment performance.

In addition, the portfolio contained one loan that was 90 days past due and still accruing interest as of March 31, 2011, that was subsequently paid current by the issuance of this report.

The overall quality of the loan portfolio remained strong through the first quarter of 2011, with loans classified under Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" at 98.15 percent of total loans and accrued interest as of March 31, 2011.

Results of Operations:

Net Income

The Association had net income of \$1,919,864 for the three months ended March 31, 2011, as compared to net income of \$2,125,975 for the same period in 2010, reflecting a decrease of 9.7 percent. The decrease in net income was driven largely by a \$71,289 increase in provision for loan losses, an \$87,711 decrease in noninterest income, and a \$229,933 increase in noninterest expenses, offset by a \$111,533 increase in net interest income as compared to the same period in 2010.

Net Interest Income

Net interest income was \$3,387,050 for the three months ended March 31, 2011, compared to \$3,204,228 for the same period in 2010, reflecting an increase of 5.7 percent. In addition, average loan volume for the first quarter of 2011 was \$438,477,961, as compared to \$434,334,730 in the first quarter of 2010. Interest income for the first three months of 2011 decreased by \$246,107, or 3.8 percent, from the same period of 2010. Interest expense for the first three months of 2011 decreased by \$428,929, or 13.4 percent, from the same period of 2010. In spite of an increase in average loan volume, a generally low interest rate environment compressed interest income, and those same conditions caused interest expense to decrease as well. The factors impacting interest income and expense produced an average spread on the loan portfolio for the first quarter of 2011 equal to 2.50 percent, compared to 2.33 percent in the first quarter of 2010.

Noninterest Income and Expense

Noninterest income was \$184,399 for the three months ended March 31, 2011, as compared to \$272,110 for the same period in 2010, due primarily to the Association's implementation of authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs for loans closed, resulting in the capitalization of \$101,838 in loan origination fees, which will be amortized over the life of the loans as an adjustment to yield in net interest income. Noninterest expenses were \$1,530,296 for the three months ended March 31, 2011, as compared to \$1,300,363 for the same period in 2010, primarily as a result of an increase in salary and benefits expenses related to increased pension plan costs and the funding of a nonqualified benefit trust, offset by \$66,024 decrease in salary and benefits as a result of the Association's implementation of authoritative accounting guidance requiring the capitalization of origination costs consisting of salaries and benefits, which will be amortized over the life of the loans as an adjustment to yield in net interest income.

Provision for loan losses for March 31, 2011, increased by \$71,289 as compared to the same period in 2010 primarily as a result of a \$131,976 specific allowance and \$83,430 in charge-offs, offset by \$51,304 in recoveries.

Financial Ratios

The Association's return on average assets for the three months ended March 31, 2011, was 1.76 percent compared to 1.93 percent for the same period in 2010. The Association's return on average equity for the three months ended March 31, 2011, was 9.42 percent, compared to 10.01 percent for the same period in 2010. These decreases are the result of an increased asset base and decreased net income as discussed above.

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.

	March 31, 2011	December 31, 2010
Note payable to the Bank	\$ 349,561,042	\$ 351,233,934
Accrued interest on note payable	945,850	989,246
Total	<u>\$ 350,506,892</u>	<u>\$ 352,223,180</u>

The Association experienced a .5 percent decrease in notes and accrued interest payable to the Bank through the quarter ended March 31, 2011, due to a decrease in loan volume experienced by the Association since December 31, 2010.

Capital Resources:

The Association's capital position increased by \$1,903,634 as of March 31, 2011, compared to December 31, 2010. The Association's debt as a percentage of members' equity was 380.7 percent as of March 31, 2011, compared to 390.8 percent 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 19.1 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2011, were 18.6 and 18.6 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. 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 Texas Land Bank, ACA more fully describe 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) 483-9204. 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 website at www.farmcreditbank.com.

The Association’s quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Texas Land Bank, ACA, P.O. Box 20997, Waco, Texas, 76702 or calling (254) 772-6905. Copies of the Association’s quarterly stockholder reports can also be requested by e-mailing sharla.chambers@texaslandbank.com or accessed on the Association’s website at www.texaslandbank.com.

