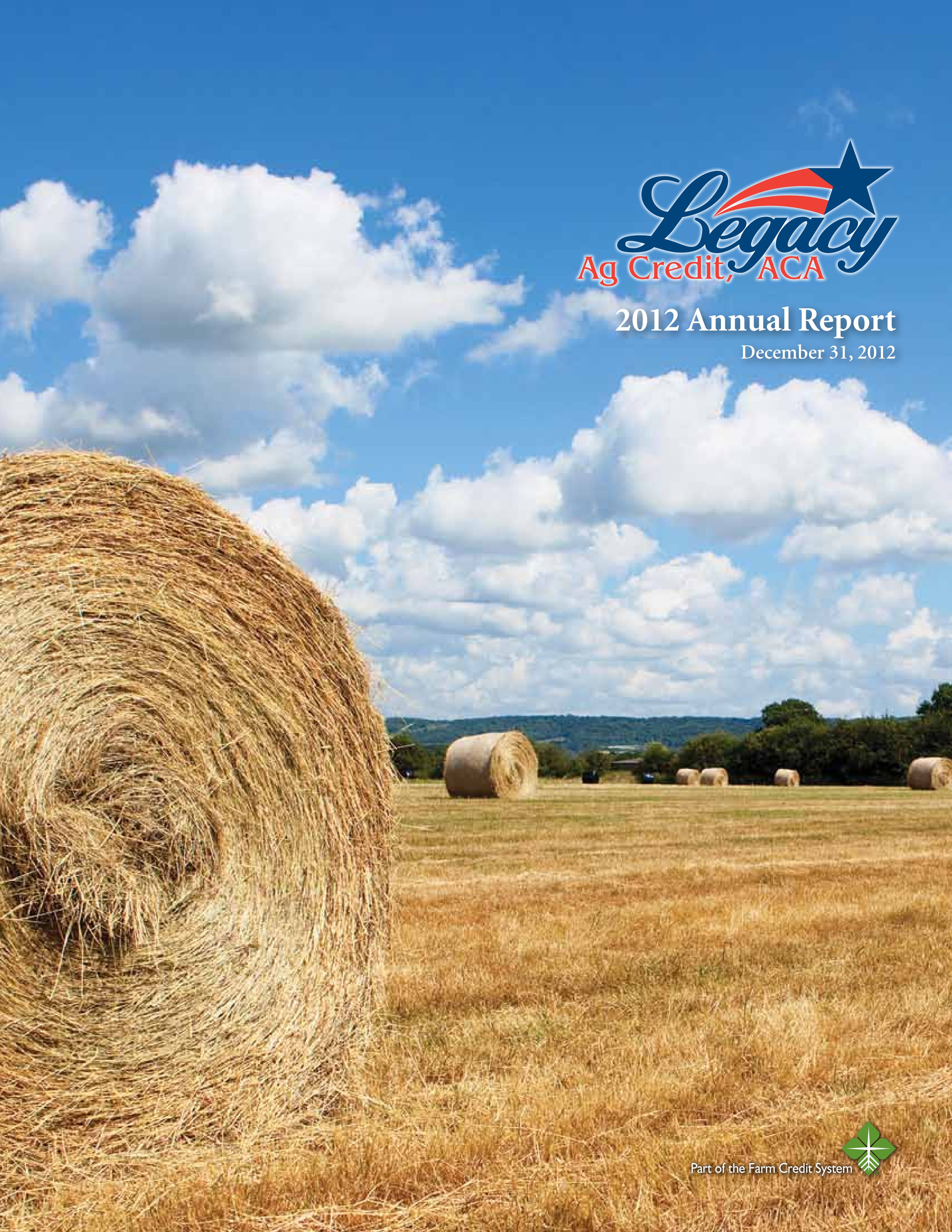

Legacy Ag Credit, ACA

2012 Annual Report

December 31, 2012

Part of the Farm Credit System

Letter from the Chairman and the President/CEO

Dear Legacy Stockholders:

As yet another year passes, let us pause to reflect on the achievements of the past, and the challenges and opportunities of the future. Last year possessed challenges for your operations as well as for your Association; however, it also provided opportunities to enhance our businesses and relationships. Local farmers and ranchers in northeast Texas continue to face challenges, yet by and large remain optimistic about the future of their operations. Your Association mirrors this attitude and approach.

We are pleased to report net income for 2012 of just over $4.1 million, and the Association has increased its capital adequacy ratio to 19 percent. Because of local decisions made by your Association's board and management, continued improvements have been made, thus promoting future consistent financing to you and your operations as well as achieving our mission, which is to be the premier agricultural lender within our territory while providing superior customer service.

Additionally, the board of directors has declared a patronage refund of $1 million based on 2012 earnings which will be paid in March 2013. Your Association embraces cooperative principles that include putting profits in its member/borrowers pockets.

In 2013 and beyond, as we look forward to providing Farm Credit products and services to new member/borrowers, we also wish to further enhance our existing relationships while expressing our sincere appreciation for your continued loyalty and business. Your Association remains dedicated to providing financing for rural real estate, rural homes, farms and ranches, as well as short-term financing needs for agricultural enterprises.

Please feel free to share our story. We encourage you to frequent our offices, and we look forward to visiting with your neighbors and friends to inform them of the advantages of doing business with Legacy Ag Credit. Your Association has been an important part of the Farm Credit System and agricultural lending in northeast Texas for 96 years.

On behalf of the board of directors and employees of Legacy Ag Credit, we look forward to continuing to serve you and your financing needs.

We sincerely appreciate your business!

Joseph Crouch, President

Jerry Cordell, Chairman of the Board

Table of Contents

REPORT OF MANAGEMENT

The consolidated financial statements of Legacy Ag 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.

Joseph Crouch, Interim Chief Executive Officer
March 12, 2013

Jerry Cordell, Chairman, Board of Directors
March 12, 2013

Daryl D. Belt, Chief Financial Officer
March 12, 2013

Wayne Bawcum, CPA, Chairman, Audit Committee
March 12, 2013

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of the entire board of directors of Legacy Ag Credit, ACA. In 2012, 16 committee meetings were held. The committee oversees the scope of Legacy Ag 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 Legacy Ag Credit, ACA's website. The committee approved the appointment of PricewaterhouseCoopers LLP for 2012.

Management is responsible for Legacy Ag 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 Legacy Ag 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 Legacy Ag 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 Legacy Ag Credit, ACA's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PricewaterhouseCoopers LLP its independence from Legacy Ag Credit, ACA. The committee also reviewed the non-audit 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 Legacy Ag Credit, ACA's Annual Report to Stockholders for the year ended December 31, 2012.

Audit Committee Members

Wayne Bawcum, CPA, Chairman
Jerry Cordell, Vice Chairman
Cody Newman
A. G. Sandifeer
Terry D. Milligan
Dr. Herb Marlow
Ron Gabriel

March 12, 2013

LEGACY AG CREDIT, ACA

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

	2012	2011	2010	2009	2008
Balance Sheet Data					
Assets					
Cash	**$ 84**	$ 88	$ 63	$ 1,473	$ 1,198
Loans	**212,343**	216,045	250,449	291,523	297,927
Less: allowance for loan losses	**3,269**	5,788	10,396	10,001	285
Net loans	**209,074**	210,257	240,053	281,522	297,642
Investment in and receivable from the Farm Credit Bank of Texas	**4,188**	4,492	6,379	5,132	4,783
Other property owned, net	**3,957**	5,113	3,809	2,368	-
Other assets	**2,026**	2,136	2,522	3,245	2,953
Total assets	**$ 219,329**	$ 222,086	$ 252,826	$ 293,740	$ 306,576
Liabilities					
Obligations with maturities of one year or less	**$ 919**	$ 714	$ 601	$ 1,330	$ 2,496
Obligations with maturities greater than one year	**173,302**	180,005	212,999	249,288	255,713
Total liabilities	**174,221**	180,719	213,600	250,618	258,209
Members' Equity					
Capital stock and participation certificates	**998**	1,017	1,122	1,193	1,201
Unallocated retained earnings	**44,020**	40,194	37,899	41,805	47,018
Accumulated other comprehensive income	**90**	156	205	124	148
Total members' equity	**45,108**	41,367	39,226	43,122	48,367
Total liabilities and members' equity	**$ 219,329**	$ 222,086	$ 252,826	$ 293,740	$ 306,576
Statement of Income Data					
Net interest income	**$ 7,317**	$ 6,327	$ 6,422	$ 8,345	$ 8,286
(Provision for loan losses) or loan loss reversal	**713**	(713)	(8,465)	(9,922)	(201)
Income from the Farm Credit Bank of Texas	**850**	963	1,337	1,198	904
Other noninterest income	**646**	139	503	371	384
Noninterest expense	**(5,400)**	(4,421)	(3,703)	(5,200)	(2,887)
Net income (loss)	**$ 4,126**	$ 2,295	$ (3,906)	$ (5,208)	$ 6,486
Key Financial Ratios for the Year					
Return on average assets	**1.9%**	0.97%	-1.4%	-1.7%	2.2%
Return on average members' equity	**9.4%**	5.8%	-8.9%	-10.3%	13.8%
Net interest income as a percentage of average earning assets	**3.4%**	2.7%	2.3%	2.8%	2.9%
Net charge-offs (recoveries) as a percentage of average loans	**0.8%**	2.3%	2.9%	0.1%	0.0%

LEGACY AG 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	**20.6%**	18.6%	15.5%	14.7%	15.8%
Debt as a percentage of members' equity	**386.2%**	436.9%	544.5%	581.2%	535.9%
Allowance for loan losses as a percentage of loans	**1.5%**	2.7%	4.2%	3.4%	0.1%
Permanent capital ratio	**19.1%**	15.8%	14.3%	14.4%	14.8%
Core surplus ratio	**18.7%**	15.4%	13.8%	14.0%	14.4%
Total surplus ratio	**18.7%**	15.4%	13.8%	14.0%	14.4%
Net Income Distribution					
Patronage distributions:					
Cash	**$ 304**	$ -	$ -	$ 1,000	$ 1,250

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 Legacy Ag Credit, ACA, including its wholly-owned subsidiaries, Legacy, PCA and Legacy 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 early 2009, the Association underwent an examination by the Farm Credit Administration (FCA). As a result of this examination, an enforcement action (Supervisory Agreement) by the FCA was instituted against the Association in November 2009. The basis of the enforcement action was unsafe and unsound practices and conditions and violations of FCA regulations within the Association.

The Chief Executive Officer (CEO) and Chief Credit Officer (CCO) were terminated by the Association's board of directors (board) in October 2009. An interim CEO was named in October of 2009 who served until the selection of a new CEO in September 2010. Effective November 1, 2012, the CCO was named as Interim CEO as the then current CEO has accepted a CEO position at another association. The Interim CEO previously served as Chief Credit Officer and Special Asset Manager of the Association.

