



## 2012 Annual Report

December 31, 2012



Part of the Farm Credit System

## Message from the Chairman of the Board

Dear Louisiana Land Bank Stockholder,

On behalf of the board of directors, I am pleased to report that your Association had a successful year during 2012. Net income totaled \$9.15 million, and nonearning assets consisting of nonaccrual loans and other property owned decreased to \$22.89 million, a reduction of over \$21 million compared to the end of the previous year.

The Association's permanent capital position grew to over 17 percent at 2012 year end, and total member's equity exceeded \$120 million. Louisiana Land Bank's liquidity position also improved, and the part of our loan portfolio that is funded by the Association's equity or our own funds exceeded \$104 million. The Association also returned to full compliance with all of the covenants of our General Financing Agreement with the Farm Credit Bank of Texas as of October 1, 2012.

Heightened competition and increased customer liquidity led to unexpected loan payoffs which negatively impacted loan portfolio growth during the year. Although Association loan officers originated and purchased over \$111 million in new loans during 2012, year-end accruing loan volume was down by over \$51 million compared to the previous year. Because of this decline in loan volume, net interest income was down by \$1.42 million compared to 2011 even though net interest rate spreads increased by 24 basis points in 2012.

Loan portfolio quality improved during the year, with acceptable loans comprising over 93 percent of total loans as of December 31, 2012 compared to less than 90 percent a year earlier. Delinquent loan percentages continued to fall and were maintained at acceptable levels throughout 2012.

We are pleased to announce that the Association's improved financial performance during 2012 allowed the board of directors to approve the payment of a cash patronage distribution of \$1.7 million to our stockholders. Conditional regulatory approval of the patronage payment has been received, and we anticipate distributing checks to stockholders during April 2013.

Over the past several years, your board has made a number of strategic decisions to better position Louisiana Land Bank for future financial success. The directors and the staff members are strongly committed to achieving our vision of being the leading provider of financial services to Louisiana farmers, foresters, agribusinesses and rural residents. We expect to be a value-added cooperative financial institution that helps our customers grow and prosper.

You can help us capitalize on that vision by using the Association for your all of your credit needs, including land purchases, seasonal operating lines of credit, equipment and livestock financing, and funding for other farm and agribusiness projects. We would also appreciate any referrals of your family members, friends and business associates. Thank you for your business relationship with Louisiana Land Bank. We look forward to serving you well for all of your future credit needs.

R. Ernest Girouard, Jr.  
Chairman of the Board

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## REPORT OF MANAGEMENT

The consolidated financial statements of Louisiana Land Bank, 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.



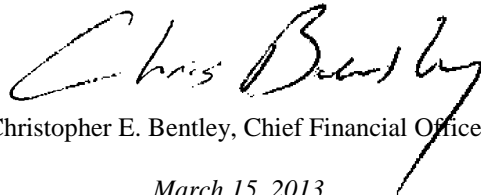
F. Stephen Austin, Interim Chief Executive Officer

*March 15, 2013*



R. Ernest Girouard, Jr., Chairman, Board of Directors

*March 15, 2013*



Christopher E. Bentley, Chief Financial Officer

*March 15, 2013*

## REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of Bobby E. Stanley, chairman, Edward W. Patrick, John F. Earls, J. Mark Morgan, Cullen M. Kovac and John L. “Jack” Dailey. In 2012, 17 committee meetings were held. The committee oversees the scope of Louisiana Land Bank, 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 Louisiana Land Bank, ACA’s website. The committee approved the appointment of PricewaterhouseCoopers LLP for 2012.

Management is responsible for Louisiana Land Bank, 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 Louisiana Land Bank, 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 Louisiana Land Bank, 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 and Louisiana Land Bank, ACA’s internal auditors directly provide reports on significant matters to the committee.

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

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in Louisiana Land Bank, ACA’s Annual Report to Stockholders for the year ended December 31, 2012.

### Audit Committee Members

Bobby E. Stanley, Chairman  
Edward W. Patrick  
John F. Earls  
J. Mark Morgan  
Cullen M. Kovac  
John L. “Jack” Dailey

*March 15, 2013*

# LOUISIANA LAND BANK, ACA

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

	2012	2011	2010	2009	2008
<b>Balance Sheet Data</b>					
<u>Assets</u>					
Cash	\$ 1,056	\$ 125	\$ 3,204	\$ 4,712	\$ 5,522
Loans	594,658	667,475	773,312	813,925	831,803
Less: allowance for loan losses	9,892	10,348	23,482	8,419	756
Net loans	584,766	657,127	749,830	805,506	831,047
Investment in and receivable from the Farm Credit Bank of Texas	12,443	16,412	13,980	14,664	14,861
Other property owned, net	7,097	6,635	11,493	2,961	105
Other assets	8,741	10,691	12,400	15,435	15,263
Total assets	<u>\$ 614,103</u>	<u>\$ 690,990</u>	<u>\$ 790,907</u>	<u>\$ 843,278</u>	<u>\$ 866,798</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 3,431	\$ 3,243	\$ 2,584	\$ 3,211	\$ 4,018
Obligations with maturities greater than one year	490,506	576,271	667,171	704,512	730,084
Total liabilities	<u>493,937</u>	<u>579,514</u>	<u>669,755</u>	<u>707,723</u>	<u>734,102</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	2,854	3,025	3,111	3,113	3,073
Unallocated retained earnings	118,002	108,853	118,085	132,123	129,289
Accumulated other comprehensive income (loss)	(690)	(402)	(44)	319	334
Total members' equity	<u>120,166</u>	<u>111,476</u>	<u>121,152</u>	<u>135,555</u>	<u>132,696</u>
Total liabilities and members' equity	<u>\$ 614,103</u>	<u>\$ 690,990</u>	<u>\$ 790,907</u>	<u>\$ 843,278</u>	<u>\$ 866,798</u>
<b>Statement of Income Data</b>					
Net interest income	\$ 17,508	\$ 18,929	\$ 18,490	\$ 19,669	\$ 20,132
(Provision for loan losses) or loan loss reversal	(1,026)	(15,825)	(26,700)	(8,975)	(337)
Income from the Farm Credit Bank of Texas	2,723	3,203	4,015	3,613	3,018
Other noninterest income	2,168	617	1,279	1,623	1,924
Noninterest expense	(12,141)	(16,107)	(11,123)	(10,496)	(11,654)
Benefit from income taxes	(83)	(49)	-	-	-
Net income (loss)	<u>\$ 9,149</u>	<u>\$ (9,232)</u>	<u>\$ (14,039)</u>	<u>\$ 5,434</u>	<u>\$ 13,083</u>
<b>Key Financial Ratios for the Year</b>					
Return on average assets	1.4%	-1.2%	-1.7%	0.6%	1.5%
Return on average members' equity	7.9%	-7.8%	-10.2%	4.1%	10.3%
Net interest income as a percentage of average earning assets	2.8%	2.6%	2.3%	2.4%	2.4%
Net charge-offs (recoveries) as a percentage of average loans	0.2%	3.9%	1.5%	0.2%	0.0%

**LOUISIANA LAND BANK, ACA**

**FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA**

(unaudited)

(dollars in thousands)

	<b>2012</b>	2011	2010	2009	2008
<u>Key Financial Ratios at Year End</u>					
Members' equity as a percentage of total assets	<b>19.6%</b>	16.1%	15.3%	16.1%	15.3%
Debt as a percentage of members' equity	<b>411.0%</b>	519.9%	552.8%	522.1%	553.2%
Allowance for loan losses as a percentage of loans	<b>1.7%</b>	1.6%	3.0%	1.0%	0.1%
Permanent capital ratio	<b>17.4%</b>	13.5%	14.1%	13.6%	13.5%
Core surplus ratio	<b>17.0%</b>	13.1%	13.7%	13.2%	13.2%
Total surplus ratio	<b>17.0%</b>	13.1%	13.7%	13.2%	13.2%
<u>Net Income Distribution</u>					
Patronage dividends:					
Cash	-	-	-	2,600	4,278

## **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 Louisiana Land Bank, ACA, including its wholly-owned subsidiaries, Louisiana Production Credit, PCA, and Louisiana Federal Land Bank Association, FLCA (Association) for the years ended December 31, 2012, 2011 and 2010, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's audit committee.

### **Forward-Looking Information:**

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

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

### **Significant Events:**

In December 2012, the Association received a direct loan patronage of \$2,278,466 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 \$258,460 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$186,223 from the Bank, representing 65 basis points on the Association's average balance of participations in the Bank's patronage pool program.

On January 1, 2010, pursuant to a restructuring plan approved by the Farm Credit Administration (FCA) and the Association's shareholders, the Association reorganized to form an Agricultural Credit Association (ACA). Pursuant to the restructuring plan, a Production Credit Association (PCA) was formed, Louisiana Production Credit, PCA (LPC), which, together with Louisiana Federal Land Bank Association, FLCA (LFLBA), became wholly-owned subsidiaries of the Association. The formation of the ACA and creation of the PCA enable the Association to make short- and intermediate-term loans for agricultural production or operating purposes through the PCA, while maintaining the tax-exempt status of long-term mortgage interest for loans generated by the FLCA.

The Association has a contractual relationship with the Bank from which the Association borrows to fund its loan portfolio. The indebtedness is governed by a general financing agreement (GFA) which contains certain covenants. The Association was able to regain full compliance with the GFA as of October 1, 2012. Prior to October 1, 2012, the Association was in violation of an earnings covenant included in the GFA. The Association was operating under a limited waiver of the covenant default.

As of December 31, 2012, the Association had \$26,259,466 in nonearning assets, including nonaccrual loans, formally restructured loans and other property owned. These nonearning assets are expected to have a negative impact on net interest margins for up to the next three years as legal collections move through the court systems in judicial foreclosures states and the market begins to absorb the properties.

Between 2006 and 2008, the Association entered into \$123.3 million of loan participations brokered by a third party originator. The Association has suffered significant credit losses associated with that portfolio, which was a key driver in the net losses of \$23.3 million during 2010 and 2011. As of December 31, 2012, total remaining recorded investment of that portfolio is \$16,215,268.



The Association's total allowance for loan loss balance was \$9,892,023 as of December 31, 2012. Of that balance, \$4,104,896 or 41.5 percent relates to loans involving the third party originator, with collateral residing outside the state of Louisiana.

As of March 15, 2011, the Association entered into a written agreement (Agreement) with our regulator, the FCA. Per the Agreement, the Association is subject to various operational, financial, compliance and reporting requirements. The conditions which led to this Agreement were unsafe and unsound conditions, including excessive portfolio risk and asset quality weaknesses which stemmed from weaknesses in the credit underwriting function which became apparent with the downturn in the overall economy. The identification of these matters concluded that they resulted in violations of certain FCA regulations. The weaknesses as asserted by FCA are largely related to purchased loans and participations with the underlying collateral predominantly located in Florida. The board is committed to addressing these matters and instituted specific actions beginning in January 2010, including replacing certain members of management, strengthening controls over problem loan identification, and generally ensuring that all identified weaknesses are both in the process of remediation (if not already remediated) and otherwise accounted for via the allowance for loan losses. The board is also complying with the requirements of the March 15, 2011 Agreement with the FCA, which reiterated the FCA findings identified and communicated throughout 2010, and created new reporting requirements to the FCA. The board will continue to monitor the remediation of the underlying causes of the conditions which led to the need for the Agreement with the FCA.

Pursuant to that effort, during May 2010, the Association hired a new chief credit officer (CCO), who was promoted to chief executive officer (CEO) on an interim basis as of October 1, 2010, and was named as the Association's permanent CEO on January 19, 2011. A new CCO was hired in April 2011 to fill that vacated position. Additionally, during August 2010, the Association brought in a new chief financial officer (CFO) on an interim basis. A permanent CFO was hired on December 20, 2010. That CFO resigned in March 2012 and was replaced with a permanent CFO in April 2012. During September 2010, the former CEO retired after 38 years of service, and the former CCO retired after 29 years of service.

The Association has net income of \$9,149,105 for 2012 compared to a net loss of \$9,231,926 in 2011. The Association had \$14,799,221 less in provision expense for loan loss in 2012 compared to 2011. The Association had \$3,366,009 less in provision expense for acquired property in 2012 compared to 2011. The Association had \$775,392 in income related to acquired property in 2012 compared to 904,657 in expense during 2011. The Association has \$1,421,385 less in net interest income in 2012 compared to 2011.