TEXAS LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2011 (unaudited)	December 31, 2010
<u>ASSETS</u>		
Cash	\$ 495,734	\$ 754,776
Loans	436,592,483	437,291,603
Less: allowance for loan losses	932,131	842,968
Net loans	435,660,352	436,448,635
Accrued interest receivable	3,750,115	3,563,905
Investment in and receivable from the Bank:		
Capital stock	7,148,785	7,148,785
Other property owned, net	347,430	347,430
Premises and equipment	1,437,339	1,473,212
Other assets	986,503	170,317
Total assets	\$ 449,826,258	\$ 449,907,060
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 349,561,042	\$ 351,233,934
Accrued interest payable	945,850	989,246
Drafts outstanding	-	371,770
Patronage distributions payable	3,852,577	3,852,577
Other liabilities	1,895,027	1,791,405
Total liabilities	356,254,496	358,238,932
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,654,610	2,664,165
Allocated retained earnings	15,753,946	15,753,946
Unallocated retained earnings	75,275,928	73,356,064
Accumulated other comprehensive income (loss)	(112,722)	(106,047)
Total members' equity	93,571,762	91,668,128
Total liabilities and members' equity	\$ 449,826,258	\$ 449,907,060

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF INCOME
(unaudited)

	Quarter Ended	
	March 31,	
	2011	2010
<u>INTEREST INCOME</u>		
Loans	\$ 6,160,480	\$ 6,406,587
Total interest income	6,160,480	6,406,587
<u>INTEREST EXPENSE</u>		
Note payable to the Bank	2,773,430	3,202,359
Total interest expense	2,773,430	3,202,359
Net interest income	3,387,050	3,204,228
<u>PROVISION FOR LOAN LOSSES</u>		
	121,289	50,000
Net interest income after provision for loan losses	3,265,761	3,154,228
<u>NONINTEREST INCOME</u>		
Income from the Bank:		
Patronage income	55,521	61,859
Loan fees	101,872	205,270
Financially related services income	3,443	4,288
Gain (loss) on other property owned, net	-	639
Other noninterest income	23,563	54
Total noninterest income	184,399	272,110
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	1,001,467	744,325
Directors' expense	57,732	74,545
Purchased services	122,709	118,810
Travel	35,900	28,724
Occupancy and equipment	66,149	72,060
Communications	25,949	20,506
Advertising	62,069	62,576
Public and member relations	23,072	28,640
Supervisory and exam expense	43,052	39,109
Insurance Fund premiums	49,972	84,724
Other noninterest expense	42,225	26,344
Total noninterest expenses	1,530,296	1,300,363
Income before income taxes	1,919,864	2,125,975
Net income	\$ 1,919,864	\$ 2,125,975

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

TEXAS LAND BANK, ACA

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	\$ 2,623,015	\$ 14,254,258	\$ 67,792,972	\$ 291,739	\$ 84,961,984
Comprehensive income					
Net income	-	-	2,125,975	-	2,125,975
Total comprehensive income	-	-	2,125,975	-	2,125,975
Capital stock/participation certificates and allocated retained earnings issued	80,470	-	-	-	80,470
Capital stock/participation certificates and allocated retained earnings retired	(71,215)	-	-	-	(71,215)
Balance at March 31, 2010	\$ 2,632,270	\$ 14,254,258	\$ 69,918,947	\$ 291,739	\$ 87,097,214
Balance at December 31, 2010	\$ 2,664,165	\$ 15,753,946	\$ 73,356,064	\$ (106,047)	\$ 91,668,128
Comprehensive income					
Net income	-	-	1,919,864	-	1,919,864
Change in postretirement benefit plans	-	-	-	(6,675)	(6,675)
Total comprehensive income	-	-	1,919,864	(6,675)	1,913,189
Capital stock/participation certificates and allocated retained earnings issued	58,845	-	-	-	58,845
Capital stock/participation certificates and allocated retained earnings retired	(68,400)	-	-	-	(68,400)
Balance at March 31, 2011	\$ 2,654,610	\$ 15,753,946	\$ 75,275,928	\$ (112,722)	\$ 93,571,762

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

TEXAS LAND BANK, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Texas Land Bank, ACA (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 in the counties of Bell, Bosque, Burnet, Coryell, Dallas, Ellis, Falls, Freestone, Hamilton, Hill, Lampasas, Limestone, McLennan, Milam, Navarro and Williamson in the state of Texas. 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 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans in the Association's portfolio follows:

Loan Type	March 31, 2011 Amount	December 31, 2010 Amount
Production agriculture:		
Real estate mortgage	\$ 375,952,951	\$ 377,910,701
Production and intermediate term	20,929,346	19,144,244
Agribusiness:		
Loans to cooperatives	3,153,467	1,884,412
Processing and marketing	8,046,403	9,889,469
Farm-related business	1,941,336	1,682,310
Communication	4,473,502	4,549,008
Energy	10,973,922	10,984,405
Rural residential real estate	11,095,947	11,247,054
Total	\$ 436,566,874	\$ 437,291,603

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		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 15,536,127	\$ 5,031,120	\$ 15,536,127
Production and intermediate term	4,527,071	1,480,202	4,527,071	1,480,202
Agribusiness	11,510,463	-	11,510,463	-
Communication	4,473,502	-	4,473,502	-
Energy	12,699,594	-	12,699,594	-
Total	\$ 48,746,757	\$ 6,511,322	\$ 48,746,757	\$ 6,511,322

