

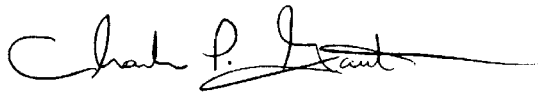
2008 Quarterly Report



For the 3rd Quarter Ended September 30, 2008

REPORT OF MANAGEMENT

The undersigned certify that, upon review, we believe the financial statements and other financial information included in this quarterly report have been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of his or her knowledge and belief.



Charles P. Gant
Chief Executive Officer/President
November 10, 2008



Barnett L. Baker
Chairman, Board of Directors
November 10, 2008



Sharla Chambers
Chief Financial Officer
November 10, 2008

TEXAS LAND BANK, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Texas Land Bank, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and nine months ended September 30, 2008. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2007 Annual Report of the Association.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Results of Operations:

Net Income

The Association had net income of \$2,029,388 and \$6,218,284 for the three and nine months ended September 30, 2008, as compared to net income of \$1,989,208 and \$3,139,127 for the same periods in 2007 reflecting an increase of 2.0 and 98.1 percent, respectively. The increase in net income for the three months ended September 30, 2008, as compared to the same period in 2007 consisted of a \$183,352 increase in net interest income and a \$54,443 increase in noninterest income, offset by a \$46,629 increase in provision for loan losses and a \$150,986 increase in noninterest expenses. The increase in net income for the nine months ended September 30, 2008, as compared to the same period in 2007 was due to a \$2.64 million allowance for loan loss reserve recorded in June 2007 as a result of a large participation loan entered into by the Association that was deemed to be nonaccrual. In comparison to the transaction in 2007, the Association did not experience this type of income reduction event in the first nine months of 2008.

Net Interest Income

Net interest income was \$3,035,773 and \$9,017,653, respectively, for the three and nine months ended September 30, 2008, compared to \$2,852,421 and \$8,313,854 for the same periods in 2007. Interest income for the first nine months of 2008 decreased by \$10,581 or 0.1 percent from the same periods of 2007, primarily due to a decrease in the interest rates charged to borrowers. However, interest expense for the first nine months of 2008 decreased by \$714,380, or 5.7 percent, from the same periods of 2007 due to a decrease in the cost of funds to the Association as well as a slight increase in the use of the Association's own capital to fund loans rather than the direct note from the Farm Credit Bank of Texas. Average loan volume for the third quarter of 2008 was \$410,997,566, compared to \$378,944,902 in the third quarter of 2007. The average spread on the loan portfolio for the third quarter 2008 was 2.16 percent, compared to 2.05 percent in the third quarter of 2007.

Noninterest Income and Expense

Noninterest income for the quarter ended September 30, 2008, increased by \$54,443, or 20.7 percent, from the same period in 2007, due primarily to an increase in fees collected on loans originated and serviced by the Association. Noninterest expenses for the third quarter of 2008 increased by \$150,986, or 13.4 percent from the same period in 2007. This increase is primarily attributable to increases in Farm Credit Administration (FCA) examination expenses, purchased services from Farm Credit Bank of Texas, and increased salary and benefits expenses as a result of staff additions and increased pension plan costs.

Financial Ratios

The Association's return on average assets for the nine months ended September 30, 2008, was 2.01 and 1.10 percent for the same period in 2007. The Association's return on average equity for the nine months ended September 30, 2008, was 10.54 and 5.77 percent for the same period in 2007. The increases experienced by the Association with regards to these performance measures are a combined result of the large allowance expense incurred by the Association in June 2007 as discussed above in addition to an increased loan portfolio spread that fueled net income growth.

