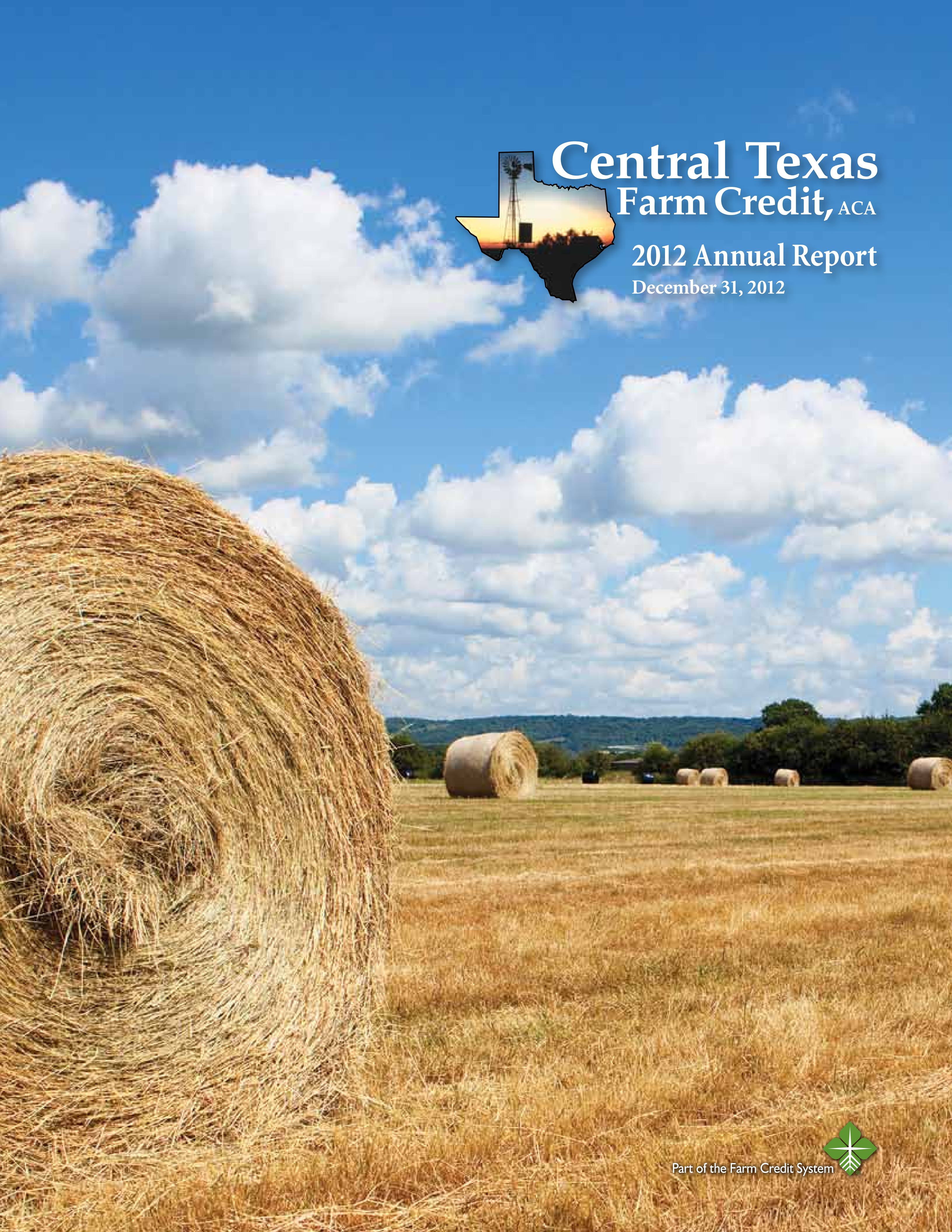

Central Texas Farm Credit, ACA

2012 Annual Report

December 31, 2012

Part of the Farm Credit System

Table of Contents

REPORT OF MANAGEMENT

The consolidated financial statements of Central Texas Farm Credit, ACA (Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The board of directors has overall responsibility for the Association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously.

The undersigned certify that we have reviewed this annual 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 or belief.

Boyd J. Chambers

Boyd J. Chambers, Chief Executive Officer and President

February 26, 2013

Jerry Don Klose

Jerry Don Klose, Chairman, Board of Directors

February 26, 2013

Alan E. Benedict

Alan E. Benedict, Controller and Treasurer

February 26, 2013

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of the entire board of directors of Central Texas Farm Credit, ACA. In 2012, 11 committee meetings were held. The committee oversees the scope of Central Texas Farm Credit, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Central Texas Farm Credit, ACA's website. The Audit Committee selected a qualified public accountant to audit the Association's financial statements and provide an opinion thereon for its 2012 annual report who is different from the accountant whose opinion appeared in the institution's 2011 annual report. This decision was not made due to a disagreement with the prior auditor.

Management is responsible for Central Texas Farm Credit, ACA's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the committee. PricewaterhouseCoopers LLP is responsible for performing an independent audit of Central Texas Farm Credit, ACA's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The committee's responsibilities include monitoring and overseeing the processes.

In this context, the committee reviewed and discussed Central Texas Farm Credit, ACA's audited consolidated financial statements for the year ended December 31, 2012 (audited consolidated financial statements) with management and PricewaterhouseCoopers LLP. The committee also reviews with PricewaterhouseCoopers LLP the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PricewaterhouseCoopers LLP's and Central Texas Farm Credit, ACA's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PricewaterhouseCoopers LLP its independence from Central Texas Farm Credit, ACA. The committee also reviewed the nonaudit services provided by PricewaterhouseCoopers LLP and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and PricewaterhouseCoopers LLP such other matters and received such assurances from them as the committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in Central Texas Farm Credit, ACA's Annual Report to Stockholders for the year ended December 31, 2012.

Audit Committee Members

NAME	POSITION
Jerry Don Klose	Chairman
Robby A. Halfmann	Vice Chairman
Kenneth D. Harvick	Member
Mike Finlay	Member
Mickey D. Dillard	Member
Philip W. Hinds	Member
A. Wayland Shurley	Member
Burl Lowery	Member (Effective January 1, 2013)

February 26, 2013

CENTRAL TEXAS FARM CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2012	2011	2010	2009	2008
Balance Sheet Data					
Assets					
Cash	**$ 1,611**	$ 1,150	$ 766	$ 734	$ 736
Loans	**386,053**	378,541	390,781	407,461	411,702
Less: allowance for loan losses	**1,748**	879	1,622	2,740	194
Net loans	**384,305**	377,662	389,159	404,721	411,508
Investment in and receivable from the Farm Credit Bank of Texas	**6,047**	6,273	6,596	7,076	6,923
Other property owned, net	**523**	553	-	-	-
Other assets	**4,266**	4,515	6,214	8,249	5,124
Total assets	**$ 396,752**	$ 390,153	$ 402,735	$ 420,780	$ 424,291
Liabilities					
Obligations with maturities of one year or less	**$ 7,537**	$ 6,848	$ 11,065	$ 4,592	$ 5,280
Obligations with maturities greater than one year	**302,199**	301,018	314,807	344,289	349,375
Total liabilities	**309,736**	307,866	325,872	348,881	354,655
Members' Equity					
Capital stock and participation certificates	**2,120**	2,206	2,255	2,273	2,275
Unallocated retained earnings	**85,182**	80,222	74,666	69,508	67,227
Accumulated other comprehensive (loss) income	**(286)**	(141)	(58)	118	134
Total members' equity	**87,016**	82,287	76,863	71,899	69,636
Total liabilities and members' equity	**$ 396,752**	$ 390,153	$ 402,735	$ 420,780	$ 424,291
Statement of Income Data					
Net interest income	**$ 12,131**	$ 12,074	$ 11,090	$ 10,957	$ 10,273
(Provision for loan losses) or loan loss reversal	**(863)**	259	(1,022)	(3,441)	(2,336)
Income from the Farm Credit Bank of Texas	**1,426**	1,468	1,825	1,618	1,293
Other noninterest income	**827**	596	1,052	832	702
Noninterest expense	**(3,961)**	(4,320)	(4,587)	(5,187)	(4,468)
Provision for income taxes	**-**	(20)	-	-	-
Net income	**$ 9,560**	$ 10,057	$ 8,358	$ 4,779	$ 5,464
Key Financial Ratios for the Year					
Return on average assets	**2.4%**	2.5%	2.1%	1.1%	1.3%
Return on average members' equity	**11.0%**	12.4%	11.2%	6.7%	7.8%
Net interest income as a percentage of average earning assets	**3.2%**	3.1%	2.8%	2.6%	2.5%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.1%	0.5%	0.2%	0.6%

CENTRAL TEXAS FARM CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2012	2011	2010	2009	2008
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**21.9%**	21.1%	19.1%	17.1%	16.4%
Debt as a percentage of members' equity	**356.0%**	374.1%	424.0%	485.2%	509.3%
Allowance for loan losses as a percentage of loans	**0.5%**	0.2%	0.4%	0.7%	0.0%
Permanent capital ratio	**20.5%**	19.7%	17.4%	14.7%	15.0%
Core surplus ratio	**19.9%**	19.2%	16.7%	14.6%	14.5%
Total surplus ratio	**19.9%**	19.2%	16.7%	14.6%	14.5%
Net Income Distribution					
Patronage dividends:					
Cash	**$ 4,500**	$ 3,200	$ 2,500	$ 2,500	$ 2,500

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Central Texas Farm Credit, ACA, including its wholly-owned subsidiaries, Central Texas PCA and Central Texas Federal Land Bank, FLCA (Association) for the years ended December 31, 2012, 2011 and 2010, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's audit committee.

Forward-Looking Information:

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will" or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease-related and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Significant Events:

In December 2012, the Association received a direct loan patronage of $1,300,049 from the Farm Credit Bank of Texas (Bank), representing 43 basis points on the average daily balance of the Association's direct loan with the Bank. During 2012, the Association received $126,190 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

<u>2010</u>

In December 2010, the Association received a direct loan patronage of $1,637,018 from the Bank, representing 50 basis points on the average daily balance of the Association's direct loan with the Bank. During 2010, the Association received $188,298 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

In April 2010, the Association received a refund from the Farm Credit System Insurance Corporation (FCSIC) of prior year insurance premiums totaling $410,939 which was taken into income for 2010.

During the third quarter of 2010, Association director Chris West paid his loans in full and thereby became ineligible to continue serving as a director. In addition, Association director Larry Damron resigned from his position, with the board formally accepting his resignation.

In December, 2010, the board of directors agreed to amend the Bylaws to allow for the reduction of the board from 11 to nine directors (eight stockholder-elected and one director-elected). Subsequent to year end, the board formally adopted this change to the Bylaws by resolution at the January, 2011 board meeting.

Mr. James R. Isenhower retired as CEO of Central Texas Farm Credit, ACA effective December 31, 2010. Mr. Boyd J. Chambers became the new CEO effective January 1, 2011.

2011

In December 2011, the Association received a direct loan patronage of $1,309,704 from the Bank, representing 42 basis points on the average daily balance of the Association's direct loan with the Bank. During 2011, the Association received $158,326 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

During December 2011, Association director Cody Richmond resigned from his position, with the board formally accepting his resignation. Kenneth Harvick was confirmed as Mr. Cody's replacement effective January 1, 2012.

At the December 2011 board meeting, the board of directors agreed to amend the Bylaws to allow for the reduction of the board from nine to eight directors (seven stockholder-elected and one director-elected). Subsequent to year end, the board formally adopted this change to the Bylaws by resolution at the February, 2012 board meeting.