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

	March 31, 2011	March 31, 2010
Impaired loans with related allowance	\$ 366,140	\$ 1,270,827
Impaired loans with no related allowance	2,531,151	735,644
Total impaired loans	\$ 2,897,291	\$ 2,006,471
Allowance on impaired loans	\$ 131,976	\$ 656,683
Average impaired loans	\$ 1,310,698	\$ 1,869,348
Interest income on impaired loans for the quarter	\$ 12,352	\$ 2,603

The Association's portfolio included \$2,897,291 in loans classified as impaired as of March 31, 2011. This represented an increase of \$890,820 from the same period in 2010. The increase was a reflection of an increase in nonaccrual loans, resulting primarily from the transfer of a \$1.2 million piece of a large participation loan originated by another association in the District to nonaccrual during the first quarter of 2011 due to volatility in the borrower's operations and weak repayment performance.

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including the overall general and agricultural economies, loan portfolio, composition, credit administration, and the portfolio's prior loss experience. Using these factors, the Association maintains an allowance for loan loss level that is considered adequate by management to provide for estimated losses inherent in the loan portfolio. An analysis of the allowance for loan losses follows:

	March 31, 2011	December 31, 2010
Balance at beginning of quarter	\$ 842,968	\$ 836,163
Provision for loan losses	121,289	6,805
Charge-offs	(83,430)	-
Recoveries	51,304	-
Balance at end of quarter	<u>\$ 932,131</u>	<u>\$ 842,968</u>

The March 31, 2011, allowance for loan loss increased \$89,163 from December 31, 2010 primarily as a result of a \$131,976 specific allowance and \$83,430 in charge-offs related to the reversal of previous year accrued interest on two loans moved to nonaccrual, offset by \$51,304 in recoveries of a previous year's charge-off related to a participation loan in the ethanol industry.

NOTE 3 — 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 4 — INCOME TAXES:

Texas Land Bank, ACA 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. During the three months ended March 31, 2011, the Association participated 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 three months ended March 31, 2011, and 2010 net income for tax purposes did not warrant the recognition of tax expense due to the patronage program implemented.

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

Upon adoption of FIN 48 on January 1, 2007, the Association did not recognize a tax liability for any unrecognized tax benefits. Since that time, there have not been any changes in tax positions.

NOTE 5 — 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 11 to the 2010 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis 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:				
Investments available-for-sale *	\$ -	\$ -	\$ -	\$ -
Assets held in nonqualified benefit trusts	200,794	-	-	200,794
Total assets	200,794	-	-	200,794
Liabilities:				
Standby letters of credit	-	-	-	-
Total liabilities	\$ -	\$ -	\$ -	\$ -

<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:				
Investments available-for-sale *	\$ -	\$ -	\$ -	\$ -
Assets held in nonqualified benefit trusts	-	-	-	-
Total assets	-	-	-	-
Liabilities:				
Standby letters of credit	-	-	-	-
Total liabilities	\$ -	\$ -	\$ -	\$ -

The table below presents significant transfers in and out of Level 1 during the three months ended March 31, 2011 for all assets measured at fair value on a recurring basis:

	<u>Level 1 Assets</u>	
	<u>Assets Held in Nonqualified Benefits Trusts</u>	
Transfers into Level 1	\$	200,794
Transfers out of Level 1		-

During 2010, the Board of Directors approved the creation of a nonqualified benefit trust to become effective on January 1, 2011, that was funded during the first quarter of 2011. The amount funded into the trust in addition to the gains in asset value comprise the total fair market value of \$200,794 and the only Level 1 assets held by the Association as of March 31, 2011.

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 *	\$ -	\$ -	\$ 234,164	\$ 234,164
Other property owned	-	-	347,430	347,430
<u>December 31, 2010</u>				
Assets:				
Loans *	\$ -	\$ -	\$ 425,255	\$ 425,255
Other property owned	-	-	347,430	347,430

*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 11 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 Association's assets and liabilities. For a more complete description, see Notes to the 2010 Annual Report to Stockholders.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

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 6 — 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, :

	Other Benefits	
	2011	2010
Service cost	\$ 8,378	\$ 29,087
Interest cost	18,537	56,176
Amortization of prior service costs	(12,493)	(51,172)
Amortizations of net (gain) loss	5,818	-
Net periodic benefit cost	<u>\$ 20,240</u>	<u>\$ 34,091</u>

As of March 31, 2011, the Association had made contributions of \$729,797 to the defined pension plan. The Association does not anticipate contributing any additional money to the plan in 2011. The total amounts paid will be recognized as an expense to the Association on a pro rata basis throughout the year,

NOTE 7 — 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 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 9, 2011, which is the date the financial statements were issued. As of May 9, 2011, there were no significant events requiring disclosure in the first quarter 2011 stockholder report.