Loan Portfolio:

Total loans outstanding at September 30, 2008, including nonaccrual loans and sales contracts, were \$413,189,212 compared to \$385,663,911 at December 31, 2007, reflecting an increase of 7.1 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.1 percent at September 30, 2008, compared to 0.1 percent at December 31, 2007. Overall credit quality remained strong, with loans classified under Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" at 98.52 percent of total loans and accrued interest at September 30, 2008.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ending September 30, 2008, and \$0 in recoveries and \$982,190 in charge-offs for the same period in 2007. The Association's allowance for loan losses was 0.1 percent and 0.001 percent of total loans outstanding as of September 30, 2008, and December 31, 2007, respectively.

High-risk assets in the loan portfolio include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	September 30, 2008		December 31, 2007	
	Amount	%	Amount	%
Nonaccrual	\$ 262,902	97.9%	\$ 301,743	80.7%
90 days past due and still accruing interest	5,683	2.1%	72,037	19.3%
Total	\$ 268,585	100.0%	\$ 373,780	100.0%

The overall quality of the portfolio remained strong through the third quarter of 2008. Cattle prices have been pressured due to declining pasture conditions caused by lack of rainfall in addition to higher feed costs. However, strong demand for meat protein and moderate growth in meat production have continued to provide support for meat prices. As the United States continues to seek expansion of export sales, markets will likely find ongoing support internationally. This, however, will depend on the state of the international economy going forward.

Fuel and fertilizer costs, which are impacted by changes in fuel oil and natural gas prices, continue to be a major consideration in producers' planning processes. While fuel oil and natural gas prices have decreased from their recent highs, market volatility could continue to put upward pressure on these prices. Cotton and grain prices have also come under pressure during the third quarter. The prices in the commodity markets in general have trended lower during the overall softening in the financial markets. Lack of rainfall during the critical portion of the growing season in some areas has also adversely impacted crop yields.

Interest rates remained favorable through the third quarter of 2008. As interest rates begin to increase, there may be some impact on loan demand in the fourth quarter and into 2009. During the third quarter, there continued to be demand for both rural and recreational properties; however, overall activity appears to be slowing some from its prior faster pace.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	September 30, 2008	December 31, 2007
	Note payable to the Bank	\$ 341,784,256
Accrued interest on note payable	1,308,890	1,425,402
Total	\$ 343,093,146	\$ 317,046,427

The Association experienced a \$26,046,719 increase in notes and accrued interest payable to the Bank through the first nine months of 2008. The increase is due to an increase in loan volume experienced by the Association.

Capital Resources:

The Association's capital position increased by \$6,176,055 at September 30, 2008, compared to December 31, 2007. This increase is primarily the result of net income of \$6,218,284 during the first nine months of 2008. The Association's debt as a percentage of members' equity was 4.21:1 as of September 30, 2008, compared to 4.25:1 as of December 31, 2007.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at September 30, 2008, was 17.6 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2008, were 16.9 and 16.9 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Relationship with the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2007 Annual Report of Texas Land Bank, ACA more fully describe the Association's relationship with the Bank.

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

The Association's quarterly stockholder reports are also available free of charge, upon request 45 days after the close of the quarter. These reports can be obtained by writing to Texas Land Bank, ACA, P. O. Box 20997, Waco, Texas 76702 or calling (254) 772-6905. Copies of the Association's quarterly and annual stockholder reports can also be requested by e-mailing sharla.chambers@texaslandbank.com or online at www.texaslandbank.com.

TEXAS LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2008 (unaudited)	December 31, 2007
<u>ASSETS</u>		
Cash	\$ 602,395	\$ 61,792
Loans	413,189,212	385,663,911
Less: allowance for loan losses	232,663	82,663
Net loans	<u>412,956,549</u>	<u>385,581,248</u>
Accrued interest receivable	5,404,785	4,272,113
Investment in and receivable from the Bank:		
Capital stock	6,107,250	6,107,250
Other	-	16,612
Premises and equipment	1,388,418	1,475,982
Other assets	228,801	99,044
Total assets	<u><u>\$ 426,688,198</u></u>	<u><u>\$ 397,614,041</u></u>
 <u>LIABILITIES</u>		
Note payable to the Bank	\$ 341,784,256	\$ 315,621,025
Advance conditional payments	16,428	9,526
Accrued interest payable	1,308,903	1,425,402
Drafts outstanding	116,897	166,514
Patronage distributions payable	-	3,001,054
Other liabilities	1,607,061	1,711,922
Total liabilities	<u><u>344,833,545</u></u>	<u><u>321,935,443</u></u>
 <u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,671,455	2,660,520
Allocated retained earnings	8,638,881	8,645,124
Unallocated retained earnings	70,298,480	64,088,861
Accumulated other comprehensive income (loss)	245,837	284,093
Total members' equity	<u><u>81,854,653</u></u>	<u><u>75,678,598</u></u>
Total liabilities and members' equity	<u><u>\$ 426,688,198</u></u>	<u><u>\$ 397,614,041</u></u>