In April of 2012, the Farm Credit System Insurance Corporation (FCSIC) Board approved the refund of over \$220 million to holders of Allocated Insurance Reserve Accounts. The FCSIC was created by Congress in 1987 to enhance the financial integrity of the Farm Credit system by ensuring timely payment of System debt and interest. The Association's allocated portion of the refund was \$782,336 and was recognized as other income.

### **Loan Portfolio:**

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

The Association's portfolio contains repayment concentrations when analyzing the composition of the portfolio by primary repayment sources. The Association has reliance on professional – nonfarm (23.25 percent), retail – nonfarm (22.89 percent), row crops (21.85 percent) and timber (12.49 percent) as primary repayment sources for more than 80 percent of the portfolio. Total out-of-state loans, including purchased participation loans, are 21.96 percent of total loans outstanding. Purchased participations and out-of-state loans contributed significantly to the net losses in 2010 and 2011. The Association has significantly reduced its exposure to third party originated loans and loans with collateral in Georgia and Florida. As of December 31, 2012, the Association has loans with a recorded investment balance of \$12,052,272 with collateral in Florida and Georgia. Of that balance, \$4,510,347 is classified less than acceptable. The Association has specific reserves of \$1,863,659 for these loans.

The composition of the Association's loan portfolio, including principal less funds held of \$594,657,865, \$667,474,642 and \$773,311,613 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 \$57,299,392, \$81,692,894 and \$149,466,405 or 9.6 percent, 12.2 percent and 19.3 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the district of \$33,325,630, \$43,721,101 and \$82,838,829, or 5.6 percent, 6.6 percent and 10.7 percent of loans, respectively. The Association has also sold participations of \$26,286,299, \$43,990,822 and \$55,160,433 as of December 31, 2012, 2011 and 2010, respectively.

The Association has previously obtained loan guarantees in the form of standby commitments to purchase qualifying loans from the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the Bank. At December 31, 2012 and 2011, no loans were guaranteed by these commitments. Fees paid for these guarantees totaled \$2,955 in 2010, and are reflected in "other noninterest expense." No fees were paid for these guarantees in 2011 or 2012.

## 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	\$ 15,778,287	55.1%	\$37,541,242	80.5%	\$ 79,306,303	82.7%
90 days past due and still accruing interest	301,237	1.1%	-	0.0%	-	0.0%
Formally restructured	3,083,217	19.1%	2,451,657	5.3%	5,078,622	5.3%
Other property owned, net	7,096,725	24.8%	6,635,494	14.2%	11,493,488	12.0%
Total	\$ 26,259,466	100.1%	\$46,628,393	100.0%	\$ 95,878,413	100.0%

At December 31, 2012, 2011 and 2010, loans that were considered impaired were \$19,162,741, \$39,992,899 and \$84,384,925, representing 3.2 percent, 6.0 percent and 10.9 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The increase in high-risk assets in 2010 relates primarily to our capital markets portfolio, and specifically, a portfolio of loans originated through a third party originator. Between 2006 and 2008 the Association entered into \$123.3 million loan participations brokered by this third party originator. Of this portfolio, approximately \$74.9 million had underlying collateral of real estate in Florida or Georgia. Since the time of origination, the underlying real estate collateral of these Florida and Georgia properties has decreased in value significantly in line with the U.S. economy's general downturn and regional property devaluations over the same time period. The Association has suffered significant credit losses associated with that portfolio, which resulted in a net loss of \$23.3 million in 2010 and 2011. As of December 31, 2012, total remaining recorded investment of that portfolio is \$16,215,268, with related allowance for loan losses of \$4,104,896.

Of the total nonaccrual loan balance of \$15,778,287 at December 31, 2012, \$8,345,344, or 52.9 percent, was brokered through the third party originator.

Although the Association's lending activities between 2006 and 2008 were collateralized, insufficient analysis was placed on cash flow repayment sources. Therefore, the exposure to credit loss was not properly mitigated. The board and new management have taken steps to remediate this issue. Management now adheres to a new, more conservative set of lending policies that has been adopted by the board. These policies call for better analysis of risk that is inherent with lending activities. Secondly, management has established a special assets team which focuses on the monitoring and servicing of adverse assets and acquired property. At December 31, 2012, other property owned totaled \$7,096,725. Of that balance, \$4,719,813 is Louisiana-related collateral. \$2,376,912 was out-of-state collateral. The out-of-state collateral was 100 percent participation purchased loan activity. The net carrying value of the property is equivalent to its fair value of \$7,096,725.

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	\$ 9,892,023	\$ 10,347,913	\$ 23,481,716
Allowance for loan losses to total loans	1.7%	1.6%	3.0%
Allowance for loan losses to nonaccrual loans	62.7%	27.6%	29.6%
Allowance for loan losses to impaired loans	51.6%	25.9%	27.8%
Net charge-offs to average loans	0.2%	3.9%	1.5%

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 \$9,892,023, \$10,347,913 and \$23,481,716 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. The third party originator loans were substantially reduced in 2011 and 2012, and charge-offs to these problem assets were recorded. Historical cost analysis has been used to develop a general reserve which is substantially larger than recorded in previous years. Management has confidence that loss contingencies are adequately recorded.

## Results of Operations:

The Association's net income for the year ended December 31, 2012, was \$9,149,105 as compared to a net loss of \$9,231,926 for the year ended December 31, 2011, reflecting an increase of \$18,381,031, or 199.1 percent. The Association's net loss for the year ended December 31, 2010 was \$14,038,557. The Association had a net loss of \$14,038,557 in 2010 and a net loss of \$9,231,926 in 2011. Net losses decreased by \$4,806,631, or 34.2 percent, in 2011 versus 2010.

Net interest income for 2012, 2011 and 2010 was \$17,507,662, \$18,929,047 and \$18,490,440, respectively, reflecting a decrease of \$1,421,385, or 7.5 percent, for 2012 versus 2011 and an increase of \$438,607, or 2.4 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	\$ 623,757,933	\$ 28,017,790	\$ 738,940,109	\$ 33,883,733	\$ 800,663,076	\$38,159,762
Interest-bearing liabilities	528,739,084	10,510,128	641,092,369	14,954,686	687,701,951	19,669,322
Impact of capital	\$ 95,018,849		\$ 97,847,740		\$ 112,961,125	
Net interest income		\$ 17,507,662		\$ 18,929,047		\$18,490,440

	2012	2011	2010
	Average Yield	Average Yield	Average Yield
Yield on loans	4.49%	4.59%	4.77%
Cost of interest-bearing liabilities	1.99%	2.33%	2.86%
Interest rate spread	2.50%	2.26%	1.91%

	2012 vs. 2011			2011 vs. 2010		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ (5,281,572)	\$ (584,371)	\$ (5,865,943)	\$ (2,941,717)	\$ (1,334,312)	\$ (4,276,029)
Interest expense	(2,620,865)	(1,823,693)	(4,444,558)	(1,333,127)	(3,381,509)	(4,714,636)
Net interest income	\$ (2,660,707)	\$ 1,239,322	\$ (1,421,385)	\$ (1,608,590)	\$ 2,047,197	\$ 438,607

Interest income for 2012 decreased by \$5,865,943, or 17.3 percent, compared to 2011, primarily due to a decrease in accrual loan volume, and to a lesser extent, a decrease in interest rates year over year. Interest expense for 2012 decreased by \$4,444,558, or 29.7 percent, compared to 2011 due to a decrease in accrual and nonaccrual assets during 2012 as well as a 34-basis-point decline in cost of funds during 2012. The Association's accrual volume decreased \$51,053,623 in 2012 while nonaccrual loans decreased by \$21,762,955 in 2012. 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 2010 was a decrease of \$199,112. The interest rate spread increased by 35 basis points to 2.26 percent in 2011 from 1.91 percent in 2010, primarily because of a significant increase in nonearning assets during 2010. The interest rate spread increased by 24 basis points to 2.50 percent in 2012 from 2.26 percent in 2011, primarily because of a 34-basis-point decline in the cost of interest-bearing liabilities during 2012.

The Association manages interest rates through the Association's Asset Liability Management Committee. This committee is responsible for:

- Establishment of financial performance objectives related to loan pricing, including target loan spreads and net interest margin requirements.
- Establishment of recommended interest rate differentials and the basis on which interest rate differentials are applied to loans.
- Development of reporting systems to monitor the overall performance of loan pricing programs to ensure the achievement of financial performance objectives.
- Establishment of internal controls to ensure loan pricing programs are within the confines of board-approved programs and in compliance with regulatory requirements.
- Development of periodic forecasts, as needed, to evaluate the impact of changes in loan pricing.

Noninterest income for 2012 increased by \$1,071,513, or 28.1 percent, compared to 2011, primarily due to:

- A one-time Allocated Insurance Reserve Account refund from The Farm Credit System Insurance Corporation in the amount of \$782,336.
- Patronage income decreased \$479,964 in 2012.
- The Association recorded a \$775,392 gain on acquired property in 2012 compared to \$0 in 2011.
- Gain on the sales of equipment increased \$104,134 in 2012 compared to 2011.
- Loan fees decreased by \$21,313.

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 \$517,565 and \$1,265,635 in origination fees for 2011 and 2010, respectively, which will be amortized over the life of the loans as an adjustment to yield in net interest income. Noninterest income for 2011 decreased by \$1,473,593, or 27.8 percent, compared to 2010, due primarily to a decrease of \$811,885 in patronage income and an \$825,654 refund distribution in 2010 from Farm Credit System Insurance Corporation (FCSIC or Insurance Fund). The distributions from the FCSIC included reserves it held in excess of its secure base amount in 2003 which had been previously allocated to its Allocated Insurance Reserves Accounts, and also included reserves in excess of its secure base amount in 2009 which were likewise allocated. The 2008 Farm Bill amended the Farm Credit Act and simplified the formula for payments from the Allocated Insurance Reserves Accounts to allow more immediate distribution of excess Insurance Fund balances to System banks.

Provisions for loan loss expense decreased by \$14,799,221, or 93.5 percent, compared to 2011, due primarily to the reduction in impaired assets requiring reserves. Most of the problem assets were identified in 2010 and an appropriate charge to loan provision was recorded. Additions in 2011 consisted of some identification of new problem assets as well as some deterioration of existing problem assets identified in 2010.

Operating 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 decreased by \$3,965,272 for 2012 compared to 2011 primarily due to a decrease in provision for acquired property expense. Provision for acquired property expense decreased by \$3,366,009 in 2012 compared to 2011. The Association has a loss on other property owned in 2011 of \$904,657 and no loss in 2012. Purchased service expense decreased by \$184,997 in 2012 compared to 2011. Insurance Fund Premiums decreased \$152,841 in 2012 compared to 2011. Salaries and employee benefits decreased \$78,569 in 2012. Supervisory and exam expenses increased \$189,386 in 2012. Occupancy and equipment increased \$102,758 in 2012. Remaining operating expense increased by \$429,657 in 2012. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of \$799,484, \$697,608 and \$1,464,747 for 2012, 2011 and 2010, respectively, in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs consisted of salaries and benefits totaling \$799,484 related to the origination of loans.

For the year ended December 31, 2012, the Association's return on average assets was 1.4 percent, as compared to (1.2 percent) and (1.7 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 7.9 percent, as compared to (7.8 percent) and (10.2 percent) for the years ended December 31, 2011 and 2010, respectively. The Association regained compliance with the earnings metric conditions of the General Financing Agreement on October 1, 2012. The Association had violated the earnings covenant of the agreement which is a 12-month rolling ROA metric. The Association's reduction of provision expense in 2012 was a primary factor in regaining full compliance with the GFA. The Association's provision for loan losses and provision for acquired property expense decreased by \$18,165,230 in 2012 compared to 2011.

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 \$489,740,488, \$575,155,017 and \$665,725,115 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 1.82 percent, 2.30 percent and 2.50 percent at December 31, 2012, 2011 and 2010, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement.

The 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 indebtedness is governed by a general financing agreement (GFA) which contains certain covenants. Beginning in the third quarter of 2009 and continuing through September 30, 2012 with the exception of the months of July and August 2010, the Association violated the earnings covenant as defined in the agreement which requires a rolling one-year average return on assets of 1.00 percent or greater. This default was derived from substantial provision for loan loss expense incurred during 2009, 2010 and 2011, as well as substantial provision for other property owned during 2011. This expense has resulted in a return on assets below the 1.00 percent threshold. Beginning in the third quarter of 2009 and continuing through December 31, 2010, the Association fell out of compliance with the adverse assets to risk funds ratio requirements as defined in the agreement. The Bank issued a limited waiver of these covenant defaults through 2011, subject to the Association taking certain actions to correct the deficiencies. Remedies/corrective actions by the Association to these defaults include meeting certain profitability and credit quality metrics as defined by the Bank in the waiver, as well as additional Bank review over large credit originations. The Association regained GFA technical compliance during the second quarter of 2011 in relation to the credit quality metric, adverse assets to risk funds. The Association regained GFA technical compliance on October 1, 2012 in relation to the earnings covenant, a rolling one-year average return on assets of 1.00 or greater.