In March of 2011, a revised Supervisory Agreement was entered into between the FCA and the Association's board which supersedes and terminates the November 2009 Supervisory Agreement. In general, the basis for the revised Supervisory Agreement was that the board's actions and corrective action plans, although improving, had not yet resulted in a substantial improvement in the quality of the Association's portfolio or the Association's financial condition and performance. See Note 15 to the consolidated financial statements, "Regulatory Enforcement Matters" included in this annual report for additional information.

A September 2011 Report of Examination (ROE) found notable progress in meeting the requirements of the revised Supervisory Agreement and that compliance was generally satisfactory, but actions to reduce risk and improve financial condition must receive continued emphasis. A rating of compliance, or substantial compliance, was achieved with all articles of the revised Supervisory Agreement except for one where partial compliance was noted.

In February 2012, the FCA granted approval for the Association to distribute a $300,000 patronage related to 2011 operations. The patronage was paid in April 2012.

An October 2012 letter from the FCA, related to August 2012 FCA examination activities, showed that compliance with the revised Supervisory Agreement was satisfactory. A rating of compliance, or substantial compliance, was achieved with all articles of the revised Supervisory Agreement.

In December 2012, the Association received a direct loan patronage of $752,528 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 $97,843 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

In January 2013, the FCA granted approval for the Association to distribute a $1,000,000 patronage related to 2012 operations. The patronage is expected to be paid in March 2013.

After four years of operating under a supervisory agreement, the board and management remain dedicated to meeting their obligation in complying with the revised Supervisory Agreement, and believe the actions taken to date and those that will be taken in the future will result in a safe and sound Association which will better meet the financing needs of its stockholders.

For over 96 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.

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.

Credit quality improved significantly in 2012 with loans rated acceptable and other assets especially mentioned (OAEM) increasing from 86.6 percent at the end of 2011 to 91.3 percent at the end of 2012. Accrual loan growth in 2012 of 3.7 percent was attained in conjunction with the improvements in credit quality. High risk assets also decreased from $25.1 million at the end of 2011 to $15.4 million at the end of 2012. OAEM loans represented 20.4 percent of the portfolio at the end of 2012, with a large portion being poultry-related loans. The primary poultry integrator in the Association's territory underwent reorganization during late 2008 and 2009, which required a downgrade of the credit quality ranking of substantially all of the independent poultry grower loans in the portfolio in 2009. Though almost all of these loans are current regarding contractual payments, the status of these poultry grower loans relies materially upon the integrator for continued operations and cash flow, which requires a downgrade to match the poultry integrator's status. Until the financial status of the poultry integrator shows improved results for a period of time, these loans will remain classed as OAEM. The Association has no direct credit relationships with the poultry integrator.

The stress in the dairy business the last few years has contributed to a significant negative impact to the loan portfolio and earnings. In 2009, a number of the Association's large dairy relationships were determined to be distressed and placed into nonaccrual with associated reserves for potential losses. A majority of these dairy loans have been worked out. The Association also participated in an alternative fuel loan in 2009 which was classified as nonaccrual and required a significant reserve in 2009 and a subsequent charge-off in 2010.

The composition of the Association's loan portfolio, including principal less funds held of $212,343,402, $216,045,218 and $250,449,194 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 $19,757,810, $14,611,169 and $8,943,864, or 9.3 percent, 6.8 percent and 3.6 percent of loans, respectively. The Association has no participation with entities outside the District. The Association has also sold participations of $1,132,500, $0 and $0 as of December 31, 2012, 2011 and 2010.

During 2012, the Association sold four loans relating to one borrower for $1,100,000 sales price to a commercial bank. The proceeds exceeded the net book balance of the loans, which resulted in the recognition of a gain of $159,761.

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 serviced (including related accrued interest) for the prior three years as of December 31:

	2012		2011		2010	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 7,574,544**	**49.3%**	$ 18,989,576	75.6%	$ 45,659,610	92.3%
90 days past due and still accruing interest	**-**	**0.0%**	4,434	0.0%	-	0.0%
Formally restructured	**3,832,732**	**24.9%**	1,014,795	4.0%	-	0.0%
Other property owned, net	**3,956,869**	**25.8%**	5,112,615	20.4%	3,808,889	7.7%
Total	**$ 15,364,145**	**100.0%**	$ 25,121,420	100.0%	$ 49,468,499	100.0%

At December 31, 2012, 2011 and 2010, loans that were considered impaired were $11,407,276, $20,008,805 and $45,659,610, representing 5.4 percent, 9.3 percent and 18.2 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. Nonaccrual loans decreased by $11,415,032 in 2012. The decline was driven by charge-offs, a number of large loan relationships that were determined to qualify for a move back to accrual status and loans that reached the point of having to be foreclosed on.

Other property owned consisted of 11 properties at December 31, 2012. This includes land and houses. The net carrying value of the property is equivalent to its fair value of $3,956,869, which is net of an allowance of $1,120,542.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender.

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	**$ 3,269,104**	$ 5,787,913	$ 10,395,535
Allowance for loan losses to total loans	**1.5%**	2.7%	4.2%
Allowance for loan losses to nonaccrual loans	**43.2%**	30.5%	22.8%
Allowance for loan losses to impaired loans	**28.7%**	28.9%	24.1%
Net charge-offs to average loans	**0.8%**	2.3%	2.9%

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.

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of $3,269,104, $5,787,913 and $10,395,535 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.

Results of Operations:

The Association's net income for the year ended December 31, 2012, was $4,126,249 as compared to $2,295,023 for the year ended December 31, 2011, reflecting an increase of $1,831,226, or 79.8 percent. The Association's net loss for the year ended December 31, 2010, was $3,905,991. Net income increased $6,201,014, or 158.8 percent, in 2011 versus 2010.

Net interest income for 2012, 2011 and 2010 was $7,317,038, $6,327,129 and $6,422,196, respectively, reflecting increases of $989,909, or 15.6 percent, for 2012 versus 2011 and decreases of $95,067, or 1.5 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	**$ 212,936,637**	**$ 11,853,236**	$ 233,187,636	$12,454,809	$276,083,887	$ 14,131,424
Interest-bearing liabilities	**175,118,710**	**4,536,198**	195,756,700	6,127,680	234,443,607	7,709,228
Impact of capital	**$ 37,817,927**		$ 37,430,936		$ 41,640,280	
Net interest income		**$ 7,317,038**		$ 6,327,129		$ 6,422,196

	2012 Average Yield	2011 Average Yield	2010 Average Yield
Yield on loans	**5.57%**	5.34%	5.12%
Cost of interest-bearing liabilities	**2.59%**	3.13%	3.29%
Interest rate spread	**2.98%**	2.21%	1.83%

	2012 vs. 2011			2011 vs. 2010		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income	**$ (1,081,626)**	**$ 480,053**	**$ (601,573)**	$ (2,195,645)	$ 519,030	$ (1,676,615)
Interest expense	**(646,031)**	**(945,451)**	**(1,591,482)**	(1,272,142)	(309,406)	(1,581,548)
Net interest income	**$ (435,595)**	**$ 1,425,504**	**$ 989,909**	$ (923,503)	$ 828,436	$ (95,067)

Interest income for 2012 decreased by $601,573, or 4.8 percent, compared to 2011, primarily due to decreases in average loan volume offset by an increase in interest rates. Interest expense for 2012 decreased by $1,591,482, or 26.0 percent, compared to 2011 due to decreases in both interest rates and average interest-bearing liabilities. The interest rate spread increased by 77 basis points to 2.98 percent in 2012 from 2.21 percent in 2011, primarily because of the changes outlined above. 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 was an increase of $29,479 and for 2011 and 2010 were decreases of $9,444 and $3,393, respectively. The interest rate spread increased by 38 basis points to 2.21 percent in 2011 from 1.83 percent in 2010, due to increases in interest rates offset by a decrease in average loan volume. The Association controls interest rate margins through its loan pricing and matched funding provided by interest rate programs with the Bank. See “Liquidity and Funding Sources” below for further information.

Noninterest income for 2012 increased by $393,968, or 35.7 percent, compared to 2011, due primarily to a $159,761 gain on sale of loans and a $271,076 refund distribution from Farm Credit System Insurance Corporation (FCSIC or Insurance Fund). Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs was implemented during 2010 for loans closed in 2010, resulting in the capitalization of $130,387, $55,041 and $41,892 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. Noninterest income for 2011 decreased by $738,356, or 40.1 percent, compared to 2010, due primarily to a $374,316 decrease in patronage income from the Bank and a $274,026 refund distribution in 2010 from the FCSIC. 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.

During 2012, the Association sold four loans relating to one borrower for $1,100,000 sales price to a commercial bank. The proceeds exceeded the net book balance of the loans, which resulted in the recognition of a gain of $159,761.

Provisions for loan losses decreased by $1,426,004, or 199.9 percent, compared to 2011, due primarily to the reduction in impaired assets requiring reserves.

Noninterest expenses consist 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. Operating expenses increased by $978,655, or 22.1 percent, compared to 2011. Salaries and employee benefit expenses increased by $530,316, or 25.2 percent, for 2012 versus 2011 and $246,876, or 13.3 percent, for 2011 versus 2010 due to an increase in staffing levels. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of $48,503, $30,098 and $43,401 for 2012, 2011 and 2010, respectively, in net 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 $178,890, $85,139 and $85,293 in 2012, 2011, and 2010, respectively, related to the origination of loans. Advertising, public and member relation expenses increased by $103,119, or 136.4 percent, for 2012 versus 2011 due to increases primarily in billboards expenditures and donations. Premiums to the Insurance Fund decreased by $44,889 resulting from a decrease in the premium rates from 20 basis points in 2011 to 5 basis points in 2012. Provision for other property owned increased by $772,736, or 208.2 percent, compared to 2011 due to a decrease in appraisal values. Additionally, operating expenses decreased $108,741 in 2011 compared to 2010 as a result of the Bank's decision, effective April 2011, to only bill associations for direct pass-through expenses and no longer bill for allocated expenses.

For the year ended December 31, 2012, the Association's return on average assets was 1.9 percent, as compared to 0.97 percent and -1.4 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 9.4 percent, as compared to 5.8 percent and -8.9 percent for the years ended December 31, 2011 and 2010, respectively.

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 $172,960,131, $179,552,956 and $212,404,963 as of December 31, 2012, 2011 and 2010, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.38 percent, 3.02 percent and 3.24 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 (GFA). The decrease in note payable to the Bank and related accrued interest payable since December 31, 2011, is due to the corresponding decreases in average loan volume and weighted average interest rates compared to the prior year. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $39,221,904, $36,666,671 and $38,187,020 at December 31, 2012, 2011 and 2010, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2012, was $194,869,366 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, 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.

