COOPERATIVE ADVANTAGE

COMPETITIVE EDGE

2005 ANNUAL REPORT

TENTH FARM CREDIT DISTRICT

Table of Contents

FARM CREDIT BANK OF TEXAS
4801 Plaza on the Lake Drive
Austin, Texas 78746
512.465.0400
FAX 512.465.0675
farmcreditbank.com

"Our mission as a cooperative is to operate in the best interest of our borrower-stockholders and maximize shareholder wealth."

Larry Doyle
Chief Executive Officer
Farm Credit Bank of Texas

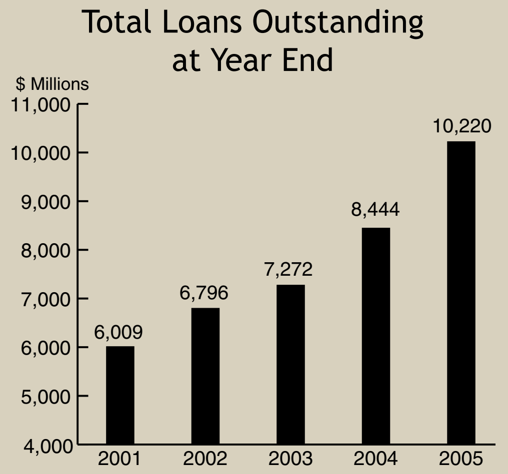
COOPERATIVE ADVANTAGE

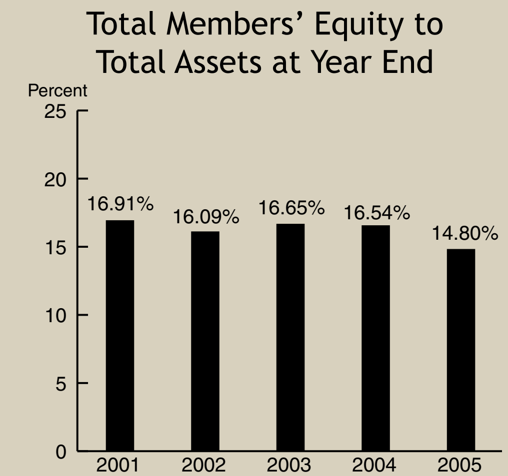
Success

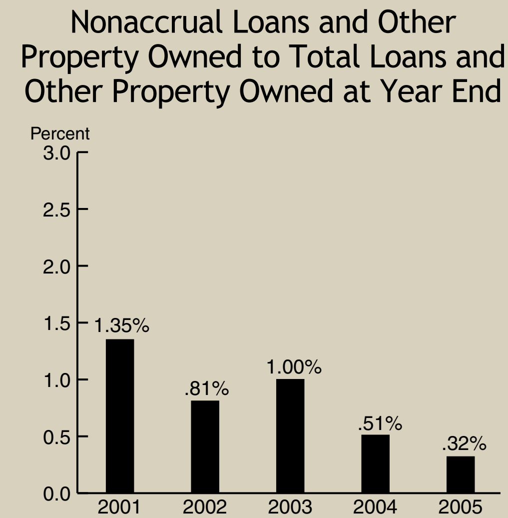
Any business can claim success, but few can prove it with numbers like the Tenth Farm Credit District achieved in 2005. The district surpassed $10 billion in loan volume, which represented an increase of 21 percent from 2004 and 40.5 percent from 2003. Credit quality remained strong at 98.4 percent acceptable. The district also increased its total assets by 25.8 percent last year, up to $13 billion.

At the heart of this remarkable growth are two key factors. First, with a territory that encompasses Alabama, Louisiana, Mississippi, New Mexico and Texas, the district enjoys vibrant markets for agriculture and rural real estate. Second, its cooperative structure provides an advantage in the marketplace — an advantage that is then passed along to its member-stockholders.

COMPETITIVE EDGE







2005 Key Financial Highlights

(Dollars in Thousands)

Total Loans	$10,219,596
Total Assets	$13,212,220
Net Income	$219,877
Return on Average Assets	1.92%
Return on Average Members' Equity	11.80%

W O R K I N G   T O G E T H E R

OUR STRUCTURE

FARM CREDIT BANK OF TEXAS
BOARD OF DIRECTORS

Ralph W. "Buddy" Cortese
Chairman

Jon "Mike" Garnett
Vice Chairman

Jimmy Dodson

Kenneth Andrews

Benefits of Cooperatives

The Tenth District is a network of rural financing cooperatives. The Farm Credit Bank of Texas is cooperatively owned by its 21 affiliated lending associations and four Other Financing Institutions (OFIs). The associations are cooperatives owned by their borrowers.

In other words, those who use the services also own the company. Because of this structure, profits are often distributed back to stockholders in the form of patronage dividends. For example, the bank returned $20.6 million based on the direct note volume to the associations and OFIs in 2005. The associations in turn distributed $56.4 million to their borrower-stockholders.


Joe Crawford

William Staats

Part of the Farm Credit System

The district is part of the federally regulated Farm Credit System, which was established by Congress in 1916 to be a reliable source of funds for agricultural and rural America. The System has $140 billion in assets as of December 31, 2005, and is the largest rural lending network in the country. Because of the strength of the System and its status as a government-sponsored enterprise (GSE), it has access to the nation's money markets with one of the lowest cost of funds in the country, near to the U.S. Treasury's.