The decrease in note payable to the Bank and related accrued interest payable since December 31, 2011, is due to a decrease in loan volume and a corresponding decreased need for funding. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$104,307,296, \$92,020,985 and \$107,414,466 at December 31, 2012, 2011 and 2010, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2012, was \$584,646,873 as defined by the general financing agreement.

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 \$120,165,852, \$111,476,158 and \$121,151,744 at December 31, 2012, 2011 and 2010, respectively. The increase in capital in 2012 compared to 2011 is a direct corollary to the reduction in accrual loan volume during that time period as well as that the Association posted earnings in 2012 as opposed to operating losses in 2011 and 2010. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The 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 17.4 percent, 13.5 percent and 14.1 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 17.0 percent, 13.1 percent and 13.7 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's total surplus ratio at December 31, 2012, 2011 and 2010 was 17.0 percent, 13.1 percent and 13.7 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

The Association did not pay patronage distributions in 2012, 2011 or 2010 due to recent credit issues and operating losses. 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 Bank."

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 \$125,515 in 2012, which are included in purchased services on the statements of comprehensive income.

## **Summary:**

Over the past 23 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.



## **Independent Auditor's Report**

To the Board of Directors and Members of  
Louisiana Land Bank, ACA:

We have audited the accompanying consolidated financial statements of Louisiana Land Bank, 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 Louisiana Land Bank, 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 15, 2013

**LOUISIANA LAND BANK, ACA**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,		
	2012	2011	2010
<b><u>Assets</u></b>			
Cash	\$ 1,056,223	\$ 124,536	\$ 3,204,405
Loans	594,657,865	667,474,642	773,311,613
Less: allowance for loan losses	9,892,023	10,347,913	23,481,716
Net loans	584,765,842	657,126,729	749,829,897
Accrued interest receivable	5,048,700	7,302,839	8,839,965
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	10,743,310	12,956,350	13,812,290
Other	1,700,104	3,455,325	168,058
Deferred taxes, net	16,661	16,661	-
Other property owned, net	7,096,725	6,635,494	11,493,488
Premises and equipment	3,135,995	3,020,450	3,243,235
Other assets	539,693	351,364	315,912
Total assets	<u>\$ 614,103,253</u>	<u>\$ 690,989,748</u>	<u>\$ 790,907,250</u>
<b><u>Liabilities</u></b>			
Note payable to the Farm Credit Bank of Texas	\$ 489,740,488	\$ 575,155,017	\$ 665,725,115
Accrued interest payable	760,539	1,115,129	1,446,438
Drafts outstanding	5,288	70,417	110
Other liabilities	3,431,086	3,173,027	2,583,843
Total liabilities	<u>493,937,401</u>	<u>579,513,590</u>	<u>669,755,506</u>
<b><u>Members' Equity</u></b>			
Capital stock and participation certificates	2,853,915	3,025,360	3,111,285
Unallocated retained earnings	118,001,797	108,852,692	118,084,618
Accumulated other comprehensive income (loss)	(689,860)	(401,894)	(44,159)
Total members' equity	<u>120,165,852</u>	<u>111,476,158</u>	<u>121,151,744</u>
Total liabilities and members' equity	<u>\$ 614,103,253</u>	<u>\$ 690,989,748</u>	<u>\$ 790,907,250</u>

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



**LOUISIANA LAND BANK, ACA**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year Ended December 31,		
	2012	2011	2010
<b><u>Interest Income</u></b>			
Loans	\$ 28,017,790	\$ 33,883,733	\$ 38,159,762
Total interest income	28,017,790	33,883,733	38,159,762
<b><u>Interest Expense</u></b>			
Note payable to the Farm Credit Bank of Texas	10,510,128	14,954,686	19,669,322
Total interest expense	10,510,128	14,954,686	19,669,322
Net interest income	17,507,662	18,929,047	18,490,440
Provision for Loan Losses	1,025,999	15,825,220	26,699,705
Net interest income after provision for losses	16,481,663	3,103,827	(8,209,265)
<b><u>Noninterest Income</u></b>			
Income from the Farm Credit Bank of Texas:			
Patronage income	2,723,149	3,203,113	4,014,998
Loan fees	445,110	466,423	377,849
Refunds from Farm Credit System Insurance Corporation	782,336	-	825,654
Financially related services income	3,288	3,976	4,521
Gain on other property owned, net	775,392	-	-
Gain on sale of premises and equipment, net	160,757	56,623	59,141
Other noninterest income	1,300	89,684	11,249
Total noninterest income	4,891,332	3,819,819	5,293,412
<b><u>Noninterest Expenses</u></b>			
Salaries and employee benefits	5,658,356	5,736,925	4,471,381
Directors' expense	332,540	280,595	269,301
Purchased services	840,990	1,025,987	804,274
Travel	595,474	496,103	494,220
Occupancy and equipment	556,598	453,840	455,910
Communications	170,806	155,457	143,376
Advertising	340,213	262,624	370,094
Public and member relations	256,998	197,268	215,582
Supervisory and exam expense	545,604	356,218	593,261
Insurance Fund premiums	267,826	420,667	369,623
Provisions for losses on other property owned, net	2,000,742	5,366,751	2,168,866
Loss on other property owned, net	-	904,657	305,891
Other noninterest expense	575,006	449,333	460,925
Total noninterest expenses	12,141,153	16,106,425	11,122,704
Income before income taxes	9,231,842	(9,182,779)	(14,038,557)
Provision for income taxes	82,737	49,147	-
<b>NET (LOSS) INCOME</b>	<b>9,149,105</b>	<b>(9,231,926)</b>	<b>(14,038,557)</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$ 9,149,105</b>	<b>\$ (9,231,926)</b>	<b>\$ (14,038,557)</b>

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

**LOUISIANA LAND BANK, ACA**

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

	<b>Capital Stock/ Participation Certificates</b>	<b>Retained Earnings Unallocated</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Members' Equity</b>
Balance at December 31, 2009	\$ 3,112,790	\$ 132,123,175	\$ 319,221	\$ 135,555,186
Comprehensive income				
Net income	-	(14,038,557)	-	(14,038,557)
Amortization of costs in posteretirement benefit plans			(363,380)	(363,380)
Total Comprehensive income	-	(14,038,557)	(363,380)	(14,401,937)
Capital stock/participation certificates issued	397,095	-	-	397,095
Capital stock/participation certificates and allocated retained earnings retired	(398,600)	-	-	(398,600)
Balance at December 31, 2010	3,111,285	118,084,618	(44,159)	121,151,744
Comprehensive income				
Net income	-	(9,231,926)	-	(9,231,926)
Amortization of costs in postretirement benefit plans	-	-	(357,735)	(357,735)
Total comprehensive income	-	(9,231,926)	(357,735)	(9,589,661)
Capital stock/participation certificates issued	357,490	-	-	357,490
Capital stock/participation certificates and allocated retained earnings retired	(443,415)	-	-	(443,415)
Balance at December 31, 2011	3,025,360	108,852,692	(401,894)	111,476,158
Comprehensive income				
Net income	-	9,149,105	-	9,149,105
Amortization of costs in postretirement benefit plans	-	-	(287,966)	(287,966)
Total comprehensive income	-	9,149,105	(287,966)	8,861,139
Capital stock/participation certificates issued	396,885	-	-	396,885
Capital stock/participation certificates and allocated retained earnings retired	(568,330)	-	-	(568,330)
<b>Balance at December 31, 2012</b>	<b>\$ 2,853,915</b>	<b>\$ 118,001,797</b>	<b>\$ (689,860)</b>	<b>\$ 120,165,852</b>

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

**LOUISIANA LAND BANK, ACA**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2012	2011	2010
<b>Cash flows from operating activities:</b>			
Net income	\$ 9,149,105	\$ (9,231,926)	\$ (14,038,557)
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,025,999	15,825,220	26,699,705
Loss on other property owned, net	1,225,350	6,271,408	2,474,756
Depreciation and amortization	425,864	348,502	403,293
Gain on sale of premises and equipment, net	(160,757)	(56,623)	(59,141)
Decrease in accrued interest receivable	2,254,139	1,537,126	1,910,198
Decrease (increase) in other receivables from the Farm Credit Bank of Texas	1,755,221	(3,287,267)	67,769
Increase in deferred tax assets	-	(16,661)	-
(Increase) decrease in other assets	(188,329)	(35,452)	1,274,328
Decrease in accrued interest payable	(354,590)	(331,309)	(393,510)
(Decrease) increase in other liabilities	(29,907)	231,449	(989,529)
Net cash provided by operating activities	<u>15,102,095</u>	<u>11,254,467</u>	<u>17,349,312</u>
<b>Cash flows from investing activities:</b>			
Decrease in loans, net	61,452,803	70,076,306	17,089,543
Cash recoveries of loans previously charged off	505,300	228,687	616,810
Proceeds from redemption of investment in the Farm Credit Bank of Texas	2,213,040	855,940	616,030
Purchases of premises and equipment	(508,266)	(214,737)	(654,748)
Proceeds from sales of premises and equipment	164,504	164,918	161,388
Proceeds from sales of other property owned	7,653,314	5,140,266	263,205
Net cash provided by investing activities	<u>71,480,695</u>	<u>76,251,380</u>	<u>18,092,228</u>
<b>Cash flows from financing activities:</b>			
Net repayment of note payable to the Farm Credit Bank of Texas	(85,414,529)	(90,570,098)	(36,946,266)
(Decrease) increase in drafts outstanding	(65,129)	70,307	(931)
Issuance of capital stock and participation certificates	396,885	357,490	397,095
Retirement of capital stock and participation certificates	(568,330)	(443,415)	(398,600)
Net cash used in financing activities	<u>(85,651,103)</u>	<u>(90,585,716)</u>	<u>(36,948,702)</u>
Net increase (decrease) in cash	931,687	(3,079,869)	(1,507,162)
Cash at the beginning of the year	<u>124,536</u>	<u>3,204,405</u>	<u>4,711,566</u>
Cash at the end of the year	<u>\$ 1,056,223</u>	<u>\$ 124,536</u>	<u>\$ 3,204,404</u>

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

**LOUISIANA LAND BANK, ACA**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Supplemental schedule of noncash investing and  
financing activities:**

Loans transferred to other property owned	\$	<b>9,339,895</b>	\$	6,553,680	\$	10,962,991
Loans charged off		<b>1,987,189</b>		29,187,710		12,253,414

**Supplemental cash information:**

Cash paid during the year for:

Interest	\$	<b>10,864,719</b>	\$	15,285,995	\$	20,062,832
Income taxes		-		-		-

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

**LOUISIANA LAND BANK, ACA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 — ORGANIZATION AND OPERATIONS:**

- A. Organization: Louisiana Land Bank, ACA, including its wholly-owned subsidiaries, Louisiana Production Credit, PCA and Louisiana Federal Land Bank Association, 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 parishes of Acadia, Allen, Ascension, Assumption, Avoyelles, Beauregard, Bienville, Bossier, Caddo, Calcasieu, Caldwell, Cameron, Catahoula, Claiborne, Concordia, DeSoto, East Baton Rouge, East Carroll, East Feliciana, Evangeline, Franklin, Grant, Iberia, Iberville, Jackson, Jefferson, Jefferson Davis, Lafayette, Lafourche, LaSalle, Lincoln, Livingston, Madison, Morehouse, Natchitoches, Orleans, Ouachita, Plaquemines, Pointe Coupee, Rapides, Red River, Richland, Sabine, St. Bernard, St. Charles, St. Helena, St. James, St. John the Baptist, St. Landry, St. Martin, St. Mary, St. Tammany, Tangipahoa, Tensas, Terrebonne, Union, Vermillion, Vernon, Washington, Webster, West Baton Rouge, West Carroll, West Feliciana and Winn in the state of Louisiana.

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

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

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

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

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

- B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services that can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The Association makes and services short- and

intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank.

The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance, and providing additional services to borrowers, such as financial management services and an investment bond program.

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 Louisiana Production Credit, PCA and Louisiana Federal Land Bank Association, FLCA. All significant intercompany transactions have been eliminated in consolidation.