Beginning in 2009 and continuing through the end of 2011, the Association was subject to remedies associated with the covenants in the GFA due to not achieving minimum standards for return on assets, liquidity and adversely classified assets to risk funds. The Bank issued limited waivers to the GFA for 2011, 2010 and 2009 related to not achieving these minimum standards subject to the Association meeting other designated conditions. As of December 31, 2012, the Association was in compliance with all covenants of the GFA except for adverse assets to risk funds being 51.8 percent, in excess of 50 percent, but less than 75 percent, which is not considered an "event of default" of the GFA covenants as a Bank approved corrective action plan was in place.

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, capital surplus from prior years and borrower stock. 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 $45,108,003, $41,366,579 and $39,225,575 at December 31, 2012, 2011 and 2010, respectively. 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 19.1 percent, 15.8 percent and 14.3 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 18.7 percent, 15.4 percent and 13.8 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 18.7 percent, 15.4 percent and 13.8 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

In 2012, 2011 and 2010, the Association paid patronage distributions of $304,315, $0 and $0, respectively. 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. The impact of the change is a reduction of allocated expenses of $108,741 in 2011, which are included in purchased services on the consolidated statements of comprehensive income.

Summary:

Over the past 96 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
Legacy Ag Credit, ACA:

We have audited the accompanying consolidated financial statements of Legacy Ag 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 Legacy Ag 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.

PricewaterhouseCoopers LLP

March 12, 2013

PricewaterhouseCoopers LLP, 300 West 6th Street, Suite 1800, Austin, Texas 78701
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LEGACY AG CREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	December 31,		
	2012	2011	2010
Assets			
Cash	**$ 83,981**	$ 88,115	$ 63,374
Loans	**212,343,402**	216,045,218	250,449,194
Less: allowance for loan losses	**3,269,104**	5,787,913	10,395,535
Net loans	**209,074,298**	210,257,305	240,053,659
Accrued interest receivable	**1,289,288**	1,409,584	1,601,115
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**3,514,195**	3,974,680	4,745,575
Other	**673,863**	517,370	1,633,221
Other property owned, net	**3,956,869**	5,112,615	3,808,889
Premises and equipment	**634,284**	597,750	540,248
Other assets	**102,271**	128,619	380,338
Total assets	**$ 219,329,049**	$ 222,086,038	$ 252,826,419
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 172,960,131**	$ 179,552,956	$ 212,404,963
Advance conditional payments	**1,690**	1,203	1,203
Accrued interest payable	**341,626**	457,633	594,100
Drafts outstanding	**231,371**	84,403	36,438
Dividends payable	**-**	4,315	4,315
Other liabilities	**686,228**	618,949	559,825
Total liabilities	**174,221,046**	180,719,459	213,600,844
Members' Equity			
Capital stock and participation certificates	**997,825**	1,016,900	1,121,985
Unallocated retained earnings	**44,020,044**	40,193,795	37,898,772
Accumulated other comprehensive income	**90,134**	155,884	204,818
Total members' equity	**45,108,003**	41,366,579	39,225,575
Total liabilities and members' equity	**$ 219,329,049**	$ 222,086,038	$ 252,826,419

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2012	2011	2010
Interest Income			
Loans	**$ 11,853,236**	$ 12,454,809	$ 14,131,424
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**4,536,190**	6,126,992	7,709,228
Advance conditional payments	**8**	688	-
Total interest expense	**4,536,198**	6,127,680	7,709,228
Net interest income	**7,317,038**	6,327,129	6,422,196
(Reversal of) Provision for Loan Losses	**(712,551)**	713,453	8,465,462
Net interest income after (reversal of) provision for losses	**8,029,589**	5,613,676	(2,043,266)
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	**850,371**	963,025	1,337,341
Loan fees	**182,709**	123,541	189,015
Refunds from Farm Credit System Insurance Corporation	**271,076**	-	274,026
Financially related services income	**563**	717	884
Gain on other property owned, net	**4,210**	-	28,739
Gain on sale of loans, net	**159,761**	-	-
Other noninterest income	**27,525**	14,964	10,598
Total noninterest income	**1,496,215**	1,102,247	1,840,603
Noninterest Expenses			
Salaries and employee benefits	**2,638,619**	2,108,303	1,861,427
Directors' expense	**222,394**	173,620	182,269
Purchased services	**427,793**	543,520	510,527
Travel	**177,973**	148,827	129,827
Occupancy and equipment	**205,122**	163,004	117,355
Communications	**46,116**	38,091	38,667
Advertising	**101,283**	40,391	23,348
Public and member relations	**77,416**	35,189	29,963
Supervisory and exam expense	**118,100**	146,179	142,895
Insurance Fund premiums	**151,122**	196,011	209,340
Provision for other property owned	**1,143,859**	371,123	395,830
Loss on other property owned, net	**-**	264,952	-
Loss on sale of premises and equipment, net	**3,901**	-	-
Other noninterest expense	**85,857**	191,690	61,880
Total noninterest expenses	**5,399,555**	4,420,900	3,703,328
NET INCOME/(LOSS)	**4,126,249**	2,295,023	(3,905,991)
Other comprehensive income:			
Change in postretirement benefit plans	**(65,750)**	(48,934)	80,787
COMPREHENSIVE INCOME/(LOSS)	**$ 4,060,499**	$ 2,246,089	$ (3,825,204)

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2009	$ 1,192,640	$ 41,804,763	$ 124,031	$ 43,121,434
Comprehensive income (loss)	-	(3,905,991)	80,787	(3,825,204)
Capital stock/participation certificates issued	52,355	-	-	52,355
Capital stock/participation certificates and allocated retained earnings retired	(123,010)	-	-	(123,010)
Balance at December 31, 2010	1,121,985	37,898,772	204,818	39,225,575
Comprehensive income (loss)	-	2,295,023	(48,934)	2,246,089
Capital stock/participation certificates issued	55,885	-	-	55,885
Capital stock/participation certificates and allocated retained earnings retired	(160,970)	-	-	(160,970)
Balance at December 31, 2011	1,016,900	40,193,795	155,884	41,366,579
Comprehensive income (loss)	-	4,126,249	(65,750)	4,060,499
Capital stock/participation certificates issued	99,380	-	-	99,380
Capital stock/participation certificates and allocated retained earnings retired	(118,455)	-	-	(118,455)
Patronage declared	-	(300,000)	-	(300,000)
Balance at December 31, 2012	**$ 997,825**	**$ 44,020,044**	**$ 90,134**	**$ 45,108,003**

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income	**$ 4,126,249**	$ 2,295,023	$ (3,905,991)
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	**(712,551)**	713,453	8,465,462
Provision for other property owned	**1,143,859**	371,123	395,830
(Gain) loss on other property owned, net	**(4,210)**	264,952	(28,739)
Gain on sale of loans, net	**(159,761)**	-	-
Loss on sale of premises and equipment	**3,901**	-	-
Depreciation and amortization	**72,828**	99,649	82,657
Decrease in accrued interest receivable	**120,296**	191,531	1,001,641
(Increase) decrease in other receivables from the Farm Credit Bank of Texas	**(156,493)**	1,115,851	(1,633,221)
Decrease (increase) in other assets	**26,348**	251,719	(294,365)
Decrease in accrued interest payable	**(116,007)**	(136,467)	(120,050)
Increase (decrease) in other liabilities	**1,529**	10,190	(516,679)
Net cash provided by operating activities	**4,345,988**	5,177,024	3,446,545
Cash flows from investing activities:			
(Decrease) increase in loans, net	**(1,194,197)**	24,133,886	28,000,472
Cash recoveries of loans previously charged off	**233,644**	173,896	67,179
Proceeds from redemption of investment in the Farm Credit Bank of Texas	**460,485**	770,895	386,175
Purchases of premises and equipment	**(174,542)**	(147,707)	(66,510)
Proceeds from sales of premises and equipment	**31,800**	-	-
Proceeds from sales of other property owned	**3,061,448**	2,825,874	3,127,005
Net cash provided by investing activities	**2,418,638**	27,756,844	31,514,321

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
Cash flows from financing activities:			
Net repayment of note payable to the Farm Credit Bank of Texas	**(6,592,825)**	(32,852,007)	(36,169,267)
Increase (decrease) in drafts outstanding	**146,968**	47,965	(130,994)
Increase (decrease) in advance conditional payments	**487**	-	(1)
Issuance of capital stock and participation certificates	**99,380**	55,885	52,355
Retirement of capital stock and participation certificates	**(118,455)**	(160,970)	(123,010)
Cash patronage paid	**(304,315)**	-	-
Net cash used in financing activities	**(6,768,760)**	(32,909,127)	(36,370,917)
Net (decrease) increase in cash	**(4,134)**	24,741	(1,410,051)
Cash at the beginning of the year	**88,115**	63,374	1,473,425
Cash at the end of the year	**$ 83,981**	$ 88,115	$ 63,374
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	**$ 2,925,222**	$ 4,765,675	$ 5,224,594
Receivables from sales of other property owned	**-**	-	289,396
Loans charged off	**2,039,902**	5,494,971	8,137,838
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 4,652,205**	$ 6,264,147	$ 7,829,278

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

LEGACY AG CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Legacy Ag Credit, ACA, including its wholly-owned subsidiaries, Legacy, PCA and Legacy 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 Franklin, Gregg, Harrison, Hopkins, Kaufman, Marion, Rains, Upshur, Van Zandt and Wood 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 the 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 and multi-peril crop 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 Legacy, PCA and Legacy 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 – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer and c) other quantitative information to help users understand the financial information about the plan. For nonpublic entities, the amendments are effective for annual periods for fiscal years ending after December 15, 2012. The amendments should be applied retrospectively for all prior periods presented. The adoption will not impact the Association's financial condition or results of operation.

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 disclose 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. The guidance was implemented in 2010 for loans closed in 2010. In 2012, 2011 and 2010 the Association capitalized $130,387, $55,041 and $41,892 in origination fees and $178,890, $85,139 and $85,293 in origination costs, primarily salaries and benefits related to the origination of loans, respectively. The net adjustment to yield on loans for 2012 was an increase of $29,479 and for 2011 and 2010 were decreases of $9,444 and $3,393, 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 its 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. 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 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, 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. Also, the Association sponsors a nonqualified defined contribution 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 $103,668, $76,042 and $54,551 for the years ended December 31, 2012, 2011 and 2010, respectively. For the DB Plan, the Association recognized pension costs of $32,372, $96,228 and $186,886 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 $76,895, $51,761 and $36,907 for the years ended December 31, 2012, 2011 and 2010, respectively.