2012

In April 2012, board chairman Brent Heinze decided not to seek re-election in an effort to assist the Association in reducing the number of directors on the board. In June 2012, the Association board of directors elected director Jerry Don Klose to succeed Brent Heinze as the board chairman.

In May 2012, the Association received a refund from the Farm Credit System Insurance Corporation (FCSIC) of prior year insurance premiums totaling $338,305 which was taken into income for 2012.

In November 2012, outside director Glenn Miller resigned his director position and in December 2012, Burl Lowery was appointed by the board to serve as outside director effective January 1, 2013.

Problem Loans

2008

In the second quarter all loans being held by one large borrower were deemed non-viable and transferred to non-accrual. FLCA debt for this borrower totaled $3,155,256 and PCA debt totaled $3,673,011. Resolution of these debts was completed in the third quarter of 2008 with the exception of some on-going PCA related legal expenses. The entire FLCA debt was fully recovered at resolution and the PCA debt was recovered except for related charge-offs of $753,570. On-going legal expense ceased in 2010 with a cumulative total of $92,969. Additional legal expenses are not anticipated related to this borrower's accounts.

During the fourth quarter four District participation loans were deemed non-viable or as having significant financial stress which required these accounts to be transferred to a non-accrual status. These combined accounts resulted in $8,257,898 in loan volume being moved to non-accrual. All four accounts were eventually resolved with one being wholly transferred back to an accruing status. The remaining three of these accounts remained in non-accrual until resolution, requiring $1,949,598 in charge-offs. Due to subsequent recoveries on two of the accounts this charge-off figure was reduced to $1,855,475. One of the accounts also resulted in a new loan to another entity that purchased the assets of the troubled account.

2009

In the second quarter two participation loans were deemed non-viable and placed in a non-accrual status for a combined total of $5,842,305. Current year (2009) interest reversed for these loans totaled $43,211. Specific reserves were established on both of these loans totaling $2,441,569. Upon resolution of these two accounts in the second and third quarters of 2010, a charge-off amount of $964,889 was recognized and $1,476,680 of previous reserves was returned to income. One of these accounts resulted in $523,049 of acquired property and a restructured loan that was returned to accrual status. Both the acquired property and restructured loan remain on the Association's books. The other loan was returned to an accrual status as well and remains on the Association's books.

During the third quarter three additional participation loans totaling $5,739,970, were moved to a non-accrual status. Specific reserves originally established for these three loans totaled $1,097,884 and current year (2009) interest income reversals totaled $39,728. One account was resolved by being sold in the fourth quarter but required a charge-off of $794,733. All funds related to this sale were collected in full during the first quarter of 2010. The second account of these three accounts was resolved in the third quarter of 2010, resulting in a charge-off of $385,308. A subsequent recovery of $11,667 was realized on this account in the first quarter of 2011. The last of these three accounts was resolved in the third quarter of 2011 with $325,103 of the debt being charged-off and $424,897 of the related $750,000 specific reserve being returned to income.

In the fourth quarter another District participation loan was deemed as a troubled debt and was promptly sold during the quarter. The sale related to this account resulted in an $11,643 charge-off and a $1,909 reversal of current year (2009) interest accruals. All funds related to this sale were fully collected in the first quarter of 2010.

<u>*2010*</u>

During the second quarter another District participation loan which the Association participated in was deemed non-viable or as containing significant financial stress which resulted in this account being transferred to a non-accrual status. The peak balance of this non-accrual loan was $4,637,524. Current year (2010) interest income of $114,408 was reversed on this loan at the time of transfer to non-accrual. In the third quarter of 2011 this loan was collected in full.

<u>*2012*</u>

During the third quarter a participation loan that had previously been deemed non-viable in 2009 and then later that same year was returned to accruing status, again encountered financial difficulty and has been deemed non-viable. The loan was transferred to non-accrual in late September with a $920,000 specific allowance for loan loss being made. A reversal of $7,552 in current year interest accruals was also taken at the time this loan was transferred to non-accrual status. In late December, upon further evaluation of the collateral securing this loan, an addition of $57,000 to the existing specific allowance was determined to be necessary, bringing the total specific allowance to $977,000 as of year-end.

Year-end Weather and Crop Conditions

Some level of drought persists in all of the Association's territory with the area north of I-20 experiencing more severe conditions than other areas. Scattered rains have kept most of the wheat crop viable with some hope of a modest harvest. Poor pasture conditions and minimal grazing available on grain fields has prevented any significant re-stocking of the cow herd. Livestock are generally in good condition thanks to light stocking rates. Although hay for supplemental feeding is available locally and not being trucked in from out-of-state as in years past, prices remain at very high levels. Stock water continues to be a concern in areas that rely on surface tanks, especially in the northern part of the Association's territory where some ranchers have had to sell, relocate or haul water to their cattle. Planting conditions for cotton are generally not favorable.

Summation

For over 95 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

The economy in the Association's chartered territory remains stable despite the drought and a weak national economy, thanks in large part to the conservative nature of area residents, especially those involved in agriculture. Land values leveled off during the latter part of 2008 and, although sales activity has slowed considerably, values have remained stable through the end of 2012. Prices for most commodities produced by farmers and ranchers in our territory are good although feeder cattle and wheat are both below the highs they established during 2012. Cotton prices have recently shown some improvement, although the next crop has not been planted yet.

A large percentage of the Association's new loans are made to individuals from urban areas in Texas purchasing land for small agriculture operations or for recreational use. These buyers are typically strong financially and are able to support their agricultural operations and make loan payments using income from outside sources. As a general rule, they do not have to rely on agricultural production to service debt. Because the territory is attractive to this type of borrower, the Association has a well-diversified loan portfolio that is not concentrated in any one industry. Most of those borrowers who are primarily agricultural producers have well-diversified operations that are not concentrated in any single commodity. Many also have outside income from part-time employment, a spouse's employment, investments, or other sources to help service debt and provide for living expenses. The true full-time agricultural producers in the Association's territory have survived, sometimes for multiple generations, through times of volatile commodity prices and dry weather.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable and prime-based interest rates. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and 20- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The Association's chartered territory loan volume experienced positive growth of $5,349,058 during 2012, in comparison to significant declines in the chartered territory's portfolio during the previous two years with the most significant loss of volume, $7,934,390, occurring during 2011 as well as a $3,929,955 decline in 2010. Loan volume in the outlying Texas counties continued to show a slight decline, or $621,017 in 2012. In 2011 and 2010 outlying counties declined $4,846,183 and $2,813,293 respectively. The out of state portion of the Association's portfolio grew slightly, increasing by $2,783,721.

The composition of the Association's loan portfolio, including principal less funds held of $386,053,139, $378,541,377 and $390,781,482 as of December 31, 2012, 2011 and 2010, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses" included in this annual report.

Purchase and Sales of Loans:

During 2012, 2011 and 2010, the Association was participating in loans with other lenders. As of December 31, 2012, 2011 and 2010, these participations totaled $73,336,406, $70,147,773 and $74,625,682, or 19.1 percent, 18.4 percent and 19.1 percent of loans, respectively. The Association has never purchased any participation interest in any loans from any entities outside of the Tenth Farm Credit District. The Association has also sold participations of $336,394, $345,083 and $0 as of December 31, 2012, 2011 and 2010, respectively.

The Association has not sold to or participated in any loans with the Federal Agricultural Mortgage Corporation or any other secondary market entity.

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, net. The following table illustrates the Association's components and trends of high-risk assets (including related accrued interest) serviced for the prior three years as of December 31:

	2012		2011		2010	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 4,239,610**	**78.0%**	$ 1,339,888	51.8%	$ 7,288,155	82.8%
Formally restructured	**674,451**	**12.4%**	692,248	26.8%	-	0.0%
Total impaired loans	**4,914,061**	**90.4%**	2,032,136	78.6%	7,288,155	82.8%
Other property owned, net	**523,049**	**9.6%**	552,549	21.4%	1,509,066	17.2%
Total	**$ 5,437,110**	**100.0%**	$ 2,584,685	100.0%	$ 8,797,221	100.0%

At December 31, 2012, 2011 and 2010, loans that were considered impaired were $4,914,061, $2,032,136 and $7,288,155, representing 1.3 percent, 0.5 percent and 1.9 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The Association is not affected to any material extent by any seasonal characteristics. This is due in part to the fact that true production loans comprise a small part of the Association's total loan portfolio and in part to the diversification in the portfolio, both in geographic distribution and in sources of repayment. In addition, the Association is not dependent upon any single customer or single commodity or industry because of loan size or commodity concentration, again due to the lack of very large loans in the portfolio and the diversity present in the loan portfolio. No loans in the portfolio have any inherent special features that would have a material impact on the expected collectability of said loans.

Allowance for Loan Losses:

The following table provides relevant information regarding the allowance for loan losses as of, or for the year ended, December 31:

	2012	2011	2010
Allowance for loan losses	**$ 1,748,030**	$ 878,513	$ 1,621,793
Allowance for loan losses to total loans	**0.5%**	0.2%	0.4%
Allowance for loan losses to nonaccrual loans	**41.2%**	65.6%	22.3%
Allowance for loan losses to impaired loans	**35.6%**	43.2%	22.3%
Net charge-offs to average loans	**0.0%**	0.1%	0.5%

The allowance for loan losses is evaluated quarterly and maintained based upon individual analysis of the loan portfolio by management in which numerous factors are considered, including borrower risk and collateral ratings as well as estimates that consider the general financial strength of the agricultural economy, loan portfolio composition, credit administration, and the portfolio's prior loan loss experience. Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of $1,748,030, $878,513 and $1,621,793 at December 31, 2012, 2011 and 2010, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. Management continues to evaluate and refine its risk weighting methodology for determining the levels of allowance for loan losses needed.

Results of Operations:

The Association's net income for the year ended December 31, 2012, was $9,560,071 as compared to $10,056,448 for the year ended December 31, 2011, reflecting a decrease of $496,377, or 4.9 percent. The Association's net income for the year ended December 31, 2010 was $8,358,406. Net income increased $1,698,042, or 20.3 percent, in 2011 versus 2010.

Net interest income for 2012, 2011 and 2010 was $12,130,715, $12,074,322 and $11,090,472, respectively, reflecting increases of $56,393, or 0.5 percent, for 2012 versus 2011 and $983,850, or 8.9 percent, for 2011 versus 2010. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2012		2011		2010	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 382,546,381**	**$ 18,326,881**	$385,007,602	$19,751,507	$394,938,855	$19,857,485
Interest-bearing liabilities	**302,537,985**	**6,196,166**	311,886,116	7,677,185	327,434,466	8,767,013
Impact of capital	**$ 80,008,396**		$ 73,121,486		$ 67,504,389	
Net interest income		**$ 12,130,715**		$12,074,322		$11,090,472

	2012 Average Yield	2011 Average Yield	2010 Average Yield
Yield on loans	**4.79%**	5.13%	5.03%
Cost of interest-bearing liabilities	**2.05%**	2.46%	2.68%
Interest rate spread	**2.74%**	2.67%	2.35%

	2012 vs. 2011			2011 vs. 2010		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income	**$ (126,266)**	**$ (1,298,360)**	**$ (1,424,626)**	$ (499,343)	$ 393,365	$ (105,978)
Interest expense	**(230,104)**	**(1,250,915)**	**(1,481,019)**	(416,307)	(673,521)	(1,089,828)
Net interest income	**$ 103,838**	**$ (47,445)**	**$ 56,393**	$ (83,036)	$ 1,066,886	$ 983,850

Interest income for 2012 decreased by $1,424,626, or 7.2 percent, compared to 2011, due to a decrease in both average loan volume and interest rates. Interest expense for 2012 decreased by $1,481,019, or 19.3 percent, compared to 2011 due to a decrease in both interest rates and average interest-bearing liabilities. The interest rate spread increased by 7 basis points to 2.74 percent in 2012 from 2.67 percent in 2011, primarily because of decreases in interest rates as well as decreases in average loans and interest-bearing liabilities. In 2010, the Association implemented authoritative accounting guidance that requires loan origination fees and costs to be capitalized and amortized over the life of the loans as an adjustment to yield. The resulting adjustment to loan yield for 2012, 2011 and 2010 was a decrease of $21,856, $7,946 and $1,691, respectively. The interest rate spread increased by 32 basis points to 2.67 percent in 2011 from 2.35 percent in 2010, primarily due to a lowering of funding costs and a slight increase in borrower rates.