### **A. Recently Issued or Adopted Accounting Pronouncements:**

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

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

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

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

- B. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.
- C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. Prior to 2010, this guidance was not implemented due to its immaterial effect on the Association's financial position or results of operation for any year presented. The guidance was implemented in 2010 for loans closed in 2010, resulting in the capitalization of \$1,265,635 in origination fees and \$1,464,747 in origination costs, primarily salaries and benefits related to the origination of loans. The net adjustment to yield on loans for 2010 was a decrease of \$199,112.

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 and allocated retained earnings. This investment is adjusted periodically based on the Association’s proportional utilization of the Bank compared to other district Associations. The Bank requires a minimum stock investment of 2 percent of the Association’s average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

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

- E. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, 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 statements of comprehensive income.
- F. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.
- G. Advance Conditional Payments: The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower’s access to such funds is restricted, the advance conditional payments are netted against the borrower’s related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors.
- H. Employee Benefit Plans: Employees of the Association participate in either the district defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1,



1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The “projected unit credit” actuarial method is used for financial reporting and funding purposes for the DB Plan.

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

The structure of the district’s DB Plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC Plan of \$175,291, \$148,404 and \$113,023 for the years ended December 31, 2012, 2011 and 2010, respectively. For the DB Plan, the Association recognized pension costs of \$505,242, \$1,284,190 and \$1,225,085 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 \$154,298, \$141,249 and \$127,832 for the years ended December 31, 2012, 2011 and 2010, respectively.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. The Association pays 100 percent of the medical insurance premium for a retiree with 30 years or more of service. For retiring employees with less than 30 years, a pro rata share of the premium is paid by the Association based on the years of service of the employee.

- 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. Deferred taxes are provided on the Association’s taxable income on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. 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.
- 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:

Loan Type	2012		2011		2010	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 510,052,015	85.7%	\$ 576,435,004	86.3%	\$ 659,196,119	85.1%
Production and intermediate term	27,022,303	4.5%	17,070,866	2.6%	5,634,652	0.7%
Agribusiness:						
Loans to cooperatives	6,319,347	1.1%	1,458,572	0.2%	4,774,599	0.6%
Processing and marketing	11,127,631	1.9%	17,738,907	2.7%	19,034,033	2.5%
Farm-related business	16,484,456	2.8%	29,464,286	4.4%	65,388,111	8.5%
Communication	7,503,917	1.3%	3,473,526	0.5%	4,296,260	0.6%
Energy	2,812,624	0.5%	2,875,372	0.4%	2,928,628	0.4%
Rural residential real estate	13,226,081	2.2%	12,360,578	1.9%	11,441,237	1.5%
Lease receivables	109,491	0.0%	6,597,531	1.0%	617,974	0.1%
Total	\$ 594,657,865	100.0%	\$ 667,474,642	100.0%	\$ 773,311,613	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	\$ 4,202,639	\$ 15,416,768	\$ 7,014,761	\$ -	\$ 11,217,400	\$ 15,416,768
Production and intermediate term	5,735,148	9,080,684	5,714,286	1,788,848	\$ 11,449,434	\$ 10,869,532
Agribusiness	8,897,913	-	15,418,105	-	\$ 24,316,018	\$ -
Communication	7,503,917	-	-	-	\$ 7,503,917	\$ -
Energy	2,812,624	-	-	-	\$ 2,812,624	\$ -
Water and waste water	-	-	-	-	\$ -	\$ -
Lease receivables	-	-	-	-	\$ -	\$ -
Mission related investments	-	-	-	-	\$ -	\$ -
Total	\$ 29,152,240	\$ 24,497,452	\$ 28,147,152	\$ 1,788,848	\$ 57,299,392	\$ 26,286,300

Geographic Distribution by loan volume as of December 31 follows:

Parish	2012	2011	2010
Catahoula	3.8%	4.6%	4.1%
Franklin	3.5%	4.0%	3.6%
Tangipahoa	3.4%	3.2%	4.2%
Saint Landry	3.2%	2.7%	2.6%
Concordia	3.2%	3.4%	3.0%
East Carroll	3.1%	3.9%	1.8%
Richland	2.9%	2.5%	3.0%
Madison	2.9%	2.5%	3.0%
Bossier	2.9%	2.0%	1.9%
Morehouse	2.8%	2.7%	2.4%
Rapides	2.7%	3.0%	1.9%
Avoyelles	2.5%	1.8%	1.6%
Acadia	2.5%	2.1%	1.3%
Tensas	2.5%	3.0%	2.9%
Jefferson Davis	2.1%	1.9%	1.7%
Ouachita	1.9%	1.7%	1.5%
Saint Tammany	1.8%	2.2%	2.1%
Natchitoches	1.8%	1.7%	1.6%
De Soto	1.7%	2.3%	2.0%
West Carroll	1.7%	1.4%	1.4%
Caddo	1.5%	1.8%	1.8%
Beauregard	1.4%	1.7%	1.6%
Saint James	1.4%	0.9%	0.4%
Livingston	1.3%	1.2%	1.1%
Pointe Coupee	1.2%	1.1%	0.5%
West Feliciana	1.2%	1.0%	1.0%
East Feliciana	1.1%	1.1%	1.0%
Union	1.0%	0.9%	0.7%
Saint Helena	1.0%	0.9%	1.0%
Vermilion	1.0%	0.8%	0.8%
Ascension	0.9%	1.2%	1.1%
Grant	0.9%	0.8%	0.8%
Washington	0.8%	0.8%	0.7%
Lincoln	0.8%	0.8%	0.6%
East Baton Rouge	0.7%	0.7%	0.7%
Allen	0.7%	0.7%	1.1%
Calcasieu	0.7%	0.5%	0.6%
Caldwell	0.6%	0.7%	0.7%
Winn	0.6%	0.5%	0.6%
Webster	0.6%	0.5%	0.5%
Iberville	0.6%	0.5%	0.5%
Evangeline	0.5%	0.4%	0.4%
Other States	20.0%	23.0%	29.5%
Other	6.6%	4.9%	4.7%
<b>Totals</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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.

Operation/Commodity	2012		2011		2010	
	Amount	%	Amount	%	Amount	%
Timber	\$ 242,267,250	41.0%	\$ 284,840,178	42.6%	\$ 352,732,820	45.6%
Cash grains	91,260,958	15.3%	89,512,939	13.4%	94,173,776	12.2%
Field crops, except cash grains	85,894,151	14.4%	109,217,524	16.4%	125,697,631	16.3%
Livestock, except dairy and poultry	66,814,963	11.2%	75,535,271	11.3%	91,324,035	11.8%
Food and kindred products	23,203,975	3.9%	16,486,493	2.5%	11,917,179	1.5%
Hunting, trapping and game propagation	13,733,254	2.3%	16,193,654	2.4%	11,525,137	1.5%
Animal specialties	12,167,696	2.0%	13,141,058	2.0%	14,417,010	1.9%
Rural home loans	11,217,480	1.9%	10,492,576	1.6%	9,869,627	1.3%
General farms, primarily crops	8,110,556	1.4%	6,893,317	1.0%	6,949,199	0.9%
Communication	7,503,917	1.3%	3,473,526	0.5%	4,296,260	0.6%
General farms, primarily livestock	5,277,421	0.9%	8,359,608	1.3%	11,397,039	1.5%
Poultry and eggs	3,740,282	0.6%	5,244,560	0.8%	5,022,407	0.6%
Wholesale trade - nondurable goods	3,130,959	0.5%	3,357,347	0.5%	3,979,889	0.5%
Dairy farms	3,036,087	0.5%	5,357,534	0.8%	6,892,609	0.9%
Public warehousing and storage	2,489,504	0.4%	4,522,865	0.7%	3,624,894	0.5%
Chemical and allied products	2,389,995	0.4%	2,729,479	0.4%	5,395,458	0.7%
Building materials, hardware and garden supplies	-	0.0%	293,062	0.0%	-	0.0%
Other	12,419,417	2.0%	11,823,651	1.8%	14,096,643	1.7%
Total	\$ 594,657,865	100.0%	\$ 667,474,642	100.0%	\$ 773,311,613	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:

	<b>December 31, 2012</b>	December 31, 2011	December 31, 2010
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$ 6,749,296	\$ 21,395,866	\$ 47,772,321
Agribusiness	8,345,344	15,844,733	31,130,293
Communication	651,117	263,376	360,415
Rural residential real estate	32,530	37,267	43,274
Total nonaccrual loans	<u>15,778,287</u>	<u>37,541,242</u>	<u>79,306,303</u>
<b>Accruing restructured loans:</b>			
Real estate mortgage	2,785,300	2,153,511	96,357
Agribusiness	297,917	298,146	4,982,265
Total accruing restructured loans	<u>3,083,217</u>	<u>2,451,657</u>	<u>5,078,622</u>
<b>Accruing loans 90 days or more past due:</b>			
Communication	<u>301,237</u>	<u>-</u>	<u>-</u>
Total accruing loans 90 days or more past due	<u>301,237</u>	<u>-</u>	<u>-</u>
Total nonperforming loans	19,162,741	39,992,899	84,384,925
Other property owned	7,096,725	6,635,494	11,493,488
Total nonperforming assets	<u>\$ 26,259,466</u>	<u>\$ 46,628,393</u>	<u>\$ 95,878,413</u>

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	95.60	%	93.20	%	89.60 %
OAEM	1.80		1.90		2.00
Substandard/doubtful	2.60		4.90		8.40
	<u>100.00</u>		<u>100.00</u>		<u>100.00</u>
Production and intermediate term					
Acceptable	100.00		100.00		100.00
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.00</u>		<u>100.00</u>		<u>100.00</u>
Loans to cooperatives					
Acceptable	100.00		100.00		63.40
OAEM	-		-		36.60
Substandard/doubtful	-		-		-
	<u>100.00</u>		<u>100.00</u>		<u>100.00</u>
Processing and marketing					
Acceptable	81.30		79.20		68.10
OAEM	18.70		17.40		22.10
Substandard/doubtful	-		3.40		9.80
	<u>100.00</u>		<u>100.00</u>		<u>100.00</u>
Farm-related business					
Acceptable	6.50		11.40		17.40
OAEM	10.60		6.30		10.70
Substandard/doubtful	82.90		82.30		71.90
	<u>100.00</u>		<u>100.00</u>		<u>100.00</u>
Communication					
Acceptable	91.30		92.40		91.60
OAEM	-		-		-
Substandard/doubtful	8.70		7.60		8.40
	<u>100.00</u>		<u>100.00</u>		<u>100.00</u>
Energy					
Acceptable	86.00		85.00		100.00
OAEM	-		-		-
Substandard/doubtful	14.00		15.00		-
	<u>100.00</u>		<u>100.00</u>		<u>100.00</u>
Rural residential real estate					
Acceptable	96.40		94.20		95.70
OAEM	0.00		5.40		3.70
Substandard/doubtful	3.60		0.40		0.60
	<u>100.00</u>		<u>100.00</u>		<u>100.00</u>
Lease receivables					
Acceptable	100.00		100.00		100.00
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.00</u>		<u>100.00</u>		<u>100.00</u>
Total Loans					
Acceptable	93.04		89.50		83.10
OAEM	2.21		2.50		3.40
Substandard/doubtful	4.75		8.00		13.50
	<u>100.00</u>	%	<u>100.00</u>	%	<u>100.00</u> %

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	\$ 381,863	\$ 4,983,941	\$ 5,365,804	\$ 509,439,008	\$ 514,804,812	\$ -
Production and intermediate-term	-	-	-	27,110,348	27,110,348	-
Loans to cooperatives	-	-	-	6,344,239	6,344,239	-
Processing and marketing	-	-	-	11,165,746	11,165,746	-
Farm-related business	-	5,232	5,232	16,511,410	16,516,642	-
Communication	-	301,236	301,236	7,203,202	7,504,438	301,236.00
Energy	-	-	-	2,812,856	2,812,856	-
Rural residential real estate	406,207	-	406,207	12,927,165	13,333,372	-
Lease receivables	-	-	-	114,112	114,112	-
Total	\$ 788,070	\$ 5,290,409	\$ 6,078,479	\$ 593,628,086	\$ 599,706,565	\$ 301,236.00

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	\$ 3,648,627	\$ 19,594,577	\$ 23,243,204	\$ 559,779,694	\$ 583,022,898	\$ -
Production and intermediate-term	-	-	-	17,152,247	17,152,247	-
Loans to cooperatives	-	-	-	1,462,885	1,462,885	-
Processing and marketing	-	-	-	17,797,798	17,797,798	-
Farm-related business	-	6,742,978	6,742,978	22,866,377	29,609,355	-
Communication	-	-	-	3,475,349	3,475,349	-
Energy	-	-	-	2,875,867	2,875,867	-
Rural residential real estate	-	-	-	12,430,930	12,430,930	-
Lease receivables	-	-	-	6,621,986	6,621,986	-
Total	\$ 3,648,627	\$ 26,337,555	\$ 29,986,182	\$ 644,463,133	\$ 674,449,315	\$ -

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 \$3,083,217, including \$0 classified as nonaccrual and \$3,083,217 classified as accrual, with specific allowance for loan losses of \$82,607. As of December 31, 2012, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were \$0.