In addition to the DB Plan, the DC Plan, and the Farm Credit Benefits Alliance 401(k) plans above, the Association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan; however, to date no contributions to the plan have been made. Therefore, there are no associated liabilities included in the Association's balance sheet. Likewise, there have been no employee benefit costs related to the nonqualified plan included in the Association's statement of income.

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 multiemployer and, consequently, the liability for these benefits is included in other liabilities. For further information on the Association's employee benefit plans, see Note 11, "Employee Benefit Plans."

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. Management has recorded a valuation allowance to fully offset the deferred tax assets of the Association. As of December 31, 2012, the Association had net operating loss carryforwards of approximately $13,015,408.

J. Patronage Refunds from the Farm Credit Bank of Texas: The Association records patronage refunds from the Bank on an accrual basis.

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	**$ 184,136,993**	**86.8%**	$ 191,119,752	88.4%	$ 220,759,467	88.1%
Production and intermediate term	**7,312,162**	**3.4%**	10,980,709	5.1%	20,987,514	8.4%
Agribusiness:						
Processing and marketing	**8,040,305**	**3.8%**	5,786,617	2.7%	1,952,073	0.8%
Loans to cooperatives	**-**	**0.0%**	12,736	0.0%	1,164,164	0.5%
Farm-related business	**-**	**0.0%**	-	0.0%	1,855,010	0.7%
Energy	**6,992,953**	**3.3%**	3,810,508	1.8%	65,802	0.0%
Water and waste water	**1,853,165**	**0.9%**	1,866,682	0.9%	-	0.0%
Rural residential real estate	**2,431,042**	**1.1%**	1,600,744	0.7%	1,953,465	0.8%
Communication	**1,576,782**	**0.7%**	867,470	0.4%	1,711,699	0.7%
Total	**$ 212,343,402**	**100.0%**	$ 216,045,218	100.0%	$ 250,449,194	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
Real estate mortgage	$ 988,540	$ 1,132,500	$ -	$ -	$ 988,540	$ 1,132,500
Production and intermediate term	356,008	-	-	-	356,008	-
Agribusiness	8,051,486	-	-	-	8,051,486	-
Communication	1,579,004	-	-	-	1,579,004	-
Energy	6,929,607	-	-	-	6,929,607	-
Water and waste water	1,853,165	-	-	-	1,853,165	-
Total	$ 19,757,810	$ 1,132,500	$ -	$ -	$ 19,757,810	$ 1,132,500

Geographic distribution by loan volume as of December 31 follows:

County	**2012**	2011	2010
Van Zandt	**19.5%**	19.5%	18.0%
Hopkins	**16.9%**	15.8%	17.0%
Kaufman	**13.5%**	13.6%	12.4%
Wood	**8.7%**	8.8%	10.0%
Upshur	**7.6%**	8.5%	8.5%
Harrison	**5.7%**	5.7%	4.9%
Franklin	**4.7%**	4.8%	4.3%
Marion	**1.8%**	1.7%	1.5%
Gregg	**1.2%**	1.0%	1.2%
Rains	**0.6%**	0.8%	1.0%
Other Counties	**19.8%**	19.8%	21.2%
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	%
Livestock, except dairy and poultry	**$ 77,354,201**	**36.4%**	$ 83,780,554	38.8%	$ 96,239,853	38.3%
Field crops except cash grains	**36,494,862**	**17.2%**	35,667,066	16.5%	39,843,266	15.9%
Poultry and eggs	**22,523,822**	**10.6%**	24,742,561	11.5%	25,712,525	10.3%
Dairy farms	**18,063,216**	**8.5%**	21,261,175	9.8%	39,258,757	15.7%
Timber	**16,041,683**	**7.6%**	17,746,784	8.2%	21,681,492	8.7%
Hunting, trapping and game propagation	**6,840,152**	**3.2%**	6,222,880	2.9%	7,073,817	2.8%
Real estate	**6,314,983**	**3.0%**	6,314,983	2.9%	6,722,989	2.7%
Electric services	**6,431,004**	**3.0%**	3,245,657	1.5%	-	0.0%
Food and kindred products	**3,471,430**	**1.6%**	1,267,583	0.6%	-	0.0%
Metal cans	**2,538,146**	**1.2%**	2,544,709	1.2%	-	0.0%
Animal specialties	**2,522,453**	**1.2%**	2,616,403	1.2%	3,372,313	1.3%
Agricultural services	**2,473,448**	**1.2%**	2,376,344	1.1%	2,469,278	1.0%
Chemical and allied products	**2,067,086**	**1.0%**	2,132,860	1.0%	2,643,535	1.1%
Wheat	**2,000,000**	**0.9%**	-	0.0%	-	0.0%
Water supply	**1,853,165**	**0.9%**	1,848,101	0.9%	-	0.0%
Communication	**1,579,004**	**0.8%**	867,470	0.4%	1,711,699	0.7%
Rural home loans	**1,300,137**	**0.6%**	1,212,018	0.6%	1,496,998	0.6%
Wholesale trade - nondurable goods	**902,469**	**0.4%**	777,736	0.4%	1,090,208	0.4%
Paper and allied products	**727,392**	**0.4%**	506,174	0.2%	-	0.0%
Bituminous coal and lignite mining	**498,603**	**0.2%**	500,000	0.2%	-	0.0%
Cash grains	**185,375**	**0.1%**	191,934	0.1%	212,828	0.1%
Horticultural specialties	**56,691**	**0.0%**	57,881	0.0%	58,912	0.0%
Vegetables and melons	**53,138**	**0.0%**	108,866	0.0%	163,534	0.1%
Trucking & courier services, except air	**50,942**	**0.0%**	55,479	0.0%	-	0.0%
Public warehousing and storage	**-**	**0.0%**	-	0.0%	697,190	0.3%
Total	**$ 212,343,402**	**100.0%**	$ 216,045,218	100.0%	$ 250,449,194	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	**$ 5,553,086**	$ 16,154,404	$ 35,867,676
Production and intermediate term	**917,254**	2,807,146	7,906,410
Agribusiness	**1,078,545**	-	1,855,009
Rural residential real estate	**25,659**	28,026	30,515
Total nonaccrual loans	**$ 7,574,544**	$ 18,989,576	$ 45,659,610
Accruing restructured loans:			
Real estate mortgage	**$ 3,832,732**	$ 1,014,795	$ -
Total accruing restructured loans	**$ 3,832,732**	$ 1,014,795	$ -
Accruing loans 90 days or more past due:			
Production and intermediate term	**$ -**	$ 4,434	$ -
Total accruing loans 90 days or more past due	**$ -**	$ 4,434	$ -
Total nonperforming loans	**11,407,276**	20,008,805	45,659,610
Other property owned	**3,956,869**	5,112,615	3,808,889
Total nonperforming assets	**$ 15,364,145**	$ 25,121,420	$ 49,468,499

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	**68.2** %	64.8 %	63.1 %
OAEM	**23.2**	23.0	17.7
Substandard/doubtful	**8.6**	12.2	19.2
	100.0	100.0	100.0
Production and intermediate term			
Acceptable	**72.0**	51.7	26.8
OAEM	**4.2**	3.8	12.5
Substandard/doubtful	**23.8**	44.5	60.7
	100.0	100.0	100.0
Loans to cooperatives			
Acceptable	-	100.0	100.0
OAEM	-	-	-
Substandard/doubtful	-	-	-
	-	100.0	100.0
Processing and marketing			
Acceptable	**86.6**	80.7	100.0
OAEM	-	-	-
Substandard/doubtful	**13.4**	19.3	-
	100.0	100.0	100.0
Farm-related business			
Acceptable	-	-	-
OAEM	-	-	-
Substandard/doubtful	-	-	100.0
	-	-	100.0
Communication			
Acceptable	**100.0**	100.0	100.0
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0	100.0	100.0
Energy			
Acceptable	**100.0**	100.0	100.0
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0	100.0	100.0
Water and waste water			
Acceptable	**100.0**	100.0	100.0
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0	100.0	100.0
Rural residential real estate			
Acceptable	**87.2**	79.6	81.3
OAEM	**11.8**	18.7	17.1
Substandard/doubtful	**1.0**	1.7	1.6
	100.0	100.0	100.0
Total Loans			
Acceptable	**70.9**	65.7	60.1
OAEM	**20.4**	20.9	16.8
Substandard/doubtful	**8.7**	13.4	23.1
	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	**$ 1,693,968**	**$ 390,127**	**$ 2,084,095**	**$ 183,223,167**	**$ 185,307,262**	**$ -**
Production and intermediate term	**239,361**	**-**	**239,361**	**7,116,833**	**7,356,194**	**-**
Processing and marketing	**-**	**1,049,056**	**1,049,056**	**6,994,728**	**8,043,784**	**-**
Communication	**-**	**-**	**-**	**1,577,039**	**1,577,039**	**-**
Energy	**-**	**-**	**-**	**7,057,654**	**7,057,654**	**-**
Water and waste water	**-**	**-**	**-**	**1,853,926**	**1,853,926**	**-**
Rural residential real estate	**-**	**-**	**-**	**2,436,831**	**2,436,831**	**-**
Total	**$ 1,933,329**	**$ 1,439,183**	**$ 3,372,512**	**$ 210,260,178**	**$ 213,632,690**	**$ -**

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	$ 2,767,314	$ 1,401,792	$ 4,169,106	$ 188,236,657	$ 192,405,763	$ -
Production and intermediate term	871,131	177,198	1,048,329	9,997,206	11,045,535	4,434
Loans to cooperatives	-	-	-	12,904	12,904	-
Processing and marketing	-	-	-	5,790,981	5,790,981	-
Communication	-	-	-	867,777	867,777	-
Energy	-	-	-	3,854,634	3,854,634	-
Water and waste water	-	-	-	1,872,124	1,872,124	-
Rural residential real estate	-	-	-	1,605,084	1,605,084	-
Total	$ 3,638,445	$ 1,578,990	$ 5,217,435	$ 212,237,367	$ 217,454,802	$ 4,434

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 $4,355,238, including $522,506 classified as nonaccrual and $3,832,732 classified as accrual. The troubled debt restructured loans were individually evaluated for impairment and have a specific allowance for loan losses of $462,181 at December 31, 2012. 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 tables present 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, 2012, and 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 $3,932,530.

December 31, 2012:	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
Troubled debt restructurings:		
Real estate mortgage	**$ 501,378**	**$ 426,132**
Total	**$ 501,378**	**$ 426,132**

December 31, 2011:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 5,689,747	$ 4,651,264
Production and intermediate term	2,186,236	1,334,790
Total	$ 7,875,983	$ 5,986,054

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). Charge-offs recorded at the modification date were $75,000 for the year ending December 31, 2012.