Noninterest income for 2012 increased by $189,746, or 9.2 percent, compared to 2011, due primarily to a Farm Credit System Insurance Corporation (FCSIC or Insurance Fund) refund distribution of excess reserves from prior years of $338,305. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs was implemented during 2010 resulting in the capitalization of origination fees of $456,093, $300,667 and $293,565 for 2012, 2011 and 2010, respectively, which will be amortized over the life of the loans as an adjustment to yield in net interest income. Noninterest income for 2011 decreased by $813,529, or 28.3 percent, compared to 2010, due primarily to a FCSIC refund distribution of excess reserves from prior years of $410,939 and a $357,286 reduction from FCBT patronage received in 2010. The distributions from the FCSIC included reserves it held in excess of its secure base amount in 2003 which had been previously allocated to its Allocated Insurance Reserves Accounts, and also included reserves in excess of its secure base amount in 2009 which were likewise allocated. The 2008 Farm Bill amended the Farm Credit Act and simplified the formula for payments from the Allocated Insurance Reserves Accounts to allow more immediate distribution of excess Insurance Fund balances to System banks.

Provisions for loan losses increased by $1,121,519, or 433.6 percent, compared to 2011, due primarily to the Association recording a $977,000 specific allowance for loan losses on a problem loan during 2012. The rest of the increase was due to general allowance fluctuations based on credit class and collateral levels.

Noninterest expense consists primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. In 2012, operating expenses decreased $359,003 or 8.3 percent, primarily due to a decrease in salaries and employee benefits expense of $340,826 and a decrease in purchased services of $40,721. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the net capitalization of $221,673, $50,112 and $43,963 for 2012, 2011 and 2010, respectively, in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs consisted of salaries and benefits totaling $677,766, $350,779 and $337,528 related to the origination of loans for 2012, 2011 and 2010, respectively.

For the year ended December 31, 2012, the Association’s return on average assets was 2.4 percent, as compared to 2.5 percent and 2.1 percent for the years ended December 31, 2011 and 2010, respectively. For the year ended December 31, 2012, the Association’s return on average members’ equity was 11.0 percent, as compared to 12.4 percent and 11.2 percent for the years ended December 31, 2011 and 2010, respectively.

For the year ended December 31, 2012, the Association’s net interest margin when measured against average loan volume for the year was 3.2 percent as compared to 3.1 percent and 2.8 percent at year-end 2011 and 2010, respectively. The increase in net interest margin from 2011 to 2012 was due to a slight increase in net interest income and a decrease in average earning assets. The increase in net interest margin from 2010 to 2011 was due to recognition of nonaccrual interest income as well as a decrease in average earning assets and a slight increase in net interest income.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank would have a similar effect on the operations of the Association.

Liquidity and Funding Sources:

The interest rate risk inherent in the Association’s loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $301,702,000, $300,441,402 and $314,107,511 as of December 31, 2012, 2011 and 2010, respectively, is recorded as a liability on the Association’s consolidated balance sheet. The note carried a weighted average interest rate of 2.1 percent, 2.5 percent and 2.7 percent at December 31, 2012, 2011 and 2010, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association’s assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank since

December 31, 2011, is due to a slight increase in demand for financing. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $84,149,216, $78,225,710 and $77,663,225 at December 31, 2012, 2011 and 2010, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2012, was $386,830,226 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2015, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2013. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year.

Capital Resources:

The Association's capital position remains strong, with total members' equity of $87,015,938, $82,287,460 and $76,863,226 at December 31, 2012, 2011 and 2010, respectively. Capital continues to grow due to the Association's sustained level of earnings. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2012, 2011 and 2010 was 20.5 percent, 19.7 percent and 17.4 percent, respectively. The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio at December 31, 2012, 2011 and 2010 was 19.9 percent, 19.2 percent and 16.7 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's total surplus ratio at December 31, 2012, 2011 and 2010 was 19.9 percent, 19.2 percent and 16.7 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

Total members' equity increased by $4,728,478 during 2012 due to the net income for the period. The Association's capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses, which represents the Association's reserve for adversity prior to impairment of stock. The Association manages its capital in such a manner as to allow itself the ability to meet member needs and protect member interests, both now and in the future.

In 2012, 2011 and 2010, the Association paid patronage of $4,500,000, $3,200,000 and $2,500,000, respectively. In December 2012, the board of directors approved a $4,600,000 patronage distribution to be paid in March 2013. See Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Relationship With the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Farm Credit Bank of Texas."

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 12 to the consolidated financial statements, “Related Party Transactions,” included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank bills District expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums. As of April 2011, the Bank only bills associations for direct pass-through expenses and no longer bills for allocated expenses.

Summary:

Over the past 95 years, regardless of the state of the agricultural economy, your Association’s board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

pwc

Independent Auditor's Report

To the Board of Directors and Members of
Central Texas Farm Credit, ACA:

We have audited the accompanying consolidated financial statements of Central Texas Farm Credit, ACA and its subsidiaries (the Association), which comprise the consolidated balance sheets as of December 31, 2012, 2011 and 2010, and the related consolidated statements of comprehensive income, of changes in members' equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Texas Farm Credit, ACA and its subsidiaries at December 31, 2012, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of the Association as of December 31, 2011 and 2010 and for the years then ended were audited by other auditors whose report dated February 24, 2012, and February 28, 2011 expressed an unqualified opinion on those statements.

PricewaterhouseCoopers LLP

March 8, 2013

PricewaterhouseCoopers LLP, 300 West 6th Street, Suite 1800, Austin, Texas 78701
T: (512) 477-1300, F: (512) 477-8681, www.pwc.com/us

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	December 31,		
	2012	2011	2010
Assets			
Cash	**$ 1,611,150**	$ 1,150,203	$ 766,289
Loans	**386,053,139**	378,541,377	390,781,482
Less: allowance for loan losses	**1,748,030**	878,513	1,621,793
Net loans	**384,305,109**	377,662,864	389,159,689
Accrued interest receivable	**3,438,702**	3,739,673	3,861,139
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**6,047,355**	6,272,795	6,596,195
Other property owned, net	**523,049**	552,549	1,509,066
Premises and equipment	**629,163**	611,477	663,800
Other assets	**197,410**	163,716	179,156
Total assets	**$ 396,751,938**	$ 390,153,277	$ 402,735,334
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 301,702,000**	$ 300,441,402	$ 314,107,511
Accrued interest payable	**496,888**	576,116	699,547
Drafts outstanding	**658,710**	301,417	6,165,115
Patronage distributions payable	**4,600,000**	4,500,000	3,200,000
Other liabilities	**2,278,402**	2,046,882	1,699,935
Total liabilities	**309,736,000**	307,865,817	325,872,108
Members' Equity			
Capital stock and participation certificates	**2,120,295**	2,206,060	2,254,885
Unallocated retained earnings	**85,182,394**	80,222,323	74,665,875
Accumulated other comprehensive loss	**(286,751)**	(140,923)	(57,534)
Total members' equity	**87,015,938**	82,287,460	76,863,226
Total liabilities and members' equity	**$ 396,751,938**	$ 390,153,277	$ 402,735,334

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2012	2011	2010
Interest Income			
Loans	**$ 18,326,881**	$ 19,751,507	$ 19,857,485
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**6,196,166**	7,677,185	8,767,013
Net interest income	**12,130,715**	12,074,322	11,090,472
Provision for Loan Losses (Loan Loss Reversal)	**862,863**	(258,656)	1,021,878
Net interest income after provision for losses (loan loss reversal)	**11,267,852**	12,332,978	10,068,594
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	**1,426,239**	1,468,030	1,825,316
Loan fees	**417,991**	521,056	540,737
Refunds from Farm Credit System Insurance Corporation	**338,305**	-	410,939
Financially related services income	**9,633**	11,309	12,446
Gain (loss) on other property owned, net	**1,910**	(2,593)	70,546
Other noninterest income	**59,577**	66,107	17,454
Total noninterest income	**2,253,655**	2,063,909	2,877,438
Noninterest Expenses			
Salaries and employee benefits	**2,634,449**	2,975,275	3,027,305
Directors' expense	**118,947**	105,950	108,066
Purchased services	**234,155**	274,876	493,250
Travel	**87,503**	133,562	165,104
Occupancy and equipment	**166,831**	167,422	160,140
Communications	**28,043**	28,948	36,065
Advertising	**143,115**	120,900	108,854
Public and member relations	**115,511**	76,597	61,016
Supervisory and exam expense	**153,812**	163,741	163,503
Insurance Fund premiums	**142,998**	180,909	162,494
Other noninterest expense	**136,072**	92,259	101,829
Total noninterest expenses	**3,961,436**	4,320,439	4,587,626
Income before income taxes	**9,560,071**	10,076,448	8,358,406
Provision for income taxes	**-**	20,000	-
NET INCOME	**9,560,071**	10,056,448	8,358,406
Other comprehensive (loss):			
Change in postretirement benefit plans	**(145,828)**	(83,389)	(175,703)
COMPREHENSIVE INCOME	**$ 9,414,243**	$ 9,973,059	$ 8,182,703

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2009	$ 2,273,210	$ 69,507,469	$ 118,169	$ 71,898,848
Comprehensive income	-	8,358,406	(175,703)	8,182,703
Capital stock/participation certificates issued	248,420	-	-	248,420
Capital stock/participation certificates and allocated retained earnings retired	(266,745)	-	-	(266,745)
Patronage dividends:				
Cash	-	(3,200,000)	-	(3,200,000)
Balance at December 31, 2010	2,254,885	74,665,875	(57,534)	76,863,226
Comprehensive income	-	10,056,448	(83,389)	9,973,059
Capital stock/participation certificates issued	229,160	-	-	229,160
Capital stock/participation certificates and allocated retained earnings retired	(277,985)	-	-	(277,985)
Patronage dividends:				
Cash	-	(4,500,000)	-	(4,500,000)
Balance at December 31, 2011	2,206,060	80,222,323	(140,923)	82,287,460
Comprehensive income	-	9,560,071	(145,828)	9,414,243
Capital stock/participation certificates issued	248,120	-	-	248,120
Capital stock/participation certificates and allocated retained earnings retired	(333,885)	-	-	(333,885)
Patronage dividends:				
Cash	-	(4,600,000)	-	(4,600,000)
Balance at December 31, 2012	**$ 2,120,295**	**$ 85,182,394**	**$ (286,751)**	**$ 87,015,938**