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 \$2,414,300.

December 31, 2012:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 692,455	\$ 674,668
Total	<u>\$ 692,455</u>	<u>\$ 674,668</u>
December 31, 2011:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 1,757,388	\$ 2,715,257
Production and intermediate term	334,930	296,554
Total	<u>\$ 2,092,318</u>	<u>\$ 3,011,811</u>

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 \$0 for the year ending December 31, 2012.

The predominant form of concession granted for troubled debt restructuring includes rate reduction and term extension. 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.

There were no loans that met the accounting criteria as a troubled debt restructuring during the period from January 1, 2012 through December 31, 2012 and for which there was also a payment default during the same period.

Additional commitments to lend to borrowers whose loans have been modified in TDRs was \$0 million at December 31, 2012 and \$0 million at December 31, 2011.

Note: In addition to the disclosures specified above, it is important to ensure that the TDR disclosures are transparent and provide sufficient detail for a reader of the financial statements to understand the details of loan modifications. Additional details of the loan modification may include quantification of the different types of concessions granted and classification of TDRs by accrual or nonaccrual status.

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

	Loans Modified as TDRs	
	December 31, 2012	December 31, 2011
Troubled debt restructurings:		
Real estate mortgage	\$ 2,785,300	\$ 2,715,257
Farm-related business	\$ 297,917	\$ 296,553
Total	<u>\$ 3,083,217</u>	<u>\$ 3,011,810</u>

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

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2012	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 1,381,758	\$ 1,384,766	\$ 807,607	\$ 1,391,274	\$ 15,125
Farm-related business	8,340,113	8,424,589	3,009,790	8,344,188	-
Communication	651,117	651,117	329,846	591,227	(791)
Total	<u>\$ 10,372,988</u>	<u>\$ 10,460,472</u>	<u>\$ 4,147,243</u>	<u>\$ 10,326,689</u>	<u>\$ 14,334</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 8,100,902	\$ 8,158,613	\$ -	\$ 8,640,238	\$ 133,937
Processing and marketing	297,885	346,029	-	298,927	10,756
Farm-related business	5,232	342,585	-	3,181,574	-
Communication	301,205	301,205	-	272,660	8,116
Rural residential real estate	32,530	32,530	-	33,925	-
Total	<u>\$ 8,737,754</u>	<u>\$ 9,180,962</u>	<u>\$ -</u>	<u>\$ 12,427,324</u>	<u>\$ 152,809</u>
Total impaired loans:					
Real estate mortgage	\$ 9,482,660	\$ 9,543,379	\$ 807,607	\$ 10,031,512	\$ 149,062
Processing and marketing	297,885	346,029	-	298,927	10,756
Farm-related business	8,345,345	8,767,174	3,009,790	11,525,762	-
Communication	952,322	952,322	329,846	863,887	7,325
Rural residential real estate	32,530	32,530	-	33,925	-
Total	<u>\$ 19,110,742</u>	<u>\$ 19,641,434</u>	<u>\$ 4,147,243</u>	<u>\$ 22,754,013</u>	<u>\$ 167,143</u>

<sup>a</sup> Unpaid principal balance represents the recorded principal balance of the loan.

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	\$ 881,948	\$ 2,817,230	\$ 3,133,698
Less: interest income recognized	(177,295)	(374,650)	(58,831)
Foregone interest income	<u>\$ 704,653</u>	<u>\$ 2,442,580</u>	<u>\$ 3,074,867</u>

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Lease Receivable	Total
<b>Allowance for Credit Losses:</b>								
Balance at								
December 31, 2011	\$ 4,284,145	\$ 217,404	\$ 5,444,170	\$ 291,702	\$ 49,830	\$ 39,550	\$ 21,112	\$ 10,347,913
Charge-offs	(601,518)	(1,385,671)	-	-	-	-	-	(1,987,189)
Recoveries	485,345	19,955	-	-	-	-	-	505,300
Provision for loan losses	-	1,025,999	-	-	-	-	-	1,025,999
Balance at								
December 31, 2012	<u>\$ 4,167,972</u>	<u>\$ (122,313)</u>	<u>\$ 5,444,170</u>	<u>\$ 291,702</u>	<u>\$ 49,830</u>	<u>\$ 39,550</u>	<u>\$ 21,112</u>	<u>\$ 9,892,023</u>
Ending Balance: individually evaluated for impairment	\$ -	\$ -	\$ 4,884,953	\$ 329,846	\$ -	\$ -	\$ -	\$ 5,214,799
Ending Balance: collectively evaluated for impairment	<u>\$ 4,167,972</u>	<u>\$ (122,313)</u>	<u>\$ 559,217</u>	<u>\$ (38,144)</u>	<u>\$ 49,830</u>	<u>\$ 39,550</u>	<u>\$ 21,112</u>	<u>\$ 4,677,224</u>
<b>Recorded Investment in Loans Outstanding:</b>								
Ending Balance at								
December 31, 2012	<u>\$ 514,804,812</u>	<u>\$ 27,110,348</u>	<u>\$34,026,627</u>	<u>\$ 7,504,438</u>	<u>\$ 2,812,856</u>	<u>\$13,333,372</u>	<u>\$ 114,112</u>	<u>\$ 599,706,565</u>
Ending balance for loans individually evaluated for impairment	<u>\$ 15,853,494</u>	<u>\$ 297,885</u>	<u>\$ 1,031,381</u>	<u>\$ 952,322</u>	<u>\$ 943,130</u>	<u>\$ 32,530</u>	<u>\$ -</u>	<u>\$ 19,110,742</u>
Ending balance for loans collectively evaluated for impairment	<u>\$ 498,951,318</u>	<u>\$ 26,812,463</u>	<u>\$32,995,246</u>	<u>\$ 6,552,116</u>	<u>\$ 1,869,726</u>	<u>\$13,300,842</u>	<u>\$ 114,112</u>	<u>\$ 580,595,823</u>

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

	2012	2011	2010
Beginning balance	\$ 10,347,913	\$ 23,481,716	\$ 8,418,615
Provision for loan losses	1,025,999	15,825,220	26,699,705
Loans charged off	(1,987,189)	(29,187,710)	(12,253,414)
Recoveries	505,300	228,687	616,810
Allowance for loan losses	<u>\$ 9,892,023</u>	<u>\$ 10,347,913</u>	<u>\$ 23,481,716</u>

#### 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 in the accompanying consolidated balance sheet. Estimating the fair value of the Association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The Association owns 5.01 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	\$ 648,250	\$ 627,272	\$ 627,272
Building and improvements	2,474,533	2,485,990	2,497,115
Furniture and equipment	708,270	698,060	670,348
Computer equipment and software	220,395	185,905	176,282
Automobiles	875,186	732,875	799,514
Construction in progress	-	-	10,850
	<u>4,926,635</u>	<u>4,730,102</u>	<u>4,781,381</u>
Accumulated depreciation	<u>(1,790,640)</u>	<u>(1,709,652)</u>	<u>(1,538,146)</u>
Total	<u>\$ 3,135,995</u>	<u>\$ 3,020,450</u>	<u>\$ 3,243,235</u>

The Association leases office space in Alexandria, Tallulah, Crowley, Arcadia, Monroe, Pineville, and Port Allen, Louisiana and Austin, Tx. Lease expense was \$198,090, \$151,100 and \$122,874 for 2012, 2011 and 2010, respectively. Minimum annual lease payments for the next five years are as follows:

	Operating
2013	\$116,757
2014	\$81,897
2015	\$60,142
2016	\$34,557
2017	\$2,879
Total	<u>\$296,232</u>

**NOTE 6 – OTHER PROPERTY OWNED, NET:**

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

	2012	2011	2010
Gain (loss) on sale, net	\$ 863,994	\$ (540,107)	\$ 1,599
Operating income (expense), net	<u>(88,602)</u>	<u>(364,550)</u>	<u>(307,490)</u>
Net gain (loss) on other property owned	<u>\$ 775,392</u>	<u>\$ (904,657)</u>	<u>\$ (305,891)</u>

At December 31, 2012, other property owned consisted of timber tracts (\$2,426,770), farm acreages (\$3,938,453), and equity stock (\$731,502).

**NOTE 7 – OTHER ASSETS AND OTHER LIABILITIES:**

Other assets comprised the following at December 31:

	2012	2011	2010
Accounts receivable	\$ 537,053	\$ 349,244	\$ 315,810
Other	<u>2,640</u>	<u>2,120</u>	<u>102</u>
Total	<u>\$ 539,693</u>	<u>\$ 351,364</u>	<u>\$ 315,912</u>

Other liabilities comprised the following at December 31:

Accumulated postretirement benefit obligation	\$ 2,761,310	\$ 2,362,720	\$ 1,937,142
Insurance premium payable	267,826	420,667	369,623
Accounts payable	38,156	52,141	23,023
Income taxes payable	72,167	63,095	-
Other	<u>291,627</u>	<u>274,404</u>	<u>254,055</u>
Total	<u>\$ 3,431,086</u>	<u>\$ 3,173,027</u>	<u>\$ 2,583,843</u>

## **NOTE 8 — NOTE PAYABLE TO THE BANK:**

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

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2012, 2011 and 2010, was \$489,740,488 at 1.82 percent, \$575,155,017 at 2.30 percent and \$665,725,115 at 2.50 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 \$584,646,873, as defined by the general financing agreement.

Beginning in the third quarter of 2009 and continuing through September 30, 2012, with the exception of the months of July and August 2010, the Association violated the earnings covenant as defined in the agreement which requires a rolling one-year average return on assets of 1.00 percent or greater. This default was derived from substantial provision for loan loss expense incurred during 2009, 2010, and 2011, as well as substantial provision for other property owned during 2011. This expense resulted in a return on assets below the 1.00 percent threshold. The Association regained GFA technical compliance on October 1, 2012 in relation to the rolling one-year average return on assets metric. Beginning in the third quarter of 2009 and continuing through December 21, 2010, the Association fell out of compliance with the adverse assets to risk funds ratio requirements as defined in the agreement. The Bank issued a limited waiver of these covenant defaults through 2011, subject to the Association taking certain actions to correct the deficiencies. Remedies/corrective actions by the Association to these defaults include meeting certain profitability and credit quality metrics as defined by the Bank in the waiver, as well as additional Bank review over large credit originations. The Association regained GFA technical compliance during the second quarter of 2011 in relation to the credit quality metric, adverse assets to risk funds.

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

## **NOTE 9 — MEMBERS' EQUITY:**

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

The Association maintains an unallocated surplus account. The minimum amount for this account shall be prescribed by the Farm Credit Act and the FCA regulations. The Association does not have an allocated surplus account. Rather than earnings held therein and allocated to borrowers on a patronage basis, the Association funds 100 percent of any declared patronage through cash.

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) and participation certificates (for farm-related business) 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 10 percent of the loan amount.

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

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

All borrower stock is at risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A 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. No patronage was declared or paid in 2012, 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. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. As of December 31, 2012, the Association is not prohibited from retiring stock or distributing earnings. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2012, were 17.4 percent, 17.0 percent and 17.0 percent, respectively.

The Association was placed under special supervision by the Farm Credit Administration (FCA) as of December 13, 2007 and remains under special supervision as of the date of this report. This status was derived primarily from involvement in the capital markets transactions with collateral primarily in Florida and Georgia, and outside the Association's chartered operating area. These transactions caused significant operating losses and credit deterioration. The board of directors has committed to overseeing the corrective actions needed to become compliant with the conditions set forth in FCA's latest supervisory letter.

As of March 15, 2011, the Association entered into a written agreement (Agreement) with our regulator, the FCA. Per the Agreement, the Association is subject to various operational, financial, compliance and reporting requirements. The conditions which led to this Agreement were unsafe and unsound conditions, including excessive portfolio risk and asset quality weaknesses which stemmed from weaknesses in the credit underwriting function which became apparent with the downturn in the overall economy. The identification of these matters concluded that they result in violations of certain FCA regulations. The weaknesses as asserted by FCA are largely related to purchased loans and participations with the underlying collateral predominantly located in Florida. The board is committed to addressing these matters and instituted specific actions beginning in January 2010, including replacing certain members of management, strengthening controls over problem loan identification, and generally ensuring that all identified weaknesses are both in the process of remediation (if not already remediated) and otherwise accounted for via the allowance for loan losses. The board is also complying with the requirements of the March 15, 2011 Agreement with the FCA, which reiterated the FCA findings identified and communicated throughout 2010, and created new reporting requirements to the FCA. The board will continue to monitor the remediation of the underlying causes of the conditions which led to the need for the Agreement with the FCA.