The predominate form of concession granted for troubled debt restructuring includes principal and interest reduction. Other types of modifications include extension of the term, 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 presents information regarding loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months of that year and for which there was a payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Troubled debt restructurings that subsequently defaulted:	**Recorded Investment at December 31, 2012**	Recorded Investment at December 31, 2011
Real estate mortgage	**$ -**	$ 150,000
Production and intermediate term	**-**	68,094
Total	**$ -**	$ 218,094

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:					
Real estate mortgage	$ 5,284,921	$ 5,304,271	$ 890,563	$ 5,161,924	$ 51,453
Production and intermediate term	294,024	297,959	96,421	248,983	3,879
Processing and marketing	570,541	570,541	334,336	448,950	-
Total	$ 6,149,486	$ 6,172,771	$ 1,321,320	$ 5,859,857	$ 55,332
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 4,100,896	$ 4,104,401	$ -	$ 4,133,953	$ 110,537
Production and intermediate term	623,231	3,603,907	-	901,236	30,665
Processing and marketing	508,004	508,004	-	399,741	-
Rural residential real estate	25,659	25,721	-	26,891	-
Total	$ 5,257,790	$ 8,242,033	$ -	$ 5,461,821	$ 141,202
Total impaired loans:					
Real estate mortgage	$ 9,385,817	$ 9,408,672	$ 890,563	$ 9,295,877	$ 161,990
Production and intermediate term	917,255	3,901,866	96,421	1,150,219	34,544
Processing and marketing	1,078,545	1,078,545	334,336	848,691	-
Rural residential real estate	25,659	25,721	-	26,891	-
Total	$ 11,407,276	$ 14,414,804	$ 1,321,320	$ 11,321,678	$ 196,534

[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	**$ 848,793**	$ 2,649,897	$ 2,820,410
Less: interest income recognized	**(196,534)**	(553,322)	(193,744)
Foregone interest income	**$ 652,259**	$ 2,096,575	$ 2,626,666

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	Processing and Marketing	Communication	Energy	Rural Residential Real Estate	Water and Waste Water	Loans to Cooperatives	Total
Allowance for Credit Losses:									
Balance at December 31, 2011	$ 5,125,016	$ 603,133	$ 35,874	$ 1,006	$ 8,375	$ 3,464	$ 11,015	$ 30	$ 5,787,913
Charge-offs	(1,915,205)	(124,697)	-	-	-	-	-	-	(2,039,902)
Recoveries	200	233,444	-	-	-	-	-	-	233,644
Provision for loan losses	(541,049)	(488,005)	305,668	2,306	7,639	920	-	(30)	(712,551)
Balance at December 31, 2012	$ 2,668,962	$ 223,875	$ 341,542	$ 3,312	$ 16,014	$ 4,384	$ 11,015	$ -	$ 3,269,104
Ending Balance: individually evaluated for impairment	$ 890,563	$ 96,421	$ 334,336	$ -	$ -	$ -	$ -	$ -	$ 1,321,320
Ending Balance: collectively evaluated for impairment	$ 1,778,399	$ 127,454	$ 7,206	$ 3,312	$ 16,014	$ 4,384	$ 11,015	$ -	$ 1,947,784
Recorded Investment in Loans Outstanding:									
Ending Balance at December 31, 2012	$ 185,307,262	$ 7,356,194	$ 8,043,784	$ 1,577,039	$ 7,057,654	$ 2,436,831	$ 1,853,926	$ -	$ 213,632,690
Ending balance for loans individually evaluated for impairment	$ 9,385,817	$ 917,255	$ 1,078,545	$ -	$ -	$ 25,659	$ -	$ -	$ 11,407,276
Ending balance for loans collectively evaluated for impairment	$ 175,921,445	$ 6,438,939	$ 6,965,239	$ 1,577,039	$ 7,057,654	$ 2,411,172	$ 1,853,926	$ -	$ 202,225,414

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

	2012	2011	2010
Beginning balance	**$ 5,787,913**	$ 10,395,535	$ 10,000,732
(Reversal of) Provision for loan losses	**(712,551)**	713,453	8,465,462
Loans charged off	**(2,039,902)**	(5,494,971)	(8,137,838)
Recoveries	**233,644**	173,896	67,179
Allowance for loan losses	**$ 3,269,104**	$ 5,787,913	$ 10,395,535

NOTE 4 – 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. 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, 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 investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank. The Association owns 1.64 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 $1.27 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	**$ 97,859**	$ 97,859	$ 97,859
Building and improvements	**508,040**	500,733	488,478
Furniture and equipment	**54,384**	66,810	58,852
Computer equipment and software	**133,818**	111,548	78,692
Automobiles	**299,429**	290,223	195,585
	1,093,530	1,067,173	919,466
Accumulated depreciation	**(459,246)**	(469,423)	(379,218)
Total	**$ 634,284**	$ 597,750	$ 540,248

The Association owns buildings in Sulphur Springs, Canton and Gilmer and leases office space in Kaufman and Sulphur Springs (2 locations). The Kaufman building lease is on a month-to-month basis. Both Sulphur Springs building leases are two-year leases which expire in 2013. General office equipment is leased with expiration in 2016. Lease expense was $39,268, $27,235 and $8,598 for 2012, 2011 and 2010, respectively. The Association does not hold any capital leases. Minimum annual lease payments for the next five years are as follows:

	Operating
2013	$ 17,868
2014	3,468
2015	3,468
2016	867
2017	-
Thereafter	-
Total	$ 25,671

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 (loss) on sale, net	**$ 94,338**	$ (20,632)	$ 123,642
Operating expense, net	**(90,128)**	(244,320)	(94,903)
Net gain (loss) on other property owned	**$ 4,210**	$ (264,952)	$ 28,739

Other property owned consisted of 11 properties at December 31, 2012. This includes land and houses. The net carrying value of the property is equivalent to its fair value of $3,956,869, which is net of an allowance of $1,120,542.

NOTE 7 – OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2012	2011	2010
Accounts receivable - other	**$ 98,708**	$ 123,304	$ 373,210
Other	**3,563**	5,315	7,128
Total	**$ 102,271**	$ 128,619	$ 380,338

Other liabilities comprised the following at December 31:

		2012		2011		2010
Accounts payable	**$**	**289,691**	$	267,189	$	265,221
Post-retirement benefits liability		**303,088**		250,489		223,844
Accrued annual leave		**93,449**		101,271		70,760
Total	**$**	**686,228**	$	618,949	$	559,825

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 (GFA). 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 $172,960,131 at 2.38 percent, $179,552,956 at 3.02 percent and $212,404,963 at 3.24 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 $194,869,366, as defined by the GFA.

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 GFA 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.

Beginning in 2009 and continuing through the end of 2011, the Association was subject to remedies associated with the covenants in the GFA due to not achieving minimum standards for return on assets, liquidity and adversely classified assets to risk funds. The Bank issued limited waivers to the GFA for 2009, 2010 and 2011 related to not achieving these minimum standards subject to the Association meeting other designated conditions. As of December 31, 2012, the Association was in compliance with all covenants of the GFA except for adverse assets to risk funds being 51.8 percent, in excess of 50 percent, but less than 75 percent, which is not considered an "event of default" of the GFA covenants as a Bank-approved corrective action plan was in place.

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 (for farm loans) or participation certificates (for rural home and farm-related business loans) is equal to 2 percent of the loan amount, up to a maximum amount of $1,000. 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 5 percent of the loan amount.

Each owner of Class A 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. The Association had no Class C stock as of December 31, 2012, 2011 or 2010.

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 Class A capital stock, Class C 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. The following patronage distributions were declared and paid in 2012, 2011 and 2010, respectively:

Date Declared	Date Paid/Payable	Patronage
February 2012	April 2012	$300,000

There were no patronage declarations or payments in fiscal years 2011 or 2010.

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. Associations are 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 not prohibited from retiring stock, though the Association is prohibited from distributing earnings without prior approval from the FCA due to the provisions of the Supervisory Agreement. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2012, were 19.1 percent, 18.7 percent and 18.7 percent, respectively.

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

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, Class C stock and participation certificates outstanding at a par value of $5 per share:

	2012	2011	2010
Class A stock	**195,817**	199,791	220,052
Participation certificates	**3,748**	3,589	4,345
Total	**199,565**	203,380	224,397

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

	2012	2011	2010
Nonpension postretirement (losses) benefits	**$ 90,134**	$ 155,884	$ 204,818
Total	**$ 90,134**	$ 155,884	$ 204,818

NOTE 10 — INCOME TAXES:

There has been no provision for (benefit from) income taxes for the years ended December 31, 2012, 2011 or 2010.

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	**$ 1,402,925**	$ 780,308	$ (1,328,037)
Effect of nontaxable FLCA subsidiary	**(1,739,774)**	(796,773)	(774,910)
Change in valuation allowance	**344,587**	10,662	2,077,715
Other	**(7,738)**	5,803	25,232
Provision for (benefit from) income taxes	**$ -**	$ -	$ -

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

	2012	2011	2010
Deferred Tax Assets			
Allowance for loan losses	**$ 76,124**	$ 204,697	$ 1,520,538
Loss carryforwards	**4,425,238**	3,936,289	2,625,575
Allowance for other property owned	**-**	15,789	-
Gross deferred tax assets	**4,501,362**	4,156,775	4,146,113
Deferred tax asset valuation allowance	**(4,501,362)**	(4,156,775)	(4,146,113)
Net deferred tax asset (liability)	**$ -**	$ -	$ -

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. The Association recorded valuation allowances of $4,501,362, $4,156,775 and $4,146,113 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. Also, the

Association sponsors a nonqualified defined contribution 401(k) plan. These plans are described more fully in section H of Note 2, “Summary of Significant Accounting Policies.”

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 directors 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 multiemployer plans are different from single-employer plans in the following aspects:

a. Assets contributed to the multiemployer 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 multiemployer 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	**$ 32,372**	$ 96,228	$ 185,866
Percentage of Association's contribution to total contributions	**0.2** %	0.4 %	0.9 %

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 multiemployer and, consequently, the liability for these benefits is included in other liabilities. Employees hired prior to January 1, 2004, and who are at least 55 years of age (or at least age 50 with 30 years of service) may retire and have their medical premium paid on a percentage of cost sharing basis predicated on length of employment service. Employees hired before this date that have reached the age requirement and have 25 years of service will receive 100 percent of their medical premium paid. Employees hired after January 1, 2004, will be eligible for access only to retiree medical benefits for themselves, but will be responsible for 100 percent of the premium.

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 $1,017, net of taxes, and increased the pension and other postretirement benefit liabilities by $1,017.