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income	**$ 9,560,071**	$ 10,056,448	$ 8,358,406
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	**862,863**	(258,656)	1,021,878
Gain on sale of other property owned, net	**(1,910)**	-	(74,170)
Depreciation and amortization	**85,857**	100,606	135,390
Gain on sale of premises and equipment, net	**-**	(19,541)	(182)
Decrease in accrued interest receivable	**300,971**	121,466	394,845
(Increase) decrease in other assets	**(33,694)**	15,440	3,106,672
Decrease in accrued interest payable	**(79,228)**	(123,431)	(129,675)
Increase (decrease) in other liabilities	**92,346**	108,913	(502,874)
Net cash provided by operating activities	**10,787,276**	10,001,245	12,310,290
Cash flows from investing activities:			
(Increase) decrease in loans, net	**(7,529,053)**	12,862,392	12,279,907
Cash recoveries of loans previously charged off	**-**	4,251	700,379
Proceeds from redemption of investment in the Farm Credit Bank of Texas	**225,440**	323,400	479,800
Purchases of premises and equipment	**(86,252)**	(48,742)	(94,391)
Proceeds from sales of premises and equipment	**-**	20,000	2,407
Proceeds from sales of other property owned	**31,410**	-	123,803
Net cash (used in) provided by investing activities	**(7,358,455)**	13,161,301	13,491,905

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
Cash flows from financing activities:			
Net draws on (repayment of) note payable to the Farm Credit Bank of Texas	**1,260,598**	(13,666,109)	(29,352,188)
Increase (decrease) in drafts outstanding	**357,293**	(5,863,698)	6,100,477
Issuance of capital stock and participation certificates	**248,120**	229,160	248,420
Retirement of capital stock and participation certificates	**(333,885)**	(277,985)	(266,745)
Patronage distributions paid	**(4,500,000)**	(3,200,000)	(2,500,000)
Net cash used in financing activities	**(2,967,874)**	(22,778,632)	(25,770,036)
Net increase in cash	**460,947**	383,914	32,159
Cash at the beginning of the year	**1,150,203**	766,289	734,130
Cash at the end of the year	**$ 1,611,150**	$ 1,150,203	$ 766,289
Supplemental schedule of noncash investing and financing activities:			
Financed sales of other property owned	**$ -**	$ 986,016	$ 237,916
Loans transferred to other property owned	**-**	29,499	1,796,614
Loans charged off	**-**	334,230	2,840,787
Patronage distributions declared	**4,600,000**	4,500,000	3,200,000
Transfer of allowance for loan losses from (into) reserve for unfunded commitments	**6,654**	154,645	-
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 6,275,394**	$ 7,800,616	$ 8,896,688
Income taxes	**-**	20,000	-

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

CENTRAL TEXAS FARM CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Central Texas Farm Credit, ACA, including its wholly-owned subsidiaries, Central Texas PCA and Central Texas Federal Land Bank, FLCA (collectively called "the Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Baylor, Brown, Callahan, Coke, Coleman, Comanche, Concho, Haskell, Irion, Jones, Knox, McCulloch, Menard, Mills, Reagan, Runnels, San Saba, Sterling, and Tom Green in the state of Texas.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2012, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation), and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2012, the District consisted of the Bank, one FLCA and 16 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System associations to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2 percent level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services that can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The Association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank.

The Association also serves as an intermediary in offering credit life insurance.

The Association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investments in the Association. Upon request, stockholders of the

Association will be provided with the Farm Credit Bank of Texas and District Associations' Annual Report to Stockholders, which includes the combined financial statements of the Bank and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the Bank and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund.

The lending and financial services offered by the Bank are described in Note 1, "Organization and Operations," of the District's Annual Report to Stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation. The consolidated financial statements include the accounts of Central Texas PCA and Central Texas Federal Land Bank, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted Accounting Pronouncements:

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled "Balance Sheet — Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will result in additional disclosures.

In September 2011, the FASB issued guidance entitled "Compensation – Retirement Benefits – Multi-employer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multi-employer pension plan, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012 for nonpublic entities. The amendments should be applied retrospectively for all prior periods presented. The adoption did not impact the Association's financial condition or results of operations.

In June and December 2011, the FASB issued guidance entitled "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The main provisions of the guidance provide that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements. This guidance did not change the items that must be reported in other comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). The December 2011 guidance deferred the effective date for the presentation of reclassification adjustments.

This guidance is applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact financial condition or results of operations, but resulted in changes to the presentation of comprehensive income.

B. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.

C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. Prior to 2010, this guidance was not implemented due to its immaterial effect on the Association's financial position or results of operation for any year presented. In 2012, 2011 and 2010 the Association capitalized $456,093, $300,667 and $293,565 in origination fees and $677,766, $350,779 and $337,528 in origination costs, primarily related to salaries and benefits, respectively. This resulted in a net capitalization of expenses of $221,673, $50,112 and $43,963 and a net adjustment to yield on loans was $21,856, $7,946 and $1,691 for 2012, 2011 and 2010, respectively.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the Association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restricted in a troubled debt restructuring is an impaired loan.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs, and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The Bank and related associations use a two-dimensional loan rating model based on an internally generated combined system risk-rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan, assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) rating indicates that the probability of default is almost certain.

The credit risk-rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable 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, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management considers the following factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

D. Capital Stock Investment in the Farm Credit Bank of Texas: The Association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the Association's proportional utilization of the Bank compared to other District associations. The Bank requires a minimum stock investment of 2 percent of the Association's average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

   If needed to meet regulatory capital adequacy requirements, the board of directors of the Bank may increase the percentage of stock held by an Association from 2 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5 percent of the average outstanding balance of borrowings from the Bank.

E. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, and is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the consolidated statements of comprehensive income.

F. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.

G. Advance Conditional Payments: The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors.

H. Employee Benefit Plans: Employees of the Association participate in either the District defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB Plan.

   Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2012, made on their behalf into various investment alternatives.

The structure of the District's DB Plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC Plan of $58,688, $46,043 and $41,781 for the years ended December 31, 2012, 2011 and 2010, respectively. For the DB Plan, the Association recognized pension costs of $586,150, $770,007 and $759,513 for the years ended December 31, 2012, 2011 and 2010, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were $72,256, $64,200 and $70,032 for the years ended December 31, 2012, 2011 and 2010, respectively.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities.

I. Income Taxes: The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income. Deferred taxes are recorded on 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 (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings. The Association's net operating loss carry-forward at December 31, 2012 approximates $2,100,000 and may be carried forward approximately 20 years. Generally, the annual taxable earnings of the Association are offset predominately by the declaration of the patronage refunds. Association management anticipates the continuation of the patronage program into the future. A valuation allowance has been established to completely offset any computed deferred tax benefits as of December 31, 2012, 2011 and 2010.

J. Patronage Refunds From the Farm Credit Bank of Texas: The Association records anticipated patronage refunds from the Bank during the year on an accrual basis. The amount is adjusted at year-end when the actual amount paid by the Bank is known.

K. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and our supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

The fair value disclosures are presented in Note 13, "Fair Value Measurements."

L. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

	2012		2011		2010	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 287,170,550**	**74.4%**	$ 289,307,694	76.4%	$ 290,500,857	74.2%
Agribusiness:						
Processing and marketing	**36,216,059**	**9.4%**	30,102,944	8.0%	32,043,483	8.2%
Farm-related business	**5,308,306**	**1.4%**	6,216,892	1.6%	9,238,511	2.4%
Loans to cooperatives	**-**	**0.0%**	-	0.0%	348,595	0.1%
Production and intermediate term	**31,439,776**	**8.1%**	30,553,576	8.1%	35,921,267	9.2%
Energy	**13,484,333**	**3.5%**	9,631,042	2.5%	9,120,885	2.3%
Communication	**10,776,987**	**2.8%**	10,590,606	2.8%	11,205,791	2.9%
Rural residential real estate	**1,657,128**	**0.4%**	1,905,777	0.5%	2,156,093	0.6%
Water and waste water	**-**	**0.0%**	232,846	0.1%	246,000	0.1%
Total	**$ 386,053,139**	**100.0%**	$ 378,541,377	100.0%	$ 390,781,482	100.0%

The Association may purchase or sell 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 as of December 31, 2012:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 31,325,811	$ -	$ -	$ -	$ 31,325,811	$ -
Real estate mortgage	14,105,631	336,394	-	-	14,105,631	336,394
Energy	13,477,453	-	-	-	13,477,453	-
Communication	10,704,534	-	-	-	10,704,534	-
Production and intermediate term	3,722,977	-	-	-	3,722,977	-
Total	$ 73,336,406	$ 336,394	$ -	$ -	$ 73,336,406	$ 336,394

Geographic Distribution:

County	**2012**	2011	2010
Brown	**9.0%**	9.0%	8.8%
Comanche	**8.9%**	7.6%	7.0%
Coleman	**6.5%**	6.9%	6.8%
Runnels	**5.7%**	5.6%	5.4%
Concho	**4.3%**	4.4%	4.3%
McCulloch	**4.2%**	4.5%	4.8%
Callahan	**4.0%**	3.9%	3.7%
Mills	**3.9%**	3.8%	4.3%
Jones	**3.8%**	3.7%	3.9%
Tom Green	**3.6%**	3.6%	3.5%
San Saba	**3.1%**	2.8%	2.8%
Haskell	**3.0%**	3.5%	4.0%
Knox	**1.6%**	1.9%	2.0%
Coke	**1.5%**	1.6%	1.7%
Menard	**1.1%**	1.2%	1.1%
Baylor	**0.9%**	0.9%	0.8%
Other Counties	**16.5%**	17.0%	17.4%
Other States	**18.4%**	18.1%	17.7%
Totals	**100.0%**	100.0%	100.0%

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized, and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

	2012		2011		2010	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Cattle and calves	**$ 131,311,879**	**34.0%**	$ 128,455,320	33.9%	$ 130,275,670	33.3%
General livestock and fowl	**70,214,369**	**18.2%**	69,276,414	18.3%	69,447,355	17.8%
Other	**59,015,024**	**15.3%**	52,690,568	13.9%	48,825,281	12.5%
Hunting and recreation	**39,128,131**	**10.1%**	35,886,850	9.5%	35,163,616	9.0%
Cotton	**24,725,316**	**6.4%**	24,800,970	6.6%	27,565,073	7.1%
Field crops	**18,516,051**	**4.8%**	20,401,915	5.4%	19,726,928	5.0%
Wheat	**14,671,130**	**3.8%**	13,857,292	3.7%	15,257,211	3.9%
Timber	**6,617,593**	**1.7%**	7,212,978	1.9%	12,301,032	3.1%
Fruit, nuts and vegetables	**6,584,964**	**1.7%**	9,222,023	2.4%	11,421,392	2.9%
Sheep and goats	**6,229,995**	**1.6%**	6,729,985	1.8%	7,523,950	1.9%
Feed products and milling	**6,034,094**	**1.6%**	6,796,987	1.8%	9,230,011	2.4%
Rural home loans	**1,657,128**	**0.4%**	1,905,777	0.5%	2,156,093	0.6%
Sorghum, corn and other grains	**1,347,465**	**0.4%**	1,304,298	0.3%	1,887,870	0.5%
Total	**$ 386,053,139**	**100.0%**	$ 378,541,377	100.0%	$ 390,781,482	100.0%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (or 97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan-to-value ratios in excess of the regulatory maximum.