The Association has a capital adequacy plan (Plan) that includes capital targets necessary to achieve the Association's capital adequacy goals as well as the minimum permanent capital standards. In addition to factors that must be considered in meeting the minimum standards, the board of directors considered the following factors in developing the Plan:

- Capability of management
- Quality of operating policies, procedures and internal controls
- Quality and quantity of earnings
- Asset quality
- Sufficiency of liquid funds
- Needs of the ACA customer base
- Other operating risks

The Association's specific plan includes a minimum permanent capital ratio of 15.0 percent, with a target permanent capital ratio of 18.0 percent. Also included are total surplus ratio and core surplus ratio targets of 17.0 percent and 17.0 percent, respectively. The Association expects to provide the majority of its present and future capital needs through the issuance of at-risk stock and the generation and retention of earnings. If necessary to attain the desired capital levels the Association may employ strategies such as utilizing Farmer Mac guarantee programs to lower risk ratings, reducing earning assets through sale of loan participations, utilizing FSA loan guarantees, suspending payment of patronage, and/or increasing capitalization requirements. If capital standards are exceeded, the board of directors may retire or redeem certain classes of equities. The board of directors may obligate the Association to distribute its earnings in the form of patronage to its members.

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 B stock and participation certificates outstanding at a par value of \$5 per share:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Class A stock	-	-	-
Class B stock	<b>541,364</b>	576,647	595,709
Participation certificates	<b>29,419</b>	28,425	26,548
Total	<b>570,783</b>	605,072	622,257

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

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Nonpension post retirement benefits	<b>\$ (689,860)</b>	\$ (401,894)	\$ (44,159)
Total	<b>\$ (689,860)</b>	\$ (401,894)	\$ (44,159)

## **NOTE 10 — INCOME TAXES:**

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

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Current:			
Federal	<b>\$ 99,398</b>	\$ 65,808	\$ -
State	-	-	-
Total current	<b>99,398</b>	65,808	-
Deferred:			
Federal	<b>(16,661)</b>	(16,661)	-
State	-	-	-
Total deferred	<b>(16,661)</b>	(16,661)	-
Total provision for (benefit from) income taxes	<b>\$ 82,737</b>	\$ 49,147	\$ -

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

	2012	2011	2010
Federal tax at statutory rate	\$ 3,138,826	\$ (3,122,145)	\$ (2,105,620)
State tax, net	18,001	(367,311)	-
Effect of nontaxable FLCA subsidiary	(3,048,253)	3,555,264	2,101,372
Change in valuation allowance	-	-	4,248
Other	(25,837)	(16,661)	-
Provision for (benefit from) income taxes	\$ 82,737	\$ 49,147	\$ -

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

	2012	2011	2010
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ -	\$ -	\$ 37
Loss carryforwards	-	-	4,210
Other	16,661	16,661	-
Gross deferred tax assets	16,661	16,661	4,247
Deferred tax asset valuation allowance	-	-	(4,247)
Net deferred tax asset (liability)	\$ 16,661	\$ 16,661	\$ -

The Association recorded valuation allowances of \$0, \$0 and \$4,247 during 2012, 2011 and 2010, respectively. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

#### NOTE 11 — EMPLOYEE BENEFIT PLANS:

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

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



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

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

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Funded status of plan	<b>65.0 %</b>	64.9 %	71.6 %
Association's contribution	<b>\$ 505,242</b>	\$ 1,284,190	\$ 1,225,085
Percentage of association's contribution to total contributions	<b>3.2 %</b>	5.6 %	6.1 %

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

**Other Postretirement Benefits:** In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. The Association pays 100 percent of the medical insurance premium for a retiree with 30 years or more of service. For retiring employees with less than 30 years, a pro rata share of the premium is paid by the Association based on the years of service of the employee.

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

#### Retiree Welfare Benefit Plans

<b>Disclosure Information Related to Retirement Benefits</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Change in Accumulated Postretirement Benefit Obligation</b>			
Accumulated postretirement benefit obligation, beginning of year	\$ 2,362,720	\$ 1,937,142	\$ 1,543,343
Service cost	65,622	60,355	45,939
Interest cost	119,046	109,399	92,409
Plan participants' contributions	30,158	19,901	19,986
Plan amendments	-	-	-
Special termination benefits	-	-	-
Actuarial loss (gain)	272,906	314,501	296,541
Benefits paid	(89,142)	(78,578)	(61,076)
Accumulated postretirement benefit obligation, end of year	\$ 2,761,310	\$ 2,362,720	\$ 1,937,142
<b>Change in Plan Assets</b>			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Company contributions	58,984	58,677	41,090
Plan participants' contributions	30,158	19,901	19,986
Benefits paid	(89,142)	(78,578)	(61,076)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (2,761,310)	\$ (2,362,720)	\$ (1,937,142)
<b>Amounts Recognized in Statement of Financial Position</b>			
Other liabilities	\$ (2,761,310)	\$ (2,362,720)	\$ -
<b>Amounts Recognized in Accumulated Other Comprehensive Income</b>			
Net actuarial loss (gain)	\$ 986,709	\$ 756,516	\$ 465,156
Prior service cost (credit)	(296,848)	(354,622)	(420,997)
Net transition obligation (asset)	-	-	-
Total	\$ 689,861	\$ 401,894	\$ 44,159
<b>Weighted-Average Assumptions Used to Determine Obligations at Year End</b>			
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%/6.50%	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

<b>Total Cost</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Service cost	\$ 65,622	\$ 60,355	\$ 60,355
Interest cost	119,046	109,399	109,399
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(57,774)	(66,375)	(66,375)
Unrecognized net loss (gain)	42,713	23,141	23,141
Net postretirement benefit cost	\$ 169,607	\$ 126,520	\$ 126,520
Accounting for settlements/curtailments/special termination benefits	\$ -	\$ -	\$ -
<b>Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income</b>			
Net actuarial loss (gain)	\$ 272,906	\$ 314,501	\$ 296,542
Amortization of net actuarial loss (gain)	(42,714)	(23,141)	(1,246)
Prior service cost (credit)	-	-	-
Amortization of prior service cost	57,774	66,375	68,084
Recognition of prior service cost	-	-	-
Amortization of transition liability (asset)	-	-	-
Total recognized in other comprehensive income	\$ 287,966	\$ 357,735	\$ 363,380
<b>AOCI Amounts Expected to be Amortized Into Expense in 2013</b>			
Unrecognized net transition obligation (asset)	\$ -	\$ -	\$ -
Unrecognized prior service cost	(52,738)	(57,774)	(66,375)
Unrecognized net loss (gain)	62,352	42,713	23,141
Total	\$ 9,614	\$ (15,061)	\$ (43,234)
<b>Weighted-Average Assumptions Used to Determine Benefit Cost</b>			
Measurement date	12/31/2012	12/31/2011	12/31/2010
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%	7.50%/6.50%	8%/7%
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
<b>Expected Future Cash Flows</b>			
<b>Expected Benefit Payments (net of employee contributions)</b>			
Fiscal 2013	\$ 75,028	\$ -	\$ -
Fiscal 2014	77,313	-	-
Fiscal 2015	80,920	-	-
Fiscal 2016	95,368	-	-
Fiscal 2017	112,602	-	-
Fiscal 2018–2022	697,316	-	-
<b>Expected Contributions</b>			
Fiscal 2013	\$ 75,028	\$ -	\$ -

**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 \$3,381,573, \$3,290,552 and \$4,983,749 at December 31, 2012, 2011 and 2010, respectively. During 2012, \$842,040 of new loans were made, and repayments totaled \$1,178,690. 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 \$125,515, \$207,636 and \$415,003 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 \$82,121, which are included in purchased services on the statements of comprehensive income.

The Association received patronage payments from the Bank totaling \$2,723,149, \$3,203,113 and \$4,014,998 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.

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

<b>December 31, 2012</b>	<b>Fair Value Measurement Using</b>			<b>Total Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Assets:				
Loans	\$ -	\$ -	\$ 6,216,034	\$ 6,216,034
Other property owned	-	-	7,096,725	7,096,725
<b>December 31, 2011</b>	<b>Fair Value Measurement Using</b>			<b>Total Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Assets:				
Loans	\$ -	\$ -	\$ 8,953,112	\$ 8,953,112
Other property owned	-	-	6,635,494	6,635,494
<b>December 31, 2010</b>	<b>Fair Value Measurement Using</b>			<b>Total Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Assets:				
Loans	\$ -	\$ -	\$ 38,615,122	\$ 38,615,122
Other property owned	-	-	11,493,488	11,493,488

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 follows:

	December 31, 2012					December 31, 2011		December 31, 2010	
	Fair Value Measurement Using								
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount	Total Fair Value	Total Carrying Amount	Total Fair Value
Assets:									
Cash	\$ 1,056,223	\$ 1,056,223	\$ -	\$ -	\$ 1,056,223	\$ 124,536	\$ 124,536	\$ 3,204,405	\$ 3,204,405
Net loans	578,549,808	-	-	576,321,681	\$ 576,321,681	648,173,617	672,737,869	711,214,775	720,494,190
Total Assets	<u>\$ 579,606,031</u>	<u>\$ 1,056,223</u>	<u>\$ -</u>	<u>\$ 576,321,681</u>	<u>\$ 577,377,904</u>	<u>\$ 648,298,153</u>	<u>\$ 672,862,405</u>	<u>\$ 714,419,180</u>	<u>\$ 723,698,595</u>
Liabilities:									
Note payable to the bank	\$ 489,740,488			\$ 487,916,450	\$ 487,916,450	\$ 575,155,017	\$ 572,198,377	\$ 665,725,115	\$ 653,498,700
Total Liabilities	<u>\$ 489,740,488</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 487,916,450</u>	<u>\$ 487,916,450</u>	<u>\$ 575,155,017</u>	<u>\$ 572,198,377</u>	<u>\$ 665,725,115</u>	<u>\$ 653,498,700</u>

### Valuation Techniques

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

#### Loans

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

#### Other Property Owned

Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

### NOTE 14 — COMMITMENTS AND CONTINGENCIES:

In addition to those commitments and contingencies discussed in Note 2, “Summary of Significant Accounting Policies,” the Association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2012, \$46,360,391 of commitments and \$537,364 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:**

As of March 15, 2011 the Association entered into a written agreement (Agreement) with the regulator, the FCA. Per the Agreement, the Association is subject to various operational, financial, compliance and reporting requirements. The conditions which led to this Agreement were unsafe and unsound conditions including excessive portfolio risk and asset quality weaknesses which stemmed from weaknesses in the credit underwriting function which became more apparent with the downturn in the overall economy. The identification of these matters concluded that they result in violations of certain FCA regulations. The weaknesses as asserted by FCA are largely related to purchased loans and participations with the underlying collateral predominantly located in Florida. The board is committed to addressing these matters and instituted specific actions throughout 2010 and 2011, including replacing certain members of management, strengthening controls over problem loan identification and generally ensuring that all identified weaknesses are both in the process of remediation (if not already remediated) and otherwise accounted for via the allowance for loan losses.

The board assertively directed management to identify the full extent of the problems and to conduct immediate remedial actions over the course of 2010 and 2011. The actions taken to date by the board include:

- Strengthening the competencies of Association management and engaging external expertise where necessary;
- Attending relevant board training sessions;
- Increasing the allowance for loan losses to address the incurred credit losses;
- Overseeing the implementation of stronger controls related to credit decisions and administration;
- Monitoring the status and progress of management's corrective action plans, which cover the range of requirements identified above;
- Ensuring that the remedial actions taken to date consider all recommendations made by the FCA;
- Implementing procedures to comply with FCA requests, including communications and data requirements mandated by the agreements with the FCA; and
- Choosing not to declare a patronage refund for 2010 or 2011 to preserve capital in respect of the identified potential portfolio credit weaknesses.

Although the Association's management and board initiated and monitored corrective actions, the excessive portfolio risk and material weaknesses in the Association's financial condition and performance were exacerbated by the stresses caused by the general weakening of the U.S. economy throughout 2010. The resulting impact of the economic environment has created a pronounced and significant devaluation in real estate values in certain segments of the Association's portfolio, which include real estate valuations for lands held in transitions in Florida and Georgia. The Association has adequately provided for the inherent and probable losses associated with these exposures at December 31, 2012. The board will continue to identify necessary actions to address the Association's financial weaknesses, and is committed to complying with the requirements of all agreements with the FCA.