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	**$ 250,489**	$ 223,844	$ 305,363
Service cost	**9,364**	9,274	12,896
Interest cost	**12,504**	12,414	18,131
Plan participants' contributions	**613**	584	584
Actuarial loss (gain)	**43,087**	16,857	(101,033)
Benefits paid	**(12,969)**	(12,484)	(12,097)
Accumulated postretirement benefit obligation, end of year	**$ 303,088**	$ 250,489	$ 223,844
Change in Plan Assets			
Plan assets at fair value, beginning of year	**$ -**	$ -	$ -
Company contributions	**12,356**	11,900	11,513
Plan participants' contributions	**613**	584	584
Benefits paid	**(12,969)**	(12,484)	(12,097)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (303,088)**	$ (250,489)	$ (223,844)
Amounts Recognized in Statement of Financial Position			
Other liabilities	**$ (303,088)**	$ (250,489)	$ (223,844)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	**$ (42,286)**	$ (90,887)	$ (120,026)
Prior service cost (credit)	**(47,848)**	(64,997)	(84,792)
Total	**$ (90,134)**	$ (155,884)	$ (204,818)
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%	10.00%
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	**$ 9,364**	$ 9,274	$ 12,896
Interest cost	**12,504**	12,414	18,131
Amortization of:			
Unrecognized prior service cost (credits)	**(17,149)**	(19,795)	(20,246)
Unrecognized net loss (gain)	**(5,514)**	(12,282)	-
Net postretirement benefit cost	**$ (795)**	$ (10,389)	$ 10,781
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	**$ 43,087**	$ 16,857	$ (101,033)
Amortization of net actuarial loss (gain)	**5,514**	12,282	-
Amortization of prior service cost	**17,149**	19,795	20,246
Total recognized in other comprehensive income	**$ 65,750**	$ 48,934	$ (80,787)
AOCI Amounts Expected to be Amortized Into Expense in 2013			
Unrecognized prior service cost	**$ (8,547)**		
Unrecognized net loss (gain)	**(1,103)**		
Total	**$ (9,650)**		
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	**12/31/2011**	12/31/2010	12/31/2009
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	**$ 11,221**
Fiscal 2014	**11,468**
Fiscal 2015	**11,814**
Fiscal 2016	**12,281**
Fiscal 2017	**13,041**
Fiscal 2018–2022	**98,419**
Expected Contributions	
Fiscal 2013	**$ 11,221**

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 $944,888, $820,244 and $2,239,698 at December 31, 2012, 2011 and 2010, respectively. During 2012, $356,939 of new loans were made, and repayments totaled $232,295. 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 $123,839, $226,920 and $363,038 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 impact of the change is a reduction of allocated expenses of $108,741 in 2011, which are included in purchased services on the consolidated statements of comprehensive income.

The Association received patronage payments from the Bank totaling $850,371, $963,025 and $1,337,341 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
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Note payable to the Bank	Discounted cash flow	Repayment forecasts of loan collateral

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	**$ -**	**$ -**	**$ 6,586,875**	**$ 6,586,875**
Other property owned	**-**	**-**	**3,956,869**	**3,956,869**

December 31, 2011	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 7,031,226	$ 7,031,226
Other property owned	-	-	5,112,615	5,112,615

December 31, 2010	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$17,729,690	$ 17,729,690
Other property owned	-	-	3,808,889	3,808,889

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the balance sheet for each of the fair value hierarchy values are summarized as of December 31, follows:

	2012					2011		2010	
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	Total Carrying Amount	Total Fair Value	Total Carrying Amount	Total Fair Value
Financial Assets:									
Cash	**$ 83,981**	**$ 83,981**	**$ -**	**$ -**	**$ 83,981**	$ 88,115	$ 88,115	$ 63,374	$ 63,374
Loans, net	**202,487,423**	**-**	**-**	**204,763,331**	**204,763,331**	210,257,305	226,372,150	240,053,659	252,462,744
Financial Liabilities:									
Note payable to the Bank	**172,960,131**	**-**	**-**	**174,813,926**	**174,813,926**	179,552,956	180,816,339	212,404,963	208,996,921

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:

Cash, Federal Funds Sold and Securities Purchased Under Resale Agreements

For cash and overnight investments, the carrying amount is a reasonable estimate of fair value. The fair value of term federal funds sold and securities purchased under resale agreements is based on currently quoted market prices, which are reflective of current interest rates.

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 payable to the Bank

The note payable to the Bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the Association's and Bank's loan rates as well as on management estimates. For the purposes of this estimate it is assumed that the cash flow on the note is equal to the principal payments on the Association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

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, $8,199,719 of commitments and $46,207 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 - REGULATORY ENFORCEMENT MATTERS

The Association underwent an examination by the Farm Credit Administration (FCA) in early 2009. As a result of this examination, an enforcement action (Supervisory Agreement) by the FCA was instituted against the Association in November 2009. The basis of the enforcement action was unsafe and unsound practices and conditions and violations of FCA regulations within the Association.

The Chief Executive Officer (CEO) and Chief Credit Officer (CCO) were terminated by the Association's board of directors (board) in October 2009. An interim CEO was named in October of 2009 who served until the selection of a new CEO in September 2010. Effective November 1, 2012, the CCO was named as Interim CEO as the then CEO has accepted a CEO position at another association. The Interim CEO previously served as Chief Credit Officer and Special Asset Manager of the Association.

In March of 2011, a revised Supervisory Agreement was entered into between the FCA and the Association's board which supersedes and terminates the November 2009 Supervisory Agreement. In general, the basis for the revised Supervisory Agreement was that the board's actions and corrective action plans, although improving, had not yet resulted in a substantial improvement in the quality of the Association's portfolio or the Association's financial condition and performance.

Requirements placed on the Association and board related to the revised agreement include: the board continuing to fulfill its fiduciary duties to the Association and its stockholders; continuing the engagement of the board consultant; continuation of the compliance committee's monitoring and coordination of the Association's adherence to the provisions of the revised Supervisory

Agreement; and continuing to review, revise and adopt appropriate Association policies including borrowers rights, standard of conduct, and information technology.

The board is also required to review, update and approve corrective action plans on the following: audit committee; internal controls; loan portfolio management; capital, earnings and liquidity.

The revised Supervisory Agreement also requires the board to: complete a staffing plan; improve its methodology concerning the allowance for loan loss; and provide monthly reporting on large criticized assets.

The board is also required to disclose a summary of items regarding the revised Supervisory Agreement.

The board directed management to take actions required to bring the Association into compliance with the articles of the revised Supervisory Agreement. The board and management have implemented the process of reviewing, updating, and approving the original plans as directed by the revised Supervisory Agreement. The board will continue to work with the board consultant to insure proper corrective actions are taken in response to this revised Supervisory Agreement. The board will also continue to attend additional training in order to improve its supervisory effectiveness.

The actions taken by the board and management in order to comply with the revised agreement include: updating and approving policies concerning standards of conduct, borrowers rights and information technology, as well as reviewing, updating and approving corrective action plans on internal controls, audit committee, portfolio management, capital, earnings and liquidity. The board will continue to monitor the status and progress of management's corrective actions in compliance with the revised plan. The board will continue to update the FCA and Legacy Ag Credit, ACA stockholders as to its compliance with the revised Supervisory Agreement on a quarterly basis.

A September 2011 Report of Examination (ROE) found notable progress in meeting the requirements of the revised Supervisory Agreement and that compliance was generally satisfactory, but actions to reduce risk and improve financial condition must receive continued emphasis. A rating of compliance, or substantial compliance, was achieved with all articles of the revised Supervisory Agreement except for one where partial compliance was noted.

In February 2012, the FCA granted approval for the Association to distribute a $300,000 patronage related to 2011 operations. The patronage was paid in April 2012.

An October 2012 letter from the FCA, related to August 2012 FCA examination activities, showed that compliance with the revised Supervisory Agreement was satisfactory. A rating of compliance, or substantial compliance, was achieved with all articles of the revised Supervisory Agreement.

In January 2013, the FCA granted approval for the Association to distribute a $1,000,000 patronage related to 2012 operations. The patronage is expected to be paid in March 2013.

NOTE 16 – 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	**$ 2,007**	**$ 1,751**	**$ 1,716**	**$ 1,843**	**$ 7,317**
Reversal of loan losses	**276**	**240**	**7**	**190**	**713**
Noninterest expense, net	**(834)**	**(494)**	**(763)**	**(1,813)**	**(3,904)**
Net income	**$ 1,449**	**$ 1,497**	**$ 960**	**$ 220**	**$ 4,126**

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,574	$ 1,484	$ 1,636	$ 1,633	$ 6,327
(Provision for) reversal of loan losses	(158)	(697)	(1,428)	1,570	(713)
Noninterest expense, net	(971)	(833)	(940)	(575)	(3,319)
Net income	$ 445	$ (46)	$ (732)	$ 2,628	$ 2,295

	2010				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,937	$ 1,692	$ 1,288	$ 1,505	$ 6,422
Provision for loan losses	(2,290)	(1,226)	(680)	(4,665)	(8,861)
Noninterest (expense) income, net	(769)	(654)	(719)	675	(1,467)
Net income	$ (1,122)	$ (188)	$ (111)	$ (2,485)	$ (3,906)

NOTE 17 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 12, 2013, which is the date the financial statements were issued or available to be issued.

In January 2013, the FCA granted approval for the Association to distribute a $1,000,000 patronage related to 2012 operations.

During the first quarter of 2013, the Association sold four loans relating to one borrower with a book value of $690,630 to a commercial bank which resulted in the recognition of a gain of $59,370.

In February 2013, the Association became aware of conditions that existed at December 31, 2012, relating to a decline in the appraised market value of one parcel of other property owned. An increase of $801,961 in the provision for other property owned and an increase in the allowance for other property owned for the same amount have been recognized in the 2012 financial information presented in this annual report.

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 Legacy Ag Credit, ACA (Association) serves its 10-county territory through its main administrative and lending office at 303 Connally St., Sulphur Springs, Texas 75482. Additionally, there are three branch lending offices located throughout the territory. The Association owns the office buildings in Sulphur Springs, Gilmer and Canton, free of debt. The Association leases two office buildings in Sulphur Springs and one office building in Kaufman.

LEGAL PROCEEDINGS

In early 2009, the Association underwent an examination by the Farm Credit Administration (FCA). As a result of this examination, an enforcement action (Supervisory Agreement) by the FCA was instituted against the Association. The Association board entered into a Supervisory Agreement with the FCA in November 2009 due to unsafe and unsound practices and conditions and violations of FCA regulations within the Association. The existing Chief Executive Officer (CEO) and Chief Credit Officer (CCO) were terminated by the Association board in October 2009. An interim CEO was named in October of 2009 who served until the selection of a new CEO in September 2010. Effective November 1, 2012, the CCO was named as Interim CEO as the then current CEO has accepted a CEO position at another association. The Interim CEO previously served as Chief Credit Officer and Special Asset Manager of the Association.