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<u>INTEREST INCOME</u>				
Loans	\$ 6,952,704	\$ 7,179,088	\$ 20,854,678	\$ 20,865,259
Total interest income	6,952,704	7,179,088	20,854,678	20,865,259
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	3,916,780	4,326,615	11,836,648	12,551,230
Advance conditional payments	151	52	377	175
Total interest expense	3,916,931	4,326,667	11,837,025	12,551,405
Net interest income	3,035,773	2,852,421	9,017,653	8,313,854
<u>PROVISION FOR LOSSES</u>				
Provision (negative provision) for loan losses	50,000	3,371	150,000	2,603,296
Provision for acquired property losses	-	-	-	(8,000)
Net interest income after provision for loan losses	2,985,773	2,849,050	8,867,653	5,718,558
<u>NONINTEREST INCOME</u>				
Patronage income from the Bank	70,330	70,319	220,014	209,273
Loan fees	243,063	189,515	946,847	640,285
Financially related services income	3,273	3,018	12,012	11,777
Gain (loss) on other property owned, net	-	-	-	(734)
Gain (loss) on sale of premises and equipment, net	717	240	(3,296)	(4,543)
Other noninterest income	202	50	42,593	23,385
Total noninterest income	317,585	263,142	1,218,170	879,443
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	678,599	575,680	2,009,021	1,680,395
Directors' expense	43,906	33,523	172,207	166,765
Purchased services	145,759	112,647	376,716	361,244
Travel	33,474	34,726	103,810	95,211
Occupancy and equipment	55,295	58,888	200,035	212,221
Communications	19,165	21,442	54,676	58,948
Advertising	74,263	55,229	216,977	193,133
Public and member relations	30,754	17,122	73,375	55,696
Supervisory and exam expense	34,221	31,931	102,661	95,795
FCSIC insurance expense	122,770	141,873	414,836	419,930
Other noninterest expense	35,764	39,923	143,225	119,536
Total noninterest expenses	1,273,970	1,122,984	3,867,539	3,458,874
Income before income taxes	2,029,388	1,989,208	6,218,284	3,139,127
Provision for (benefit from) income taxes	-	-	-	-
Net income	\$ 2,029,388	\$ 1,989,208	\$ 6,218,284	\$ 3,139,127