**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	\$ 4,470	\$ 4,394	\$ 4,302	\$ 4,342	\$ 17,508
(Provision for) reversal of loan losses	-	(422)	(604)	-	(1,026)
Noninterest income (expense), net	(1,939)	(1,873)	(1,821)	(1,700)	(7,333)
Net income	\$ 2,531	\$ 2,099	\$ 1,877	\$ 2,642	\$ 9,149

2011					
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,734	\$ 4,728	\$ 4,859	\$ 4,608	\$ 18,929
(Provision for) reversal of loan losses	(450)	(4,170)	(10,656)	(549)	(15,825)
Noninterest income (expense), net	(1,812)	(7,088)	(2,660)	(776)	(12,336)
Net income	\$ 2,472	\$ (6,530)	\$ (8,457)	\$ 3,283	\$ (9,232)

2010					
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,858	\$ 4,649	\$ 4,726	\$ 4,257	\$ 18,490
(Provision for) reversal of loan losses	(750)	(1,401)	(14,441)	(10,108)	(26,700)
Noninterest income (expense), net	(1,871)	(1,198)	(2,514)	(246)	(5,829)
Net income	\$ 2,237	\$ 2,050	\$ (12,229)	\$ (6,097)	\$ (14,039)

**NOTE 17 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through March 15, 2013, which is the date the financial statements were issued or available to be issued. There are no subsequent events to report.

The board elected to pay a patronage to stockholders for 2012. Since the Association is operating under a written agreement with our regulator, formal regulatory approval was needed. On January 14, 2013, the Association obtained conditional approval from our regulator to pay a \$1.7 million patronage to stockholders. The Association anticipates that the conditions will be met and that a patronage will be paid. The board elected to not pay a patronage to stockholders for 2010 and 2011 due to the significant credit losses experienced by the Association.

Jesse A. Craft ceased to act as the Chief Executive Officer of the Association effective March 7, 2013, and will be leaving the employment of the Association as of March 31, 2013.

## **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 Louisiana Land Bank, ACA (Association) serves its 64-parish territory through its main administrative and lending office at 2413 Tower Drive, Monroe, Louisiana 71201. Additionally, there are 10 branch lending offices located throughout the territory. The Association owns the office buildings in Hammond, Monroe, Opelousas and Winnsboro, free of debt. The Association leases the office buildings in Arcadia, Alexandria, Crowley, Monroe, Pineville, Port Allen and Tallulah, Louisiana and Austin, Texas.

#### **LEGAL PROCEEDINGS**

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

#### **DESCRIPTION OF CAPITAL STRUCTURE**

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

#### **DESCRIPTION OF LIABILITIES**

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 8 to the consolidated financial statements, “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](mailto:fcb@farmcreditbank.com). The district’s annual and quarterly stockholder reports are also available on its website at [www.farmcreditbank.com](http://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 Louisiana Land Bank, ACA, 2413 Tower Drive, Monroe,



La. 71201 or calling 318-387-7535. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing [debbie.bond@louisianalandbank.com](mailto:debbie.bond@louisianalandbank.com). The Association's annual stockholder report is available on its website at [www.louisianalandbank.com](http://www.louisianalandbank.com) 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

## SELECTED FINANCIAL DATA

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

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

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

## DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
R. Ernest Girouard, Jr.	Chairman	1990	2015
Bobby E. Stanley	Board Elected Director, Vice Chairman	1991	2015
Henry A. Capdeboscq, Jr.	Director	2008	2014
John E. Carroll*	Director	2007	2013
Grady E. Coburn	Director	2012	2013
John L. "Jack" Dailey	Director	2012	2013
John F. Earles	Director	2010	2013
Gertrude L. Hawkins	Director	2002	2014
Cullen M. Kovac	Director	2012	2015
J. Mark Morgan	Director	2011	2014
Edward W. Patrick, Jr.	Director	1994	2015
Charles A. Vandersteen	Board Elected Director	2007	2013
Daniel L. Webb*	Director	2002	2014
Jesse A. Craft	CEO	2010	-
F. Stephen Austin	Senior VP/CCO	2011	-
Christopher E. Bentley	Senior VP/CFO	2008	-
Jack C. Dollins, Jr.	Senior VP of Capital Market & Special Assets	2008	-
Gary R. Evans	Senior VP/Chief Appraiser	2012	-
Tyra J. Knight	VP of Human Resources	2012	-
David A. Ogletree	Senior VP of Retail Lending	1987	-
Brian D. Turner	Director of Compliance, Controls & Risk Mgmt.	2012	-
R. Dianne Womack	Vice President of Operations & Administration/Corporate Secretary	1985	-

\*Resigned from the board of directors during 2012.

The following biographies of the board of directors represent the past five years' business experience, principal occupation and/or employment for each individual.

**R. Ernest Girouard, Jr.** is employed by the LSU AgCenter, where he is the state coordinator of the Louisiana Master Farmer Program, which has been his primary occupation for the past five years. Mr. Girouard is also a landowner with rice and crawfish

commodities. He is the chairman of the Vermilion Soil and Water Conservation District, a local state entity under the Louisiana Department of Agriculture and Forestry, Office of Soil and Water. He is second vice president of the Louisiana Association of Conservation Districts, a state association of conservation districts. He also is a member of the Louisiana Water Management Advisory Task Force and the Louisiana Agriculture and Forestry Nutrient Management Task Force.

**Bobby E. Stanley** is a business accountant, which has been his primary occupation for the past five years. He serves on the board of directors of a local community bank. Mr. Stanley also serves as treasurer/administrator for the 18th Judicial District Court and treasurer for the West Baton Rouge Parish Fire Protection Sub Districts #4, #5 and #6.

**Henry A. Capdeboscq, Jr.** is a dairy and beef cattle operator, which has been his primary occupation for the past five years. Mr. Capdeboscq serves on the Tangipahoa Parish Cattlemen's Association board, an organization serving the beef industry and is a board member on the Louisiana Brand Commission. Mr. Capdeboscq is president of Louisiana Milk Producers.

**Grady E. Coburn** is the owner and president of Pest Management Enterprises, LLC, which has been his primary occupation throughout his professional career. Mr. Coburn has worked as an agricultural consultant and contract researcher for nearly 40 years. He serves on the Louisiana Department of Agriculture Pesticide Advisory Commission and the Boll Weevil Eradication Board.

**John L. "Jack" Dailey** is an owner and operator of Boeuf Prairie Farm which produces cotton, corn and cattle, and this has been his primary operation for the past five years. Mr. Dailey serves as chairman of the Franklin Parish Fire Protection District 2 and serves as vice chairman of the Louisiana Boll Weevil Eradication Commission. He also serves as a producer delegate to the National Cotton Council of America.

**John F. Earles** owns and operates Triple E Farms, which has been his primary operation for the past five years. Mr. Earles is president of Townsend Brothers Farms and Triple E Land Grading. He is a board member of Goldust Investment, a timber organization, Ville Platte Rice Dryer, a commercial rice dryer organization, Earles, Inc., a land and rice dryer organization as well as Triple E Land Grading, a precision land leveling and development organization.

**Gertrude L. Hawkins** farms approximately 6,000 acres of cotton, corn, soybeans, sugarcane and wheat with her brother and has been engaged in this operation for the past five years. Mrs. Hawkins is a research associate for the LSU AgCenter Sugar Research Station. She manages the Edgar LaCour Land Company which is a family-owned business consisting of timber and row crops. She is a board member of the Pointe Coupee Parish Farm Bureau.

**Cullen M. Kovac** is an owner/operator in Kovac Cattle, LLC, which is a cow/calf and stocker operation, which has been his primary operation for the past five years. Mr. Kovac serves on the boards of West Carroll Parish Farm Bureau, Pioneer Farmers Co-op, an agricultural co-op, and Fiske Union Water System. He also serves as chairman of the West Carroll Soil and Water Conservation District board.

**Mark Morgan** has been employed by Atco Investment Company, a privately held company since 1974. Over the past 15 years, Mr. Morgan has been integrally involved in the investment activities and financial decisions of Atco. For the past 25 years, Mr. Morgan has served as the general manager of Atco-owned Bayou Camitte Plantation. Mr. Morgan serves on the board of directors of the Texas Forestry Association, an organization serving the timber industry, and is managing partner of Louisiana Timber Partners, LLC, a timber land investment organization. Mr. Morgan is the managing partner of Morgan Brothers Land Co. and Morgan Timber Partners, LLC, both family-owned land and timber investment companies.

**Edward W. Patrick, Jr.** is a self-employed farmer with 2,600 acres of cotton, rice, corn and soybeans, which has been his primary operation for the past five years. Mr. Patrick is part owner and operator of Joe's Bayou Gin and serves as president and director of Joe's Bayou Farm Supply. Mr. Patrick is a director on the East Carroll Farm Bureau Board.

**Charles "Buck" A. Vandersteen** is the executive director of the Louisiana Forestry Association, which has been his primary occupation for the past five years. He is a board member of the Poland Community Water Association, a community service organization. Mr. Vandersteen also serves on the Federal Research Advisory Committee for Forestry, which is a federally-appointed position with the U.S. Department of Agriculture. He also serves on the Council for Agricultural Research Extension and Teaching for Land-Grant University, which is an appointed position by the chancellor of the LSU Agricultural Center. Mr. Vandersteen is a Fellow in the Society of American Foresters.

**Jesse A. Craft** serves as **Chief Executive Officer** for Louisiana Land Bank. Mr. Craft was originally hired as chief credit officer in 2010 and was elected as the CEO in early 2011. He has over 28 years of experience in commercial banking, government service and retail agricultural credit administration. Prior to his employment with the Association, he served for over four years as vice-president/relationship manager for a regional commercial bank. Mr. Craft earned a BS degree in business administration from the University of Southern Mississippi and completed the graduate school of banking at Louisiana State University.

**F. Stephen Austin** was hired as the **Senior Vice-President/Chief Credit Officer** for the Association in March 2011. Mr. Austin earned a BS degree in agriculture with a minor in marketing from Southeast Missouri State University. He also completed the Graduate School of Banking at Louisiana State University. His work experience includes over 17 years in lending and branch manager positions with Farm Credit System entities in Illinois and Missouri. Prior to his tenure with the Association, he served for over eight years as the Senior Lender of a regional five-bank holding company in southeast Missouri. Mr. Austin also serves as chairman of the Association's Loan Committee.

**Christopher E. Bentley, Senior Vice-President/Chief Financial Officer**, joined the Association in July 2008. He is a graduate of Louisiana Tech University with a bachelor of science degree in finance. Mr. Bentley has previously served as senior accountant, controller and director of compliance, controls and risk management for the Association. Prior to his employment with the Association, Mr. Bentley spent over four years working for a regional commercial bank, primarily with the commercial real estate lending group.

**Jack C. Dollins, Jr.** joined the Association in February 2008 as **Senior Vice-President for Capital Markets and Special Assets**. Mr. Dollins has a BBA in accounting from Northeast Louisiana University and also completed the Graduate School of Banking at Louisiana State University. He has over 28 years of banking experience which has included positions such as commercial lender, portfolio manager, and special assets manager for a large commercial bank in the Monroe area.

**Gary R. Evans** joined the Association as **Senior Vice-President/Chief Appraiser** in 2012. Mr. Evans has over 29 years of appraisal/appraisal review experience. Mr. Evans retired from the USDA-Farm Service Agency of Louisiana in 2012. He served as the Regional Review Appraiser for the Agency. Mr. Evans has a BS degree in agricultural business from Louisiana Tech University and is a Louisiana certified general real estate appraiser.

**Tyra J. Knight** was hired as the **Vice-President of Human Resources** for the Association in May 2012. Prior to joining the Association, she served over five years as the director of human resources for a property management company headquartered in Monroe, Louisiana and several years as human resources administrator for a large national communications corporation. Mrs. Knight received her Professional in Human Resources designation (PHR) in May 2010. She also attended the University of Louisiana at Monroe and Lee College in Cleveland, Tennessee.

**David A. Ogletree** has been with the Association since 1987 and currently serves as **Senior Vice-President of Retail Lending**. He has a BS degree in animal science and agricultural business from Louisiana Tech University. Mr. Ogletree serves as a director on the Board of the Ark-La-Tex Agricultural Council which is a nonprofit organization that promotes agriculture in northwest Louisiana.