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

	December 31, 2012	December 31, 2011	December 31, 2010
Nonaccrual loans:			
Real estate mortgage	**$ 1,127,889**	$ 1,339,888	$ 7,288,155
Agribusiness	**3,111,721**	-	-
Total nonaccrual loans	**4,239,610**	1,339,888	7,288,155
Accruing restructured loans:			
Real estate mortgage	**674,451**	692,248	-
Total accruing restructured loans	**674,451**	692,248	-
Total nonperforming loans	**4,914,061**	2,032,136	7,288,155
Other property owned	**523,049**	552,549	1,509,066
Total nonperforming assets	**$ 5,437,110**	$ 2,584,685	$ 8,797,221

One credit quality indicator utilized by the Bank and Association is the Farm Credit Administration's Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2012	2011	2010
Real estate mortgage			
Acceptable	**98.5** %	98.4 %	98.4 %
OAEM	**0.8**	0.9	0.9
Substandard/doubtful	**0.7**	0.7	0.7
	100.0	100.0	100.0
Production and intermediate term			
Acceptable	**96.9**	93.1	95.8
OAEM	**-**	2.9	3.4
Substandard/doubtful	**3.1**	4.0	0.8
	100.0	100.0	100.0
Loans to cooperatives			
Acceptable	**-**	-	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	-	-	100.0
Processing and marketing			
Acceptable	**86.2**	79.0	67.4
OAEM	**5.2**	10.3	18.0
Substandard/doubtful	**8.6**	10.7	14.6
	100.0	100.0	100.0
Farm-related business			
Acceptable	**100.0**	100.0	49.8
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	50.2
	100.0	100.0	100.0
Communication			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Energy			
Acceptable	**88.0**	82.1	100.0
OAEM	**-**	-	-
Substandard/doubtful	**12.0**	17.9	-
	100.0	100.0	100.0
Water and waste water			
Acceptable	**-**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	-	100.0	100.0
Rural residential real estate			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Total Loans			
Acceptable	**96.9**	96.1	94.6
OAEM	**1.1**	1.7	2.4
Substandard/doubtful	**2.0**	2.2	3.0
	100.0 %	100.0 %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) as of December 31, 2012 and 2011:

December 31, 2012:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or less than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 2,138,461**	**$ -**	**$ 2,138,461**	**$ 288,129,195**	**$ 290,267,656**	**$ -**
Processing and marketing	**-**	**3,111,721**	**3,111,721**	**33,155,656**	**36,267,377**	**-**
Production and intermediate term	**103,499**	**-**	**103,499**	**31,582,794**	**31,686,293**	**-**
Energy	**-**	**-**	**-**	**13,489,807**	**13,489,807**	**-**
Communication	**-**	**-**	**-**	**10,798,239**	**10,798,239**	**-**
Farm-related business	**-**	**-**	**-**	**5,310,706**	**5,310,706**	**-**
Rural residential real estate	**-**	**-**	**-**	**1,671,763**	**1,671,763**	**-**
Water and waste water	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 2,241,960**	**$ 3,111,721**	**$ 5,353,681**	**$ 384,138,160**	**$ 389,491,841**	**$ -**

December 31, 2011:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 157,568	$ -	$ 157,568	$ 292,507,118	$ 292,664,686	$ -
Processing and marketing	-	-	-	30,156,902	30,156,902	-
Production and intermediate term	-	-	-	30,823,867	30,823,867	-
Energy	-	-	-	9,633,250	9,633,250	-
Communication	-	-	-	10,622,339	10,622,339	-
Farm-related business	-	-	-	6,225,304	6,225,304	-
Rural residential real estate	-	-	-	1,921,856	1,921,856	-
Water and waste water	-	-	-	232,846	232,846	-
Total	$ 157,568	$ -	$ 157,568	$ 382,123,482	$ 382,281,050	$ -

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.

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of December 31, 2012, the total recorded investment of troubled debt restructured loans was $674,451, including $674,451 classified as accrual and $0 classified as nonaccrual, with no specific allowance for loan losses. As of December 31, 2012, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

The following table presents additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the year ended December 31, 2011. The pre-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. Loans formally restructured prior to January 1, 2012, were $674,451 as of December 31, 2012. There were no restructurings during 2012 that were considered a troubled debt restructuring.

December 31, 2011:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 692,017	$ 692,017

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

The predominant form of concession granted for troubled debt restructuring includes extension of the term. Other types of modifications include principal or accrued interest reductions, interest rate decreases, and delayed payments, among others. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table:

	Loans Modified as TDRs		TDRs on Nonaccrrual Status*	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Troubled debt restructurings:				
Real estate mortgage	$ 674,451	$ 692,017	$ -	$ -

* represents the portion of loans modified as TDRs (first column) that are in nonaccrual status

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2012	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Processing and marketing	$ 3,111,721	$ 3,111,721	$ 977,000	$ 2,445,691	$ (7,273)
Total	$ 3,111,721	$ 3,111,721	$ 977,000	$ 2,445,691	$ (7,273)
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,802,340	$ 1,802,228	$ -	$ 1,794,022	$ 51,618
Total	$ 1,802,340	$ 1,802,228	$ -	$ 1,794,022	$ 51,618
Total impaired loans:					
Real estate mortgage	$ 1,802,340	$ 1,802,228	$ -	$ 1,794,022	$ 51,618
Processing and marketing	3,111,721	3,111,721	977,000	2,445,691	(7,273)
Total	$ 4,914,061	$ 4,913,949	$ 977,000	$ 4,239,713	$ 44,345

[a] Unpaid principal balance represents the contractual obligations of the loans.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2012.

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	2012	2011	2010
Interest income which would have been recognized under the original terms	**$ 189,928**	$ 499,404	$ 784,956
Less: interest income recognized	**(111,892)**	(479,858)	(279,543)
Foregone interest income	**$ 78,036**	$ 19,546	$ 505,413

A summary of the changes in the allowance for credit losses and the ending balance of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2011	$ 226,217	$ 270,711	$ 215,308	$ 19,637	$ 145,160	$ 1,480	$ 878,513
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(18,425)	41,709	836,718	2,310	806	(255)	862,863
Other	40	(13,935)	(544)	318	20,775	-	6,654
Balance at December 31, 2012	$ 207,832	$ 298,485	$ 1,051,482	$ 22,265	$ 166,741	$ 1,225	$ 1,748,030
Ending Balance: individually evaluated for impairment	$ -	$ -	$ 977,000	$ -	$ -	$ -	$ 977,000
Ending Balance: collectively evaluated for impairment	$ 207,832	$ 298,485	$ 74,482	$ 22,265	$ 166,741	$ 1,225	$ 771,030
Recorded Investment in Loans Outstanding[a]:							
Ending Balance at December 31, 2012	$ 290,267,656	$ 31,686,293	$ 41,578,083	$ 10,798,239	$ 13,489,807	$ 1,671,763	$ 389,491,841
Ending balance for loans individually evaluated for impairment	$ 1,802,340	$ -	$ 3,111,721	$ -	$ -	$ -	$ 4,914,061
Ending balance for loans collectively evaluated for impairment	$ 288,465,316	$ 31,686,293	$ 38,466,362	$ 10,798,239	$ 13,489,807	$ 1,671,763	$ 384,577,780

[a] Recorded investment in loans outstanding includes accrued interest.

A summary of the allowance for loan losses as of December 31 follows:

	2012	2011	2010
Beginning balance	**$ 878,513**	$ 1,621,793	$ 2,740,323
Provision for loan losses	**862,863**	(258,656)	1,021,878
Loans charged off	**-**	(334,230)	(2,840,787)
Recoveries	**-**	4,251	700,379
Other	**6,654**	(154,645)	-
Allowance for loan losses	**$ 1,748,030**	$ 878,513	$ 1,621,793

NOTE 4 – INVESTMENT IN THE FARM CREDIT BANK OF TEXAS

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities, not fair value, in the accompanying consolidated balance sheet. Estimating the fair value of the Association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The Association owns 2.82 percent of the issued stock of the Bank as of December 31, 2012. As of that date, the Bank's assets totaled $15.4 billion and members' equity totaled $1.274 billion. The Bank's earnings were $174.6 million during 2012.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2012	2011	2010
Land and improvements	**$ 143,995**	$ 143,995	$ 143,995
Building and improvements	**870,221**	867,471	856,028
Furniture and equipment	**248,516**	221,356	215,131
Computer equipment and software	**96,102**	82,957	84,961
Automobiles	**150,617**	146,702	210,519
	1,509,451	1,462,481	1,510,634
Accumulated depreciation	**(880,288)**	(851,004)	(846,834)
Total	**$ 629,163**	$ 611,477	$ 663,800

The Association leases office space in Baird and Comanche, Texas. Lease expense was $12,120, $5,184 and $5,184 for 2012, 2011 and 2010, respectively. Minimum annual lease payments for the next five years are as follows:

	Operating
2013	$ 12,120
2014	12,120
2015	12,120
2016	12,120
2017	12,120
Thereafter	12,120
Total	$ 72,720

NOTE 6 – OTHER PROPERTY OWNED, NET:

Net gain (loss) on other property owned consists of the following for the years ended December 31:

	2012	2011	2010
Gain on sale, net	**$ 1,910**	$ -	$ 74,171
Operating expense, net	**-**	(2,593)	(3,625)
Net gain (loss) on other property owned	**$ 1,910**	$ (2,593)	$ 70,546

NOTE 7 – OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2012	2011	2010
Accounts receivable	**$ 197,345**	$ 163,651	$ 179,091
Utility deposits	**65**	65	65
Total	**$ 197,410**	$ 163,716	$ 179,156

Other liabilities comprised the following at December 31:

	2012	2011	2010
Postretirement benefits liability	**$ 1,674,104**	$ 1,442,427	$ 1,282,458
Accrued annual leave	**270,653**	246,848	251,784
Allowance on unfunded loans	**147,991**	154,645	-
FCS insurance premium payable	**142,998**	181,909	162,494
Accounts payable	**42,656**	21,053	3,199
Total	**$ 2,278,402**	$ 2,046,882	$ 1,699,935

NOTE 8 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets, and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the Association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2015, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2012, 2011 and 2010, was $301,702,000 at 2.1 percent, $300,441,402 at 2.5 percent and $314,107,511 at 2.7 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2012, 2011 and 2010, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2012, was $386,830,226, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2012, 2011 and 2010, the Association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 9 — MEMBERS' EQUITY:

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

Protection of certain borrower equity is provided under the Act that requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class A capital stock or participation certificates is equal to 2 percent of the loan amount, up to a maximum amount of $1,000 per loan. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

Each owner of Class A capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class A to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the Association's board of directors. At December 31, 2012, 2011 and 2010, the Association had no Class C capital stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of capital stock and participation certificates. In the event of liquidation of the Association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the Association's obligations to external parties and to the Bank would be distributed to the Association's stockholders.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. In 2012, 2011 and 2010, the Association declared annual patronage distributions of $4,600,000, $4,500,000 and $3,200,000, respectively.

The FCA's capital adequacy regulations require the Association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. As of December 31, 2012, the Association is prohibited from retiring stock or distributing earnings unless prescribed capital standards are met. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2012, were 20.5 percent, 19.9 percent and 19.9 percent, respectively.