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

TEXAS LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2006	\$ 2,631,975	\$ 4,143,784	\$ 63,889,373	\$ -	\$ 70,665,132
Net income	-	-	3,139,127	-	3,139,127
Capital stock/participation certificates issued	266,225	-	-	-	266,225
Capital stock/participation certificates and allocated retained earnings retired	(230,010)	(241)	-	-	(230,251)
Stock equalization	-	-	-	-	-
Balance at September 30, 2007	\$ 2,668,190	\$ 4,143,543	\$ 67,028,500	\$ -	\$ 73,840,233
Balance at December 31, 2007	\$ 2,660,520	\$ 8,645,124	\$ 64,088,861	\$ 284,093	\$ 75,678,598
Comprehensive income					
Net income	-	-	6,218,284	-	6,218,284
Other comprehensive income					
Prior service credits (costs)	-	-	-	(38,868)	(38,868)
Actuarial gains (losses)	-	-	-	612	612
Other comprehensive income	-	-	-	(38,256)	(38,256)
Comprehensive income	-	-	6,218,284	(38,256)	6,180,028
Effects of accounting change regarding measurement date of postretirement benefits plans pursuant to FASB Statement No. 158					
Service and interest costs for October 1-December 31, net of tax	-	-	(21,417)	-	(21,417)
Amortization of prior service credits for October 1-December 31, net of tax	-	-	12,956	-	12,956
Additional net loss, October 1-December 31, net of tax	-	-	(204)	-	(204)
Statement No. 158 (See Note 5)	-	-	(8,665)	-	(8,665)
Capital stock/participation certificates issued	271,675	-	-	-	271,675
Capital stock/participation certificates and allocated retained earnings retired	(260,740)	-	-	-	(260,740)
Patronage refunds:					
Capital stock/participation certificates and allocated retained earnings	-	(6,243)	-	-	(6,243)
Balance at September 30, 2008	\$ 2,671,455	\$ 8,638,881	\$ 70,298,480	\$ 245,837	\$ 81,854,653

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

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Texas Land Bank, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves a 16-county trade area located in the I-35 Corridor between the metropolitan areas of Dallas/Ft. Worth and Austin. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter and the nine months ended September 30, 2008, are not necessarily indicative of the results to be expected for the year ended December 31, 2008. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated 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 and prior loan loss experience. An analysis of the allowance for loan losses follows:

	September 30, 2008	September 30, 2007
Balance at beginning of quarter	\$ 182,663	\$ 1,175,380
Provision for loan losses	50,000	3,371
Charge-offs	-	(982,190)
Recoveries	-	-
Balance at end of quarter	<u>\$ 232,663</u>	<u>\$ 196,561</u>

The following table presents information concerning impaired loans:

	September 30, 2008	September 30, 2007
Impaired loans with related allowance	\$ -	\$ 891,041
Impaired loans with no related allowance	268,585	156,219
Total impaired loans	<u>\$ 268,585</u>	<u>\$ 1,047,260</u>
Allowance on impaired loans	\$ -	\$ 121,618
Average impaired loans	\$ 674,583	\$ 3,042,515
Interest income on impaired loans for the quarter	\$ 5,455	\$ -

NOTE 3 — CAPITAL:

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

NOTE 4 — INCOME TAXES:

Texas Land Bank, ACA and its subsidiary are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During 2008, the Association participated in a patronage program and intends to continue doing so in 2008. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The Association has recorded a full valuation allowance against its deferred tax asset, based on management's estimate that it is more likely than not that the deferred tax asset will not be realized. For the nine months ended September 30, 2008 and 2007, net income for tax purposes did not warrant the recognition of tax expense due to the patronage program that was implemented.

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

Upon adoption of FIN 48 on January 1, 2007, the Association did not recognize a tax liability for any unrecognized tax benefits.

NOTE 5 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three months ended September 30,:

	Other Benefits	
	2008	2007
Service cost	\$ 19,098	\$ 18,090
Interest cost	45,153	42,741
Expected return on plan assets	-	-
Amortization of prior service costs	(38,868)	(41,796)
Amortizations of net (gain) loss	612	2,175
Net periodic benefit cost	<u>\$ 25,995</u>	<u>\$ 21,210</u>

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007. SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, we used a September 30 measurement date for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. We have applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and postretirement benefit income measured for the three-month period October 1, 2007, to December 31, 2007, (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As result, the Association decreased retained earnings \$8,665 net of taxes of \$0 and increased the postretirement benefit liability by \$8,665.

The Association previously disclosed in its financial statements for the year ended December 31, 2007, that it expected to contribute \$443,984 to its pension plan in 2008. The Association has now funded the full amount for 2008, and it does not anticipate contributing any additional amounts in 2008. The amount will be recognized as an expense for the Association on a pro-rata basis throughout the year.