**Brian D. Turner** of West Monroe, Louisiana, joined Louisiana Land Bank in January 2012 as **Director of Compliance, Controls & Risk Management**. Mr. Turner has over 18 years' banking experience in credit analysis, commercial lending and risk management. Prior to joining the Association, Mr. Turner was employed for a local commercial bank for over 12 years and served as senior vice president/credit risk management and senior vice president of commercial lending, respectively. He received degrees from the University of Louisiana – Monroe (B.A., legal studies), Louisiana Tech (M.B.A., finance), and completed the graduate school of banking at Louisiana State University. Mr. Turner also serves as chairman of the Association's Asset-Liability Committee.

**R. Dianne Womack, Vice-President of Operations & Administration/Corporate Secretary**, joined the Association in 1985. Mrs. Womack is from Opelousas, Louisiana and holds an associate degree from the University of Southwestern Louisiana. She has previously held positions as office manager and controller for the Association. Mrs. Womack has served as the Association's corporate secretary for the past 20 years.

The association's voting shareholders have the authority to cast a vote in an advisory vote on the association's CEO and/or senior officer compensation if 5 percent of the total voting stockholders submit a petition to do so. The petition and the advisory vote will be conducted in accordance with the association's policies and procedures. To date, no advisory votes on the association's CEO and senior officer compensation have occurred as the authority to do so only became effective in December of 2012. If a vote were to occur in the future, the results would be shared with the shareholders. The results of any advisory vote are non-binding on the association's compensation committee and the association's board of directors.

## COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium at the rate of \$800 per day for director meetings, \$425 per day for special meetings, and \$150 for teleconference calls and they were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2012 was paid at the IRS-approved rate of 55.5 cents per mile. A copy of the travel policy is available to stockholders of the Association upon request.

Director	Number of Days Served Associated With		Total Compensation in 2012
	Board Meetings	Other Official Activities	
R. Ernest Girouard, Jr.	12	20	26,725
Bobby E. Stanley	11	22	26,125
Henry A. Capdeboscq, Jr.	12	1	10,750
John E. Carroll	2	3	2,875
Grady E. Coburn	7	12	11,000
John L. "Jack" Dailey	7	7	8,725
John F. Earles	10	4	10,800
Gertrude L. Hawkins	10	1	9,525
Cullen M. Kovac	11	15	14,200
J. Mark Morgan	12	16	15,425
Edward W. Patrick, Jr.	11	11	20,325
Charles A. Vandersteen	12	13	14,725
Daniel L. Webb	2	1	3,625
			\$174,825

The aggregate compensation paid to directors in 2012, 2011 and 2010 was \$174,825, \$208,050 and \$185,025, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

Director	Committee		
	Audit	Compensation	Compliance & Governance
R. Ernest Girouard, Jr.	\$ 450	\$	\$ 5,100
Bobby E. Stanley	5,425		
Henry A. Capdeboscq, Jr.		2,850	425
John E. Carroll	1,150		
Grady E. Coburn		850	850
John L. "Jack" Dailey	2,275		
John F. Earles	4,850		
Gertrude L. Hawkins		1,850	
Cullen M. Kovac	4,125		
J. Mark Morgan	4,575		1,275
Edward W. Patrick, Jr.	1,725		3,400
Charles A. Vandersteen		3,275	3,825
Daniel L. Webb	725		850

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$46,652, \$31,909 and \$40,228 in 2012, 2011 and 2010, respectively.

## COMPENSATION OF SENIOR OFFICERS

### Compensation Discussion and Analysis – Senior Officers

The board of directors of the Louisiana Land Bank, ACA, through its Compensation Committee, has pursued a compensation philosophy for the Association that promotes attracting, developing and retaining competent personnel within the Association through the adoption and administration of a comprehensive compensation program. This program will enable the Association to:

- Attract, develop and retain competent senior officers who contribute toward the accomplishment of the Association’s business goals;
- Apply the compensation program in a manner that links compensation to Association performance and levels of accountability for the achievement of the Association’s strategies and programs;
- Be a competitive employer in the financial services marketplace by offering market-based salaries, benefits, and bonus compensation;
- Reward operational activities that produce Association efficiencies and financial results that maximize the principles of a cooperative organization.

The Compensation Committee annually reviews salaries, benefits, and bonus projections, and approves these programs for employees. Market salary data is derived from an independent third-party compensation consultant through the Farm Credit Bank of Texas which the Compensation Committee considers when developing annual salaries to ensure that base salaries and bonus plan structures are in line with market-comparable positions with similarly situated financial institutions. The study provides the basis for actions by the Compensation Committee to approve the compensation level and bonus plan structure of the Association’s chief executive officer (CEO) annually, plus review and approve other compensation programs for the other senior officers of the Association. The Association’s compensation program encompasses four primary elements: (1) base salary, (2) discretionary bonus compensation, (3) Association-paid retirement benefits and (4) secondary benefits such as annual leave, Association-paid life insurance, and Association-provided vehicles.

Certain employees and the CEO of the Association participate in the Farm Credit Bank of Texas Pension Plan (the Pension Plan), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average monthly eligible compensation after 1996 (FAC60). The Pension Plan’s benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times Years of Benefit Service and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) —Years of Benefit Service (not to exceed 35).

### Chief Executive Officer (CEO) Compensation Table and Policy

The following table summarizes the compensation paid to the Association’s CEOs during 2012, 2011 and 2010. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Individual	Year	Salary	Bonus	Change in Pension Value	Deferred Perquisite	Other*	Total
Jesse A. Craft President/CEO	2012	205,008	-	-	19,152	211	224,371
	2011	205,008	-	-	22,029	-	227,037
	2010	51,250	15,000	-	6,455	615	73,320
Darrel K. Jans	2010	207,174	-	411,501	10,386	46,888	675,949

\*Amounts in the “Other” column include auto and employees paid in excess of 240 hours.

Jesse A. Craft does not participate in the defined benefit pension plan and was not in the plan in 2010, 2011 or 2012.

## Compensation of Other Senior Officers

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

Name of Group	Year	Deferred/				Total
		Salary (a)	Bonus (b)	Perquisite (c)	Other (d)	
Aggregate Compensation Paid To Senior Officers in Year						
5	2012	\$ 648,723	\$ 16,571	\$ 50,308	\$ 60,684	\$ 776,286
5	2011	691,891	23,490	69,396	12,120	796,897
5	2010	630,164	10,837	53,630	59,941	754,572

(a) Gross Salary

(b) Represents loan conversion and incentive rewards for 2010, loan conversion , incentive rewards, and spot bonuses for 2011 and spot bonuses for 2012.

(c) Includes contributions to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance

(d) Includes annual leave hours purchased over 240 hours, as well as auto income

Salary is the base salary compensation earned and paid during the respective year. Incentive compensation is earned and accrued in the current year, pursuant to the Association's incentive compensation plan. Over and above base salary, incentive compensation is available to all full-time, permanent employees, based upon the achievement of predetermined performance goals. The Association's incentive compensation plan and total incentive compensation dollars are approved annually by the Compensation Committee and are at the full discretion of the board of directors.

The incentive plan is a metric based plan that measures Association key result areas including specific Association target checks. Senior officers and employees are covered by the plan. The plan allocates potential incentive pay of a percentage of salary based on threshold, target and exceptional performance. Key result areas include loan volume growth, credit quality, net income and permanent capital ratio. The weighting of these areas is consistent with Association business goals as approved by the board of directors. In addition, targets are incorporated into the plan so that if the Association does not perform as required then no incentive compensation is allocated to individuals. The target checks include minimum and zero compensation measurement of Association credit quality and earnings to derive a final incentive payout. Payment of incentive compensation is paid on a lump sum basis after the Compensation Committee recommends and the board of directors approves the final payouts. There were material amendments to the incentive compensation plan in 2009 from 2008. Emphasis was shifted from new loan volume to credit quality and earnings in 2009, and further emphasis was shifted in that direction in 2010, consistent with business goals.

Deferred and perquisite compensation includes retirement plan activity which is contributions to 401(k) plans and defined benefit plans. Other compensation includes premiums paid for life insurance, employee's annual leave and auto income. Group term life insurance is provided to all employees in an amount equal to double the employees' respective salaries. To the extent that the value of this life insurance exceeds \$50,000, an amount is added to each respective employee's taxable earnings using the IRS-approved calculations. Amounts relating to excess life insurance are included in "Other" in the table of High Five Compensation. Per Association policy, employees are allowed to carry over a maximum of 240 hours of annual leave from one fiscal year to the next. Policy also dictates that the employee must take 80 hours of leave each year. Employees are then paid for the excess hours over 240. If an employee fails to take the full 80 hours, hours to be paid are decreased by the number of hours that employee is short of reaching 80 hours. Amounts relating to 2011, 2010 and 2009 excess annual leave time paid to employees are included in "Other" in the table of High Five Compensation.

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

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

Neither the CEO nor any other senior officer received non-cash compensation exceeding \$5,000 in 2012, 2011 or 2010.

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.

## **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 13 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

## **DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

During the past five years, none of the Association's officers or directors has been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as director or senior officer on January 1, 2012 or at any time during the fiscal year just ended.

## **RELATIONSHIP WITH INDEPENDENT AUDITOR**

There were no changes in the relationship with the independent auditor during 2012. The fees for professional services rendered for the Association by PricewaterhouseCoopers LLP during 2012 were \$65,000 for audit services and \$7,300 for tax services, per the terms of the engagement letter.

## **FINANCIAL STATEMENTS**

The financial statements, together with the report thereon of PricewaterhouseCoopers, LLC dated March 15, 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 is committed to meeting the needs of young, beginning and small farmers (YBS) and ranchers and recognizes the need to support these operators to ensure a strong agricultural community for the future. Support of YBS lending activities is a priority in the Association. Additional employee time and other resources are combined with the most liberal application of the Association's underwriting standard possible to meet the credit needs of YBS farmers and ranchers. In addition, the Association actively supports other programs, events and educational activities that benefit young people who will become the agricultural providers of tomorrow.

The Association sets annual goals 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 for "young," "beginning" and "small" farmers and ranchers used by the Association are:

- Young: Age 35 or younger as of loan date
- Beginning: 10 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

The 2007 USDA Census of Agriculture for Louisiana indicates that 6.0 percent of farm operators are "young," 30.0 percent are "beginning" and 92.3 percent of the farms are "small."

Goals for YBS lending, as a percentage of the total loan portfolio and strategic performance levels are established as follows:

*(The following percentages are cumulative in volume and categories are inclusive)*

Year	2013		2014		2015	
	% loans	% volume	% loans	% volume	% loans	% volume
<i>Young</i>	22.0%	15.0%	22.5%	15.5%	23.0%	16.0%
<i>Beginning</i>	53.5%	47.5%	54.0%	48.0%	53.5%	48.5%
<i>Small</i>	70.0%	60.0%	70.5%	61.0%	71.0%	62.0%

Goals for YBS, as a percentage of the annual new business activity for the year, are established as follows:

*(The following percentages are cumulative in volume and categories are inclusive)*

Year	2013		2014		2015	
	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume
<i>Young</i>	16.0%	13.5%	17.0%	14.0%	18.0%	14.5%
<i>Beginning</i>	43.0%	40.0%	44.0%	41.0%	45.0%	42.0%
<i>Small</i>	60.0%	50.0%	61.0%	51.0%	62.0%	52.0%

The Association's YBS loans, as a percentage of total loans outstanding on December 31, are reflected in the table below for the past three years.

Year	2010		2011		2012	
	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume
<i>Young</i>	21.32%	12.75%	21.29%	14.67%	21.28%	13.80%
<i>Beginning</i>	52.78%	46.19%	53.25%	48.60%	53.37%	47.71%
<i>Small</i>	71.10%	55.36%	71.04%	58.34%	71.11%	56.99%

For purposes of the table above, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The Association's YBS loans, as a percentage of all loans closed each year are reflected in the table below for the past three years.

Year	2010		2011		2012	
	% of New Loans	% of New Loan Volume	% of New Loans	% of New Loan Volume	% of New Loans	% of New Loan Volume
<i>Young</i>	18.85%	11.17%	13.46%	10.78%	15.67%	13.16%
<i>Beginning</i>	41.11%	34.01%	44.65%	43.43%	42.79%	39.27%
<i>Small</i>	58.17%	44.17%	73.21%	45.47%	59.53%	49.20%

The Association did not exceed its minimum targets, as defined above for 2012, due to the loss of accrual loan volume during the year.

The Association continues to provide credit to YBS farmers and ranchers at high levels as reflected by the above comparative data. Emphasis on this area of the Association's lending business will continue to be a priority.