The Association's capital adequacy plan meets all of the Bank and FCA regulations. The Association does not have protected stock. All of the Association's stock is at risk and is retired upon repayment of the loan, subject to the approval of the board of directors. This function has been delegated to the loan officers and is reported at each board meeting. The Association does not share any Bank equities and has not had any capital calls from the Bank. The above items have been considered in the Association's business plan. The Association does not have any intra-District loss sharing agreements. An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

At December 31, the Association had the following shares of Class A capital stock and participation certificates outstanding at a par value of $5 per share:

	2012	2011	2010
Class A stock	**419,968**	437,121	445,710
Participation certificates	**4,091**	4,091	5,267
Total	**424,059**	441,212	450,977

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes as follows:

Accum Other Comp Income (Loss)		
December 31, 2012		**Net of Tax**
Nonpension postretirement benefits	**$**	**(286,751)**
December 31, 2011		Before Tax
Nonpension postretirement benefits	$	(140,923)
December 31, 2010		Before Tax
Nonpension postretirement benefits	$	(57,534)

NOTE 10 — INCOME TAXES:

The provision for (benefit from) income taxes follows for the years ended December 31:

	2012	2011	2010
Current:			
Federal	**$ -**	$ 20,000	$ -
State	**-**	-	-
Total current	**-**	20,000	-
Deferred:			
Federal	**-**	-	-
State	**-**	-	-
Total deferred	**-**	-	-
Total provision for (benefit from) income taxes	**$ -**	$ 20,000	$ -

The provision for (benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	2012	2011	2010
Federal tax at statutory rate	**$ 3,250,424**	$ 3,419,192	$ 2,841,858
Effect of nontaxable FLCA subsidiary	**(2,948,560)**	(3,179,129)	(2,380,027)
Patronage distributions	**(274,063)**	(613,885)	-
Change in valuation allowance	**(27,801)**	383,168	(461,831)
Other	**-**	10,654	-
Provision for (benefit from) income taxes	**$ -**	$ 20,000	$ -

Deferred tax assets and liabilities in accordance with accounting guidance, "Accounting for Income Taxes," are comprised of the following at December 31:

	2012	2011	2010
<u>Deferred Tax Assets</u>			
Allowance for loan losses	**$ 111,033**	$ 102,709	$ 67,320
Loss carryforwards	**727,214**	763,339	415,560
Gross deferred tax assets	**838,247**	866,048	482,880
Deferred tax asset valuation allowance	**(838,247)**	(866,048)	(482,880)
Net deferred tax asset (liability)	**$ -**	$ -	$ -

The Association recorded valuation allowances of $838,247, $866,048 and $482,880 during 2012, 2011 and 2010, respectively. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

NOTE 11 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contributions plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. These plans are described more fully in section H of Note 2, "Summary of Significant Accounting Policies." The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon District combination only. The Association records current contributions to the DB plan as an expense in the current year.

The DB plan is noncontributory and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan's funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by a percentage approved by the plan sponsor. The plan sponsor is the board of the Farm Credit Bank of Texas. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. Actuarial information regarding the DB pension plan accumulated benefit obligation and plan asset is calculated for the District as a whole and is presented in the District's Annual Report to Stockholders. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2012.

The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
c. If the Association chooses to stop participating in some of its multi-employer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan, the Association's contributions, and the percentage of Association contribution to total plan contributions for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Funded status of plan	**65.0** %	64.9 %	71.6 %
Association's contribution	**$ 586,150**	$ 770,007	$ 759,513
Percentage of Association's contribution to total contributions	**3.7** %	3.4 %	3.8 %

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 72.7 percent, 72.6 percent and 78.8 percent at December 31, 2012, 2011 and 2010, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities.

In September 2006, the FASB issued guidance, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of this guidance were adopted at December 31, 2007. The guidance also required that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, the System used a September 30 measurement date for pension and other postretirement benefit plans. The guidance provided two approaches for an employer to transition to a fiscal year-end measurement date. The System has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and postretirement benefit income measured for the three-month period October 1, 2007, to December 31, 2007, (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the Association decreased retained earnings by $13,980, net of taxes, and increased the pension and other postretirement benefit liabilities by $13,980.

The following table reflects the benefit obligation, cost and actuarial assumptions for the Association's other postretirement benefits:

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	**2012**	2011	2010
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 1,442,427**	$ 1,282,458	$ 1,055,815
Service cost	**50,639**	46,200	39,075
Interest cost	**72,847**	72,289	63,109
Plan participants' contributions	**19,509**	16,567	16,164
Actuarial loss (gain)	**136,670**	64,759	147,533
Benefits paid	**(47,988)**	(39,846)	(39,238)
Accumulated postretirement benefit obligation, end of year	**$ 1,674,104**	$ 1,442,427	$ 1,282,458
Change in Plan Assets			
Plan assets at fair value, beginning of year	**$ -**	$ -	$ -
Company contributions	**28,479**	23,279	23,074
Plan participants' contributions	**19,509**	16,567	16,164
Benefits paid	**(47,988)**	(39,846)	(39,238)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (1,674,104)**	$ (1,442,427)	$ (1,282,458)
Amounts Recognized in Statement of Financial Position			
Other liabilities	**$ (1,674,104)**	$ (1,442,427)	$ (1,282,458)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	**$ 392,193**	$ 268,330	$ 212,083
Prior service cost (credit)	**(105,442)**	(127,407)	(154,549)
Total	**$ 286,751**	$ 140,923	$ 57,534
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2012**	12/31/2011	12/31/2010
Discount rate	**4.40%**	5.10%	5.70%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**7.25%/6.5%**	8.5%/6.75%	7.5%/6.5%
Health care cost trend rate assumed for next year - Rx	**7.75%**	8.00%	10.50%
Ultimate health care cost trend rate	**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	**2023**	2018	2017

Total Cost	2012	2011	2010
Service cost	**$ 50,639**	$ 46,200	$ 39,075
Interest cost	**72,847**	72,289	63,109
Amortization of:			
Unrecognized prior service cost	**(21,965)**	(27,142)	(28,170)
Unrecognized net loss (gain)	**12,807**	8,512	-
Net postretirement benefit cost	**$ 114,328**	$ 99,859	$ 74,014
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	**$ 136,670**	$ 64,759	$ 147,533
Amortization of net actuarial loss (gain)	**(12,807)**	(8,512)	-
Amortization of prior service cost	**21,965**	27,142	28,170
Total recognized in other comprehensive income	**$ 145,828**	$ 83,389	$ 175,703
AOCI Amounts Expected to be Amortized Into Expense in 2013			
Unrecognized prior service cost	**$ (18,969)**		
Unrecognized net loss (gain)	**26,121**		
Total	**$ 7,152**		
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	**12/31/2011**	12/31/2010	9/30/2009
Discount rate	**5.10%**	5.70%	6.05%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**8.5%/6.75%**	7.5%/6.5%	8.0%/7.0%
Health care cost trend rate assumed for next year - Rx	**8.00%**	10.00%	10.50%
Ultimate health care cost trend rate	**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	**2018**	2017	2017

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2013	**$ 39,060**
Fiscal 2014	**49,325**
Fiscal 2015	**53,165**
Fiscal 2016	**48,877**
Fiscal 2017	**61,120**
Fiscal 2018–2022	**582,356**
Expected Contributions	
Fiscal 2013	**$ 39,060**

NOTE 12 — RELATED PARTY TRANSACTIONS:

Directors of the Association, except for any director-elected directors, are required to be borrowers/stockholders of the Association. Also, in the ordinary course of business, the Association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors, or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons for the Association amounted to $2,813,153, $3,466,385 and $4,158,290 at December 31, 2012, 2011 and 2010, respectively. During 2012, $1,397,806 of new loans were made, and repayments totaled $366,667. The remaining change in the related party balance from December 31, 2011 to December 31, 2012 related to loans that were no longer considered to be loans to related parties or for loans to individuals who were considered related parties as of December 31, 2012. In the opinion of management, no such loans outstanding at December 31, 2012, 2011 and 2010 involved more than a normal risk of collectibility.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled $234,155, $315,493 and $450,203 in 2012, 2011 and 2010, respectively. As of April 2011, the Bank only bills associations for direct pass-through expenses and no longer bills for allocated expenses.

The Association received patronage payments from the Bank totaling $1,426,239, $1,468,030 and $1,825,316 during 2012, 2011 and 2010, respectively.

NOTE 13 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," for additional information.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

The Association had no assets or liabilities measured at fair value on a recurring basis for 2012, 2011 and 2010.

Information about Other Financial Instrument Fair Value Measurements:

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Mission-related and other investments held-to-maturity	Discounted cash flow	Prepayment rates Probability of default Loss severity
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Systemwide debt securities, subordinated debt and other bonds	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk
Other interest bearing liabilities	Carrying value	Par/principal and appropriate interest yield

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2012, 2011 and 2010 for each of the fair value hierarchy values are summarized below:

December 31, 2012	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$ 2,131,062**	**$ 2,131,062**
Other property owned	**-**	**-**	**523,049**	**523,049**

December 31, 2011	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ -	$ -
Other property owned	-	-	552,549	552,549

December 31, 2010	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 502,585	$ 502,585
Other property owned	-	-	1,509,066	1,509,066

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the balance sheet are summarized as follows:

	December 31, 2012				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 1,611,150**	**$ 1,611,150**	**$ -**	**$ -**	**$ 1,611,150**
Net loans	**382,174,047**	**-**	**-**	**381,571,689**	**381,571,689**
Total Assets	**$ 383,785,197**	**$ 1,611,150**	**$ -**	**$ 381,571,689**	**$ 383,182,839**
Liabilities:					
Note payable to the Bank	**$ 301,702,000**	**$ -**	**$ -**	**$ 301,231,255**	**$ 301,231,255**
Total Liabilities	**$ 301,702,000**	**$ -**	**$ -**	**$ 301,231,255**	**$ 301,231,255**

	December 31, 2011		December 31, 2010	
	Total Carrying Amount	Total Fair Value	Total Carrying Amount	Total Fair Value
Assets:				
Cash	$ 1,150,203	$ 1,150,203	$ 766,289	$ 766,289
Net loans	377,662,864	377,283,883	388,657,104	386,511,454
Total Assets	$ 378,813,067	$ 378,434,086	$ 389,423,393	$ 387,277,743
Liabilities:				
Note payable to the Bank	$ 300,441,402	$ 300,026,189	$ 314,107,511	$ 311,302,137
Total Liabilities	$ 300,441,402	$ 300,026,189	$ 314,107,511	$ 311,302,137

Valuation Techniques

As more fully discussed in Note 2, “Summary of Significant Accounting Policies,” accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used by the Bank and associations for assets and liabilities:

Loans

For certain loans evaluated for impairment under impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge 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 process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

NOTE 14 — COMMITMENTS AND CONTINGENCIES:

In addition to those commitments and contingencies discussed in Note 2, "Summary of Significant Accounting Policies," the Association is involved in various legal proceedings in the ordinary 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.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2012, $39,381,264 of commitments to extend credit and $948,055 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 (in thousands) follow:

	2012				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 2,997**	**$ 3,060**	**$ 3,021**	**$ 3,053**	**$ 12,131**
(Provision for) reversal of loan losses	**(19)**	**(27)**	**(818)**	**1**	**(863)**
Noninterest expense, net	**(518)**	**(189)**	**(543)**	**(458)**	**(1,708)**
Net income	**$ 2,460**	**$ 2,844**	**$ 1,660**	**$ 2,596**	**$ 9,560**

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,934	$ 2,902	$ 3,259	$ 2,979	$ 12,074
Reversal of (provision for) loan losses	19	(2)	222	20	259
Noninterest (expense) income, net	(922)	(845)	(760)	250	(2,277)
Net income	$ 2,031	$ 2,055	$ 2,721	$ 3,249	$ 10,056

	2010				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,795	$ 2,734	$ 2,728	$ 2,833	$ 11,090
(Provision for) reversal of loan losses	(1,086)	(28)	(427)	520	(1,021)
Noninterest (expense) income, net	(1,006)	(471)	(711)	477	(1,711)
Net income	$ 703	$ 2,235	$ 1,590	$ 3,830	$ 8,358

NOTE 16 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 8, 2013, which is the date the financial statements were issued or available to be issued.

DISCLOSURE INFORMATION AND INDEX

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report.