In March of 2011, a revised Supervisory Agreement was entered into between the FCA and the Association's board which supersedes and terminates the November 2009 Supervisory Agreement. In general, the basis for the revised Supervisory Agreement is that the board's actions and corrective action plans, although improving, had not yet resulted in a substantial improvement in the quality of the Association's portfolio or the Association's financial condition and performance. It is management's opinion that material compliance with the FCA revised Supervisory Agreement will be maintained; however, extensions to certain deadlines set forth in the agreement have been requested from and granted by the FCA, and future extensions may be required and requested from the FCA. An October 2012 letter from the FCA, related to August 2012 FCA examination activities, showed that compliance with the revised Supervisory Agreement was satisfactory. A rating of compliance, or substantial compliance, was achieved with all articles of the revised Supervisory Agreement.

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 by writing to Legacy Ag Credit, ACA 303 Connally St., Sulphur Springs, Texas 75482 or calling (903) 885-9566. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *Sherry.Jennings@LegacyACA.com*. The Association's annual stockholder report is available on its website at *www.legacyaca.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 of Financial Condition and Results of Operations," 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 Cordell	Chairman of the Board	1979	2014
Wayne Bawcum, CPA	Director at Large	2008	2013
Dr. Herb Marlow	Director	2010	2013
Terry D. Milligan	Director	2010	2013
Cody Newman	Vice Chairman	2000	2013
A.G. Sandifeer	Director	2001	2014
Ron Gabriel	Director	2011	2015
Joseph Crouch	Interim CEO	2008	-
Al Conner	Interim CCO	2012	-
Sherry Jennings	SVP / CAO	2007	-
Daryl D. Belt	SVP / CFO	2007	-

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

Jerry Cordell, Chairman of the Board. Mr. Cordell owns and operates a beef cattle operation in Kaufman County and previously owned an agricultural retail business. Mr. Cordell currently serves as vice president of the Farmer's Market in Kaufman, Texas, and formerly served as a member of the Kaufman County Hay Show board. He has served as a director of Legacy since 1979. He was elected board chairman in 2010 and has served continuously in this position since that time.

Wayne Bawcum, CPA, Chairman of the Audit Committee. Mr. Bawcum is a CPA and is currently a partner with Bawcum and Preuss, CPAs in Sulphur Springs, Texas. He has served as director at large since 2008.

Dr. Herb Marlow, Director. Dr. Marlow is president/CEO of Four Seasons Book Inc. and is a counselor, author and owns a hay and cattle operation. Dr. Marlow served as the secretary/treasurer for the Little Hope-Moore Water Supply Corporation from February 2008 through February 2011. He was a professor of sociology at Ranger College. Dr. Marlow has served as director since his election in 2010. He currently serves as compensation committee chairman.

Terry D. Milligan, Director. Mr. Milligan has been employed by the U.S.D.A. for 31 years. He owns and operates a beef yearling grazing operation in Van Zandt County. He has served as director since his election in 2010.

Cody Newman, Vice Chairman of the Board. Mr. Newman is president and a partner in a family business, the Newman Corporation, which manages and develops oil, gas, real estate and ranch properties. Mr. Newman serves on the board of the Upshur Rural Electric Cooperative Cooperation and previously served as a school board member for Harleton ISD for 12 years. He served as director at large for the Association since 2000 and was elected director in 2008. He was elected board vice chairman in 2010 and has served continuously in that position since that time. Additionally, he serves as audit committee vice chairman and compliance committee chairman, and previously served as chairman of the compensation committee.

A.G. Sandifeer, Director. Mr. Sandifeer retired from TXU after 36 years of service and from J & L Utility Construction Co., after 16 years of service. He is a cattle rancher and also serves as chief of the Dike Volunteer Fire Department. He has served as a director since 2001.

Ron Gabriel, Director. Mr. Gabriel owns and operates oil field service companies and a beef cattle, horse and hay operation. He is the owner and president of EDI Energy Services, Turbo Drilling Fluids and Four Star Management Group. He is past chairman of the Legacy Ag Credit, ACA nominating committee, and previously served on the Spring Hill School board for six years. He was elected as a director in 2011.

Joseph Crouch, Interim Chief Executive Officer. Mr. Crouch joined Legacy Ag Credit, ACA in 2008 where he most recently served as senior credit officer and SAM manager until his appointment to chief credit officer in February 2011. He was named the Interim CEO in November 2012. Prior to joining Legacy Ag Credit, ACA, Mr. Crouch was an owner of C&A Foods Inc. in Sulphur Springs, Texas. Mr. Crouch began his banking career in 1997. He performed various roles for commercial banks located in the Panhandle of Texas and throughout West Texas including cashier, compliance officer, bank secrecy act officer, regulatory reporting, and lending, including commercial, consumer and real estate. Mr. Crouch also serves as a director on the board of the Hopkins County Memorial Hospital. Mr. Crouch received a degree in agribusiness and economics from West Texas A&M University in Canyon, Texas.

Al Conner, Interim Chief Credit Officer. Mr. Conner joined Legacy Ag Credit, ACA in December 2012. He began his Farm Credit career in 1976 as a loan officer for the Federal Land Bank of Vidalia, Georgia, and Ohoopee PCA. He served as a branch manager for the Federal Land Bank of Gainesville, Florida and North Florida, PCA in Lake City, Florida, from 1979 to 1982. Mr. Conner moved to Columbia, South Carolina in April 1982 where he continued his Farm Credit career until his retirement from the AgFirst Farm Credit Bank in March 2011. He gained extensive lending experience during this 29-year tenure with the AgFirst Farm Credit Bank where he served as senior loan officer, senior credit reviewer, vice president in charge of credit review, and vice president/relationship manager. Mr. Conner received a degree in dairy science from the University of Georgia.

Sherry Jennings, Senior Vice President/Chief Administrative Officer. Ms. Jennings joined Legacy Ag Credit, ACA in 2007 and serves as senior vice president and chief administrative officer. Ms. Jennings has more than 20 years of banking experience in the Sulphur Springs area, most recently serving as senior administrative officer with Guaranty Bond Bank. Ms. Jennings began her banking career in 1988 with Texas Commercial Savings, continuing while under the management of the Resolution Trust Corporation, and served as administrative officer of First American Bank & Mortgage until the merger with Guaranty Bond Bank. She has extensive operational experience, including credit operations and human resource management. She attended Texas A&M University in Commerce, Texas (formerly East Texas State University).

Daryl D. Belt, Senior Vice President/Chief Financial Officer. Mr. Belt joined Legacy Ag Credit, ACA in 2007 and had been with the Farm Credit System from 1993 to 2006 in various capacities with associations and the District Bank (FCBT). Mr. Belt was with JPMorgan Chase & Co. for 10 years prior to joining Farm Credit and was also a realtor with Sotheby's International Realty in Austin, Texas, from 2006 through 2007. Mr. Belt also served on the board of a community property owners association in The Village of the Hills, Texas. Mr. Belt holds a BBA in finance from the University of Texas.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium at the rate of $650 per day for official activities and $150 per teleconference 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 in effect at the time incurred. 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 Cordell	18	49	$ 34,050
Wayne Bawcum, CPA	17	34	21,650
Dr. Herb Marlow	18	19	20,550
Terry D. Milligan	16	20	19,400
Cody Newman	17	32	24,350
A.G. Sandifeer	18	25	23,950
Ron Gabriel	17	17	18,100
			$ 162,050

The aggregate compensation paid to directors in 2012, 2011 and 2010 was $162,050, $135,250 and $150,050, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

	Committee		
Director	**Audit**	**Compliance and Compensation**	**Other Official Activities**
Jerry Cordell	$ 2,400	$ 1,350	$ 20,100
Wayne Bawcum, CPA	2,400	1,350	8,350
Dr. Herb Marlow	2,400	150	7,800
Terry D. Milligan	2,550	150	7,800
Cody Newman	2,400	1,350	11,050
A.G. Sandifeer	2,550	150	11,050
Ron Gabriel	2,550	150	5,850
	$ 17,250	$ 4,650	$ 72,000

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $60,344, $37,074 and $31,041 in 2012, 2011 and 2010, respectively.

COMPENSATION OF SENIOR OFFICERS

Chief Executive Officer (CEO) Compensation Table and Policy

The CEO's base salary is benchmarked against that paid to CEOs of other financial institutions. Robert W. Teston was CEO through September 11, 2010. Gregory M. Cunningham was CEO through October 31, 2012. Joseph Crouch was appointed Interim CEO by the Association board effective November 1, 2012.

A critical factor to the Association's success is its ability to attract, develop and retain staff that is knowledgeable and efficient in their ability to support the Association in the execution of its strategic objectives and delivery of Association results that maximize the value to the stockholders. This objective holds particularly true for the Association's chief executive officer (CEO) and senior officer group. The Association operates utilizing a compensation program which focuses on the performance and contributions of its employees in achieving the Association's financial and operational objectives, all for the ultimate benefit of its stockholder/members. The Association's board of directors, through its compensation committee, establishes salary and incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure that salary and incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for the Association's evaluation and establishment of salary and incentive plans used by the Association.

All Association employees, including senior officers, can earn compensation above base salary through an annual success-sharing incentive plan. The term of the plan is each calendar year beginning January 1 through December 31. The plan is based upon the achievement of predetermined Association performance goals for net income, net accrual loan growth, credit quality and delinquency volume. The following criteria is also used for determining eligibility for the incentive pay: (l) the Association must not be in default of the General Financing Agreement with the Farm Credit Bank of Texas (2) the Association cannot receive an overall rating of "unsatisfactory" on credit administration by the Internal Credit Review and/or FCA examinations (3) there must be material income from operations beyond what is needed to fund the incentive plan and (4) eligible employees must receive an annual performance rating of "meets standards of good competent performance" on his/her individual performance review.

Name of Individual	Year	Salary	Bonus	Deferred/ Perquisite	Other*	Total
Joseph Crouch Interim CEO	2012	$ 153,506	$ 43,500	$ 35,205	$ -	$ 232,211
Gregory M. Cunningham CEO / President	2012	185,965	-	37,564	25,579	249,108
	2011	205,008	500	39,536	-	245,044
	2010	62,124	-	11,759	36,179	110,062
Robert W. Teston CEO / President	2010	221,400	500	1,070	-	222,970

*Amounts in the "Other" column for 2012 and 2010 represent a cash payment of accrued annual leave and relocation package for Mr. Cunningham, respectively.