The descriptions of significant developments that had or could have a material impact on earnings, interest rates to borrowers, patronage, or dividends and acquisitions or dispositions of material assets, changes in the reporting entity, changes in patronage policies or practices and financial assistance provided by or to the Association through loss sharing or capital preservation agreements or from any other source, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

The Central Texas Farm Credit, ACA (Association) serves its 19-county territory through its main administrative and lending office at 215 West Elm Street, Coleman, Texas. Additionally, there are six branch lending offices located throughout the territory. The Association owns the office buildings in Brady, Brownwood, Coleman, Haskell and San Angelo, Texas, free of debt. The Association leases the office buildings in Baird and Comanche, Texas.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 8, "Note Payable to the Bank," and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 14 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The Association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (Bank), as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the Association.

The Farm Credit Bank of Texas and District Associations' (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The District's annual and quarterly stockholder reports are also available on its website at *www.farmcreditbank.com*.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained from the Association's website at *www.centraltexasaca.com* or by writing to Central Texas Farm Credit, ACA, P.O. Box 511, Coleman, Texas 76834, or calling (325) 625-2165. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *zach.may@farmcreditbank.com*. The Association's annual stockholder report is available on its website at *www.centraltexasaca.com* 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2012, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to stockholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis," which precedes the consolidated financial statements in this annual report, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The Association's member-elected and director-elected board of directors and senior officers are as follows:

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Jerry Don Klose	Chairman	2008	2014
Robby A. Halfmann	Vice Chairman	2008	2014
Kenneth D. Harvick	Director	2012	2013
Mike Finlay	Director	2008	2014
Mickey D. Dillard	Director	1995	2013
Philip W. Hinds	Director	2009	2015
A. Wayland Shurley	Director	2007	2013
Boyd J. Chambers	Chief Executive Officer	1987	-
Zach May	Chief Operating Officer	2008	-
Alan E. Benedict	Controller/Treasurer	1975	-
Frankie Gregg	Operations Manager I	1993	-
Travis B. McKinney	Senior Vice President - Lending	2000	-

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

Jerry Don Klose, age 69. Mr. Klose is a farmer and rancher in Haskell County. His principal business consists of farming cotton, wheat and hay crops, along with running a cow-calf operation. He is a member of the Trinity Lutheran Church. Mr. Klose has served on the board of the Haskell County Farm Bureau, the Haskell County Appraisal Review Board for eight years, the Haskell Co-op Gin Board where he also served as chairman, and served as chairman of the Sons of Hermann Lodge No. 241. Mr. Klose has been recognized by the Texas Family Land Heritage Program for continuous family operation of the same land for at least 100 years. Mr. Klose also serves on the Association's audit and compensation committees. Mr. Klose was first elected to the board in 2008 and is currently serving a three-year term expiring in 2014. Mr. Klose is the chairman of the board.

Robby A. Halfmann, age 32. Mr. Halfmann is a farmer and rancher in Runnels, Coleman and Concho counties. His principal business is operating a stocker cattle and cow-calf operation, along with farming small grains. He is also an order buyer for Frey Cattle Company and serves as foreman for that company. Mr. Halfmann has served on the nominating board of the Coleman County Electric Cooperative. Mr. Halfmann is vice chairman of the Association's board and also serves on the Association's audit, compensation and executive committees. He is also the Association's alternate representative on the District Bank's stockholder advisory committee and nominating committee. Mr. Halfmann was first appointed to the board in 2008 and is currently serving a three-year term expiring in 2014.

Kenneth D. Harvick, age 61. Mr. Harvick is a rancher in Comanche County. He is the former president of Gore's Inc. in Comanche, Texas, which is a dairy, beef cattle and feed business that operated in Texas and New Mexico. He is a member of the PAR Country Club and a member of the First Baptist Church in Comanche. He also has served as president of the Texas Holstein Association, and as a member of the Comanche School Board, the Comanche County and State Dairy Herd Improvement Association, the Select Milk Producers Board, and the Lions Club.

Mike Finlay, age 64. Mr. Finlay is a farmer and rancher in McCulloch and Coleman counties. His principal business consists of farming cotton, wheat, grain sorghum and hay crops. He also has a cattle and sheep operation. He is a member of the McCulloch County Conservation Board, the McCulloch County Tax Appraisal District Board and the First United Methodist Church in Brady. Mr. Finlay has also served on the Lohn Co-op Gin Board, the McCulloch County Soil & Water Conservation Board, the Lohn School Board and the Millersview-Doole Water Supply Corporation Board. Mr. Finlay also serves on the Association's audit and compensation committees. Mr. Finlay was first elected to the board in 2008 and is currently serving a three-year term expiring in 2014.

Mickey D. Dillard, age 69. Mr. Dillard is a farmer and rancher in Concho and McCulloch counties. His principal business consists of farming wheat, grain sorghum and cotton, along with operating commercial cow-calf and Rambouillet sheep operations. He has served on the boards of the Millersview/Doole Water Supply Corporation, the Millersview Senior Citizens Center and the Eden Consolidated Independent School District. Mr. Dillard retired from the Texas Department of Transportation after 31 years of service. Mr. Dillard also serves on the Association's audit and compensation committees. Mr. Dillard was first elected to the board in 1995 and is currently serving a three-year term expiring in 2013.

Philip W. Hinds, age 55. Mr. Hinds is a stock farmer in Coleman County. His principal business is that of owner/operator of a furniture business in Coleman. He has been a member of the Coleman County Farm Bureau and the Coleman County Rodeo Association. He is a member of the First Baptist Church in Coleman. Mr. Hinds also serves on the Association's audit and compensation committees. Mr. Hinds was first appointed to the board in 2009 and is currently serving a three-year term expiring in 2012.

A. Wayland Shurley, age 70. Mr. Shurley is a farmer and rancher in Jones County. His principal business consists of farming cotton and wheat, along with managing a cow-calf and stocker operation. He currently serves on the Lutheran Church Council and the Stamford EMS Board. Mr. Shurley is retired from the USDA after 26 years of service with the Farm Service Agency, holding the position of state executive director for the state of Texas. Mr. Shurley also serves on the Association's audit and compensation committees. Mr. Shurley was first elected to the board in 2007 and is currently serving a three-year term expiring in 2013.

Boyd J. (Jimmy) Chambers, age 52. Mr. Chambers is the chief executive officer of the Association. His principal occupation is serving as the CEO of this Association. He has served in the position of CEO for the past two years and previously served as the Association's executive vice president/CCO. Prior to joining the Association in February, 2006, Mr. Chambers served as vice president of lending with Southwest Texas, ACA. He has been employed in the Farm Credit System since 1987. Mr. Chambers also operates a small part-time farm in Coleman County. Mr. Chambers became the chief executive officer effective January 1, 2011.

Zach May, age 34. Mr. May is the chief operating officer of the Association. His principal occupation is serving as COO of this Association, and he has served in this position since the retirement of Ronnie Reinisch on July 31, 2011. Prior to this position, he trained under Mr. Reinisch for two years as an operations manager. Mr. May spent nearly a year with Capital Farm Credit, ACA in the capacity of senior credit analyst before joining the Association. Mr. May also served for three and one-half years with the Farm Credit Administration, attaining the position of a commissioned examiner. He has been employed in the Farm Credit System since 2008.

Alan E. Benedict, age 62. Mr. Benedict is the controller/treasurer of the Association. His principal occupation is serving as the controller/treasurer of this Association, and he has served in this position for the past 19 years. Prior to joining the Association in June 2004, Mr. Benedict served in the same capacity with AgriLand FCS, ACA and Ag New Mexico, ACA. He has been employed in the Farm Credit System since 1975.

Frankie Gregg, age 62. Mrs. Gregg is the operations manager of the Association. Her principal occupation is serving as the operations manager of this Association, and she has served in this position for the past nine years. Prior to her promotion to operations manager, Mrs. Gregg served in the position of office manager in the Association. She has been employed in the Farm Credit System since 1993.

Travis B. McKinney, age 36. Mr. McKinney is the senior vice president–lending of the Association. His principal occupation is serving as senior vice president–lending of this Association, and he has served in this position for the past three years. Prior to his promotion, he served as the branch president of the Brownwood branch office and continues his duties as branch president at Brownwood. His primary duties involve drafting and implementing Association lending policies, training all credit staff in the extension of short-, intermediate- and long-term credit and managing the Brownwood branch office. He has been employed in the Farm Credit System since 2000.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium at the rate of $600 per month. Directors are also compensated at the rate of $400 per day for out-of-town meetings, $150 for each special committee meeting, and they were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2012 was paid at the IRS-approved rate of 55.5 cents per mile. A copy of the travel policy is available to stockholders of the Association upon request.

	Number of Days Served Associated With		
Director	**Board Meetings**	**Other Official Activities**	**Total Compensation in 2012**
Jerry Don Klose	12	20	15,350
Robby A. Halfmann	12	5	9,350
Kenneth D. Harvick	12	2.5	8,350
Mike Finlay	11	7	10,150
Mickey D. Dillard	11	7	10,150
Philip W. Hinds	12	4	8,950
A. Wayland Shurley	10	8	10,550
Brent M. Heinze*	4	1	2,800
Glenn T. Miller*	8	3	6,600
			82,250

**Term expired in 2012.*

The aggregate compensation paid to directors in 2012, 2011 and 2010 was $82,250, $84,150 and $90,400, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

Director	**Compensation Committee**
Jerry Don Klose	$ 150
Robby A. Halfmann	150
Kenneth D. Harvick	150
Mike Finlay	150
Mickey D. Dillard	150
Philip W. Hinds	150
A. Wayland Shurley	150
Brent M. Heinze	-0-
Glenn T. Miller	-0-
	$ 1,050

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $36,697, $21,800 and $17,666 in 2012, 2011 and 2010, respectively. All compensation paid to directors in 2012 was cash compensation. There was no noncash compensation provided to any director during 2012.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

Overview

All employee salaries and bonuses are administered in accordance with the board-approved Association Salary Plan and Association Bonus Program, respectively, as recommended by the compensation committee. In each case, the board of directors sets the CEO's salary and bonus each year. The board also annually provides the CEO with an aggregate amount for other employee bonuses to be distributed by the CEO based on merit. Employee salaries, other than the CEO's, are set by the CEO each year in accordance with the Association Salary Plan and reported to the board. Compensation is based on a calendar year with salaries paid twice a month and bonuses generally paid in December of each calendar year. The Association does not defer any compensation.

The Association Bonus Program states that the amount of bonuses paid to employees in the aggregate, excluding the CEO, can be up to 16.7 percent of the total combined salaries of those employees. The Bonus Program also states that if the Association's net income is such that the Association cannot pay a patronage, then no bonuses will be paid to employees. In addition, final approval of bonuses to employees and to the CEO is to be given at the November board meeting, and the payment of bonuses shall always be at the sole discretion of the board.

The Association does not have an employee compensation "incentive plan."

Chief Executive Officer (CEO) Compensation Table and Policy

The CEO's total compensation for the last three years is detailed in the table below. "Change in Pension Value" was reported for the first time in 2011. This amount represents the change in actuarial value of the CEO's defined benefit pension plan. Changes in this value are based on additional years of service, compensation increases or decreases, plan amendments, and increases or decreases in value due to interest.

Name of Individual	Year	Salary	Bonus	Change in Pension Value	Other*	Total
Boyd J. Chambers						
CEO	2012	**$195,007**	**$45,000**	**$227,703**	**$14,135**	**$481,845**
	2011	$195,007	$50,000	$149,339	$13,863	$408,209
James R. Isenhower						
CEO	2010	$232,109	$49,343	N/A	$93,974	$375,426

*Amounts in the "Other" column include matching contributions to the employee's 401(k), automobile benefits and the IRS value of life insurance premiums paid. This column also includes payouts for accrued annual leave when applicable.

Pension Benefits Table for the CEO

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2012:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2012
Boyd J. Chambers	Farm Credit Bank of Texas Pension Plan	23	$ 661,156	$ -

Pension Benefits Table Narrative Disclosure for the CEO

The CEO of the Association participates in the Farm Credit Bank of Texas Pension Plan (the "Pension Plan"), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation, and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 ("FAC60"). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation items (ii) "Years of Benefit Service" (not to exceed 35). The present value of the CEO's accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 65. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the CEO is married on the date the annuity begins, that the spouse is exactly two years younger than the CEO, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to all senior officers of the Association during 2012, 2011 and 2010. This may include other non-senior officers if their total compensation is within the top five highest paid officers. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Group	Year	Salary	Bonus	Other*	Total
Aggregate Compensation Paid To Senior Officers in Year					
(5)	**2012**	**$ 523,705**	**$ 109,360**	**$ 39,036**	**$ 672,101**
(5)	2011	$ 482,685	$ 121,467	$ 72,862	$ 677,014
(5)	2010	$ 556,316	$ 126,000	$ 30,092	$ 712,408

*Amounts in the "Other" column include matching contributions to the employee's 401(k), automobile benefits, and the IRS value of life insurance premiums paid. This column also includes payouts for accrued annual leave when applicable.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate are available and will be disclosed to shareholders of the institution upon request. The association's voting shareholders have the authority to cast a vote in an advisory vote on the Association's CEO and/or senior officer compensation if 5 percent of the total voting stockholders submit a petition to do so. The petition and the advisory vote will be conducted in accordance with the association's policies and procedures. To date, no advisory votes on the Association's CEO and senior officer compensation have occurred as the authority to do so only became effective in December of 2012. If a vote were to occur in the future, the results would be shared with the shareholders. The results of any advisory vote are non-binding on the association's compensation committee and the Association's board of directors.

Employees assigned Association automobiles reimburse the Association for personal miles exceeding the amount allowed by policy at a board-established rate. Employees who use their personal automobiles for business purposes were reimbursed during 2012 at the IRS-approved rate of 55.5 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation, other than company automobiles, exceeding $5,000 in 2012, 2011 or 2010.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting Association business. A copy of the Association's travel policy is available to shareholders upon request.

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 12 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

No directors or senior officers of the Association have had any involvement in any events or legal proceedings as required to be disclosed per FCA Regulation 620.5(k) during the past 5 years.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The Audit Committee selected a qualified public accountant to audit the Association's financial statements and provide an opinion thereon for its 2012 annual report who is different from the accountant whose opinion appeared in the institution's 2011 annual report. This decision was not made due to a disagreement with the prior auditor. The Association selected PricewaterhouseCoopers LLP to audit its financial statements and provide an opinion thereon for its 2012 annual report. The name and address of the accountant whose opinion appeared in the institution's 2011 annual report to shareholders is Simonton & Kutac LLP, 1010 Lamar, Suite 850, Houston, Texas, 77002.

The total fees for professional services rendered by PricewaterhouseCoopers LLP for the Association during 2012 were $42,500 for audit services. There were no other non-audit services provided by PricewaterhouseCoopers LLP or Simonton & Kutac LLP to the Association during 2012.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers dated March 8, 2013, and the report of management in this annual report to stockholders, are incorporated herein by reference.

CODE OF ETHICS

The Association and its directors, officers and employees have committed to conduct business in accordance with the highest ethical standards as set forth in the Association's Standards of Conduct Policy relating to ethical conduct, conflicts of interest, and compliance with the law.

This Code of Ethics applies to the board chairman, board members, officers and all other Association employees. The Association is responsible for the preparation and distribution of its financial statements and related disclosures and for providing relevant information that is true, accurate and complete to the Federal Farm Credit Banks Funding Corporation for use in preparing the Farm Credit System financial statements and related disclosures.

The Association expects all of its directors, officers, and other employees to act in accordance with the highest standards of personal and professional integrity in all aspects of their activities, to comply with all applicable laws, rules and regulations, to deter wrongdoing and abide by its Standards of Conduct Policy and other policies and procedures approved by the board of directors and employed by the Association that governs their conduct. This Code of Ethics is intended to supplement the Association's Standards of Conduct Policy.

Each director, officer and employee agrees to:

- Engage in and promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.

- Avoid conflicts of interest and disclose to the Association's Standards of Conduct Official any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest, or gives the appearance of a conflict of interest.

- Take all reasonable measures to protect the confidentiality of nonpublic information about the Association and its customers obtained or created in connection with its activities and to prevent the unauthorized disclosure of this information unless required by applicable law or regulation or legal or regulatory process.

- Produce full, fair, accurate, timely and understandable disclosure in Association financial statements and related financial reports or communications as well as Association reports and documents filed with, or submitted to, the Funding Corporation and the Farm Credit Administration.

- Comply with applicable governmental laws, rules and regulations, as well as the rules and regulations of self-regulatory agreements to which the Association is a party.

- Promptly report any possible violation of this Code of Ethics to the Association's Standards of Conduct Official.

Directors, officers and employees are prohibited from directly or indirectly taking any action to fraudulently influence, coerce, manipulate or mislead the Association's independent public accountant, other director, officer or employee for the purpose of rendering the financial statements of the Association misleading or for any other purpose that is in violation of standards of conduct.

Directors, officers and employees understand that they will be held accountable for adherence to the Code of Ethics. Failure to observe the terms of this Code of Ethics may result in disciplinary action, up to and including termination of employment or removal from the board of directors. Violations of the Code of Ethics may also constitute violations of law and may result in civil and criminal penalties.

Any questions regarding the best course of action in a particular situation should be promptly addressed to the Association's Standards of Conduct Official. Any individual reporting any possible violation of this Code of Ethics may remain anonymous when reporting a possible violation of this Code of Ethics.

The Association has retained a qualified, independent third-party individual to serve as the Association's Standard of Conduct Official who shall be the primary contact for reporting of alleged violations of this Code of Ethics or Association Standards of Conduct.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. Our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the Association or its members.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

MISSION STATEMENT

The mission of the Central Texas Farm Credit, ACA is to make a concerted and cooperative effort to finance young, beginning, or small farmers, ranchers and producers or harvesters of aquatic products through a program designed to meet the needs of such applicants to the fullest extent of their creditworthiness.

DEFINITIONS

1. Young Borrower: A farmer, rancher or producer or harvester of aquatic products is one who is age 35 or younger as of the loan transaction date.

2. Beginning Borrower: A farmer, rancher or producer or harvester of aquatic products who has 10 years' or less farming, ranching or aquatic experience as of the loan transaction date.

3. Small Borrower: A farmer, rancher or producer or harvester of aquatic products who normally generated less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

STRATEGY

To accomplish this mission, the Association will provide:

1. Coordination a) between this Association and other associations when developing a joint line of credit for an applicant/borrower; b) between this Association and a non-System lender when involved in developing a joint line of credit for an applicant/borrower; c) between this Association and other associations and cosigners or guarantors, whether governmental or private.

   The Association will determine whether coordinated financing to a credit-worthy applicant will result in an appropriate sound loan package. If so, the Association will take the responsibility to work in combination with the applicant and such other Association, commercial lender, private or governmental entity to develop a credit-worthy financing package.

2. Utilization of the flexibilities of existing loan programs to the advantage of these applicants.

   Loan approvals will fully utilize all flexibilities in length of term, repayment schedules, amortization requirements, initial deferments, schedule of advances, and other such loan approval conditions consistent with existing lending standards and policies.

   Loan servicing remedies such as re-amortizations, deferments, extensions, renewals and other techniques will be available to program borrowers to the fullest extent possible within policies. In addition, we are currently updating our loan underwriting standards policy to include specialized lending standards for young farmers.

3. A commitment of staff resources and expertise to effectively make and service loans and provide credit-related services to this group of farmers, ranchers, and producers or harvesters of aquatic products.

   The Association's CEO will have primary responsibility for a) developing expertise in meeting the special financing and related service needs of program applicants; b) implementing the Association program, and; c) developing and submitting reports on the program.

4. A commitment of financial resources and a risk management philosophy to ensure the objective of this policy is met.

   The Association board of directors will monitor this program to assure itself that adequate financial and human resources and an appropriate risk management philosophy exist on a continuing basis to meet program objectives without compromising the ability of the Association to serve non-program farmers, ranchers, and producers of aquatic products. The board will monitor this program in the following manner:

   Reports of the program's progress will be given by CEO to the board at least quarterly.

5. The offering of credit-related services to this specialized group of farmers as needed.

   The Association will provide instruction and guidance to young, beginning, and small farmers, ranchers and producers in areas such as record keeping, financial analysis and management, leasing, capital investment decision-making, marketing strategies, and other such management areas. Our support will be given to extension service and young farmer groups in sponsoring and helping with seminars, field days, and special events.

6. The Association will also expand the criteria used to determine a full-time farmer to include those part-time young, beginning and small farmers and ranchers who demonstrate intent to progress toward farming and/or ranching as their primary business and vocation. Such demonstration of intent shall be documented in the loan file and will include, but is not limited to, the following criteria:

   a. The degree of day-to-day involvement the borrower must have in the agricultural production operation, through either labor or management, or both, to evidence a clear commitment to agricultural production,

   b. The intent of the borrower to actively engage in agricultural production, as evidenced by his education, training, experience, business plan or some other means,

   c. A level or projected level of gross agricultural income or production that evidences a clear commitment to agricultural production, or

   d. The terms and structure of the loan, as well as planned use of loan proceeds, evidence a commitment to be truly engaged in agricultural production.

The Association has in place internal controls and an annual YBS audit program to ensure that its YBS policies and program are implemented for the benefit of all YBS farmers and ranchers, thus ensuring them the opportunity to begin, grow, or remain in agricultural production.

TARGETS

Based on USDA's 2007 Census of Agriculture, there are 552 Young Farmers, 4,380 Beginning Farmers, and 6,412* Small Farmers in the Association's chartered territory. (* Actual Census figures for this category have been adjusted by 50 percent due to the lack of credit needs of the Small Farmers.)

As of the end of 2012, the number of YBS loans in the Association's portfolio is as follows:

Young Farmers:

   There were 445 loans to this group of borrowers. This equates to 17.78 percent of the total portfolio and 80.62 percent of the total number of Young Farmers in our territory cited in the 2007 census.

Beginning Farmers:

> There were 1,036 loans to this group of borrowers. This equates to 41.40 percent of the total portfolio and 23.65 percent of the total number of Beginning Farmers in our territory cited in the 2007 census.

Small Farmers:

> There were 1,864 loans to this group of borrowers. This equates to 74.50 percent of the total portfolio and 39.07 percent of the total adjusted number of Small Farmers in our territory cited in the 2007 census.

The Association will continue all efforts to target those remaining YBS farmers and ranchers in our territory through the use of outreach programs, including but not limited to, advertising, participating in educational programs, working with extension agents, participations in agricultural field days, livestock shows and agricultural seminars, etc. In addition, Association loan officers and senior management will offer credit counseling and work with other financial institutions to the extent possible to ensure the credit needs of these borrowers are met.

GOALS

The Association's goal for 2012 was to have at least 60 percent of all new loans go to borrowers who meet one or more of the YBS criteria. This goal was met and exceeded as of December 31, 2012.

REPORTING

The Association has incorporated the goals of its YBS Program into the 2013 Three-Year Business Plan for three succeeding years, shall report the performance results to the board of directors at least quarterly and to the District Bank annually, and shall include in its Annual Report a description of its YBS Program and a status report on each component thereof. In addition, the Association shall continue to post its Annual Report, with the YBS Program information, on its website.