The Deferred/Perquisite values represent all nonsalary related benefits provided to the employee such as 401k matching and contributions to the Defined Contribution retirement plan (as discussed in Note 2 H), medical and dental insurance premiums paid by the employer, imputed income on employer paid life insurance and imputed income for personal use of Association vehicles (as described below).

Pension Benefits Table Narrative Disclosure for the CEO

The previous CEO was not an active participant in the DB Pension plan. He was deemed a "terminated participant" in the DB Pension prior to being employed by Legacy Ag Credit, ACA. He cannot earn additional benefits related to this plan. The interim CEO has never been a participant in the plan.

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 nonsenior 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	Deferred/ Perquisite	Other*	Total
Aggregate Compensation Paid To Senior Officers in Year (includes CEOs)						
(5)	2012	$ 642,221	$ 111,998	$ 146,118	$ 25,579	$ 925,916
(5)	2011	622,398	2,500	128,832	-	753,730
(5)	2010	542,671	2,000	75,621	36,179	656,471

*Amounts in the "Other" column for 2012 and 2010 represent a cash payment of accrued annual leave and relocation package for Mr. Cunningham, respectively.

The compensation plan for all employees provides for base salaries to be administered consistent with competitive financial industry survey data of like-sized financial institutions. In 2012 bonuses were paid in accordance with the bonus plan as discussed above in the Chief Executive Officer (CEO) Compensation Table Policy. A bonus of $500 (gross) was paid to all employees in 2011 and 2010 (excluding the CEO in 2010).

The Deferred/Perquisite values represent all nonsalary related benefits provided to the employee such as 401(K) matching and contributions to the Defined Contribution retirement plan (as discussed in Note 2 H), medical and dental insurance premiums paid by the employer, imputed income on employer paid life insurance and imputed income for personal use of Association vehicles (as described below).

Certain employees are assigned Association-owned vehicles for use in normal business operations. For all personal mileage traveled in Association vehicles, the Association includes in the earnings of the respective employees an amount derived by an IRS established method. Amounts relating to personal use of Association vehicles are included in the “Deferred/Perquisite” column in the table above along with other Association-provided benefits. Employees who use their personal automobile 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 exceeding $5,000 in 2012, 2011 or 2010.

All employees, 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.

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 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 nonbinding on the Association’s compensation committee and the Association’s board of directors.

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

There have been no events that have occurred in the last 5 years (bankruptcy, conviction or naming in a criminal proceeding, or judgment or finding limiting a right to engage in a business) that are material to the evaluation of the ability or integrity of any person who served as director or senior officer of the Association.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The Association selected PricewaterhouseCoopers LLP to audit its financial statements and provide an opinion thereon for its 2012 annual report. The total fees paid for professional services rendered by PricewaterhouseCoopers LLP for the Association during 2012 were $41,466 for audit services and $8,300 for tax services.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 12, 2013, and the report of management in this annual report to stockholders, are incorporated herein by reference.

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

The Association will make a concerted and cooperative effort to finance Young, Beginning or Small farmers, ranchers, producers or harvesters of aquatic products to the fullest extent of their creditworthiness. Sound and constructive credit to YBS farmers may include credit for nonagricultural (other credit needs) as well as agricultural purposes. The Association sets minimum standards and monitors its YBS performance on a regular basis. These results are also compared to the demographics of the territory it serves as reflected in the USDA Census of Agriculture.

DEFINITIONS:

Definitions for "young," "beginning" and "small" farmers and ranchers used by the Association are:

- Young: Age 35 or younger as of the loan date
- Beginning: Ten years or less of farming, ranching or aquatic experience as of the loan date
- Small: Less than $250,000 in annual gross sales of agricultural products

Slight differences noted between the USDA Census and our YBS information are as follows:

- The USDA Census shows young farmers in a group up to age 34, whereas the Association's YBS information shows young farmers up to age 35.
- The USDA Census shows years on present farm in a class up to nine years, whereas the Association's YBS information shows 10 years or less for a beginning farmer.
- USDA Census data is based on the number of farms, whereas the Association's data is based on the number of loans.

DEMOGRAPHIC DATA:

	Per 2007 USDA Census of Agriculture*			Legacy Ag Credit, ACA			
				2012 Loans	% of Portfolio	2011 Loans	% of Portfolio
Young Farmers	1,312	8.9%	Young Farmers	290	19.4%	317	20.3%
Beginning Farmers	6,367	43.2%	Beginning Farmers	882	59.1%	942	60.5%
Small Farmers	14,347	97.3%	Small Farmers	1,252	83.9%	1,297	83.2%
Total Farms	14,746		Total Farms	1,493		1,558	

* For 10 chartered association counties. Information provided by 2007 USDA Census of Agriculture

ASSOCIATION GOAL:

The Association finished the year below our 2012 goals in reaching YBS farmers. Although it is believed that the overall weakness in the general economy may continue to hamper the growth of the Association's YBS portfolio, the Association is projecting a small increase in overall volume, and therefore, the Association's YBS goals over the succeeding three-year period, as shown below, do reflect a small percentage increase in number of loans to "Young", "Beginning" and "Small" farmers (2012 year-end figures are listed for reference purposes only).

2012 Actual Numbers
($000's omitted)

	Number/Volume of Loans Outstanding		**Number/Volume of Gross New Business**	
Category	**Number of Loans**	**Volume**	**Number of Loans**	**Volume**
Young	290	27,455	29	2,547
Beginning	882	117,555	96	24,524
Small	1,252	143,761	175	35,624

2012 Goals

	Number/Volume of Loans Outstanding		**Number/Volume of Gross New Business**	
Category	**Number of Loans**	**Volume**	**Number of Loans**	**Volume**
Young	323	31,691	30	3,411
Beginning	960	134,841	75	13,691
Small	1,323	153,007	111	13,106

2013 Goals (3.5% Increase/2012)

	Number/Volume of Loans Outstanding		**Number/Volume of Gross New Business**	
Category	**Number of Loans**	**Volume**	**Number of Loans**	**Volume**
Young	300	28,416	30	2,636
Beginning	913	121,669	99	25,382
Small	1,296	148,793	181	36,871

2014 Goals (5% Increase/2013)

	Number/Volume of Loans Outstanding		**Number/Volume of Gross New Business**	
Category	**Number of Loans**	**Volume**	**Number of Loans**	**Volume**
Young	315	29,837	32	2,768
Beginning	959	127,753	104	26,651
Small	1,361	156,232	190	38,714

2015 Goals (5.5% Increase/2014)

	Number/Volume of Loans Outstanding		**Number/Volume of Gross New Business**	
Category	**Number of Loans**	**Volume**	**Number of Loans**	**Volume**
Young	332	31,478	33	2,920
Beginning	1,011	134,779	110	28,117
Small	1,435	164,825	201	40,844

The largest potential for future penetration, based on the Demographic Data, is in the "Small" and "Beginning" farmer categories. While "Small" farmers currently represent over 83 of the Association's loan portfolio as of December 31, 2012, the Association recognizes that, based on the demographics, there remains additional opportunity to serve this segment within the Association's territory.

The Association has strengthened its outreach program to be more beneficial to the YBS segment, which includes efforts to offer related services to YBS borrowers. The Association recognizes and supports the federal and state-sponsored guarantee programs for the defined YBS borrowers. We will continue to coordinate efforts to utilize those and other programs with local FSA and SBA offices with guarantees, the district bank in participations and area banks and merchants with alliances. Other related services the Association coordinates in response to the needs of its YBS borrowers include title insurance, credit life insurance and fee appraisal services.

Efforts to reach all YBS segments are evidenced by the Association's continued participation in many local activities, including 4-H and FFA events, youth livestock shows, hay shows, Chamber of Commerce events, and support to local charitable and service organizations. Specifically, Legacy Ag Credit, ACA staff members have attended several Texas AgriLife events sponsored by the Extension Service and CEU programs, which provide ongoing training and are designed specifically to address many beginning farmer needs. Legacy Ag Credit, ACA made use of these opportunities to address those in attendance providing information about our Association and the Farm Credit System. Livestock show animals were purchased through many of our local county livestock shows, and Association staff members maintained a visible presence at hay shows throughout the territory. The Association's presence in such events provides market recognition and opportunities to illustrate Farm Credit to both current borrowers and future borrowers. Legacy Ag Credit, ACA took other opportunities to be visible within our territory to YBS farmers by setting up booths and marketing material at trade shows, equipment auctions and charitable events. These efforts not only target today's YBS segments but the next generation of potential Association borrowers as well. The Association will continue to broaden and enhance the YBS outreach program through activities mentioned above and new avenues that arise in our territory.

STRATEGIES:

- Through staff meetings and periodic memorandums, review the Association's YBS Farmer and New Generation loan programs and policies with Association personnel to ensure an understanding of and compliance with the policies and procedures.

- Ensure YBS loans are properly identified and classified in accordance with Systemwide classification standards.

- Internal controls, and more specifically, the lines of responsibility in administering the YBS program, are contained within existing Association loan policies and procedures regarding standard loan programs and the New Generation loan program. Each loan officer is charged with maintaining soundness and monitoring performance results within the YBC loan portfolio.

- Increase utilization of the Association's New Generation loan program. The Association's goal is to close five loans for $50,000 in 2013, 10 loans for $100,000 in 2014, and 20 loans for $200,000 in 2015.

- Ensure the Association's marketing program adequately targets YBS farmers and ranchers by requiring that branch offices participate in at least one YBS marketing activity on a quarterly basis. These activities will be limited to 4-H and FFA events, youth livestock shows, hay shows, Chamber of Commerce events, support to local charitable and service organizations and other related service events. Documentation of all such activities is required by Association staff and reported quarterly to Legacy's board of directors.

- Review and update, as needed, the Association Lending Standards to ensure maximum penetration in the YBS farmer market based on their creditworthiness and the financial ability of the Association.

- Encourage a positive attitude by all personnel in promoting the YBS Program.

- Opportunities to cooperate will include full extension of the Association's New Generation Program, when applicable, and coordinated efforts regarding USDA's Young and Beginning Farmer participation programs.

- An annual report of the Association's YBS loan-related data is submitted to the Farm Credit Bank of Texas annually after each calendar year-end. The Farm Credit Bank of Texas compiles YBS data on a District-wide basis and submits to FCA and to the Association board of directors. A summarized report of YBS loan-related statistics is provided to the Association board of directors on a quarterly basis. Reporting to stockholders is contained in the annual report, which is completed during the 1st quarter of each calendar year for the preceding full calendar year.

- Monitor closely the clear lines of responsibility for YBS program implementation by loan officers. Additionally, track performance and results of the Association's YBS Program and report quarterly to the Association's board of directors.