Increase in Agricultural and Rural Lending

The Tenth District capitalizes on the strength of the Farm Credit System and makes competitive loans ranging from small operating loans to multimillion-dollar agribusiness loans. Agricultural real estate loans increased 14.7 percent in 2005, while commercial loans for agricultural production, processing and marketing increased 39.2 percent. All other loans, including those for energy, communication, farm-related business, rural homes and loans to OFIs, increased $297.2 million to $856.4 million.

New Technology and Cash Management Tools

In 2005, the district also implemented technology enhancements and cash management tools. These products make the district associations more efficient and effective, as well as providing more convenience for customers. This year the bank partnered with Wachovia to offer AgSweep, a product that allows large agribusiness customers, such as feedlots, to automatically sweep excess funds against a revolving line of credit, into an investment or a combination of the two.

MESSAGE TO STOCKHOLDERS

It has often been said that success breeds success. That certainly seems to be the case in the Tenth Farm Credit District, which had another outstanding year in 2005.

Every year, the bar is raised, and we surpass the achievements of the year before. We have kept moving forward by constantly setting the next goal a little farther out. As a result, in 2005 we set a new record for loan volume for the fifth consecutive year, with a slight increase in credit quality.

Gross loan volume increased $1.8 billion, or 21 percent, up to $10.2 billion at December 31, 2005, from $8.4 billion at year-end 2004. At the same time, credit quality remained strong at 98.4 percent acceptable, up slightly from the 98.2 percent acceptable at December 31, 2004.

This aggressive growth was true of the district as a whole, as well as for most of the district's 21 associations that also experienced double-digit growth. When I consider the vast lending opportunities in our territory, I expect this positive growth trend to continue. The states in our district offer abundant and diverse agricultural industries. In addition, the demand for rural real estate has remained strong throughout Alabama, Louisiana, Mississippi, New Mexico and Texas.

Another positive trend across the district is the increase in patronage dividends being paid back to member-borrowers. Patronage distributions declared by associations totaled $56.4 million in 2005, compared with $39.8 million and $26.8 million in 2004 and 2003, respectively.

As the bank and associations embrace the cooperative model, we will become even more competitive in the markets we serve. Competitive pricing combined with patronage dividends provides a powerful incentive for customers to do business with us. That is the beauty of the cooperative model: The ultimate goal is to benefit you, our members, the same people who use our products and services. When we do well, you benefit. It's a win-win situation.

As you read this report, I hope you will be pleased, as I was, with our 2005 financial performance. However, as our stockholders, you should continue to raise your expectations of us. Every year, we should capitalize more on our cooperative advantage to deliver you a competitive edge.

Larry R. Doyle
Chief Executive Officer
Farm Credit Bank of Texas

REPORT OF MANAGEMENT

The Farm Credit Bank of Texas and the Tenth Farm Credit District Associations

The accompanying combined financial statements of the Farm Credit Bank of Texas (bank) and Tenth Farm Credit District Associations (district) are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The combined financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. The combined financial statements, in the opinion of management, present fairly the financial condition of the district. Other financial information included in the annual report is consistent with that in the combined financial statements.

To meet its responsibility for reliable financial information, management depends on the 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 must be reasonable in relation to the benefits derived. To monitor compliance, financial operations audits are performed. The combined financial statements are audited by PricewaterhouseCoopers LLP (PwC) independent auditors, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Farm Credit Bank of Texas and district associations are also examined by the Farm Credit Administration.

In the opinion of management, the combined financial statements are true and correct and fairly state the financial position of the bank and district at December 31, 2005, 2004 and 2003. The independent auditors have direct access to the board, which is composed solely of directors who are not officers or employees of the bank or district associations. The undersigned certify that the combined Farm Credit Bank of Texas and the Tenth Farm Credit District Associations' Annual Report has been prepared in accordance with applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.

Ralph W. Cortese
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

Thomas W. Hill
Chief Financial Officer

March 1, 2006

Five-Year Summary of Selected Combined Financial Data

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	**2005**	2004*	2003	2002	2001
Balance Sheet Data					
Cash, federal funds sold and securities purchased under resale agreements	**$ 94,291**	$ 91,669	$ 69,217	$ 105,335	$ 91,054
Investment securities	**2,697,876**	1,787,706	1,518,102	785,071	503,978
Loans	**10,219,596**	8,444,347	7,272,314	6,796,092	6,009,348
Less allowance for loan losses	**9,533**	10,617	173,980	165,855	156,952
Net loans	**10,210,063**	8,433,730	7,098,334	6,630,237	5,852,396
Other property owned, net	**3,902**	5,184	6,057	6,192	3,319
Other assets	**206,088**	180,650	150,498	163,483	168,499
Total assets	**$ 13,212,220**	$ 10,498,939	$ 8,842,208	$ 7,690,318	$ 6,619,246
Obligations with maturities of one year or less	**$ 5,968,414**	$ 4,521,114	$ 2,924,218	$ 3,867,769	$ 4,039,044
Obligations with maturities greater than one year	**5,288,711**	4,241,696	4,445,935	2,585,463	1,461,130
Total liabilities	**11,257,125**	8,762,810	7,370,153	6,453,232	5,500,174
Preferred stock	**203,569**	103,963	103,998	2,909	2,102
Capital stock and participation certificates	**73,642**	88,962	101,168	103,836	94,023
Allocated retained earnings	**32,327**	32,662	35,328	34,743	29,915
Unallocated retained earnings	**1,692,534**	1,531,503	1,236,010	1,095,380	992,163
Accumulated other comprehensive (loss) income	**(46,977)**	(20,961)	(4,449)	218	869
Total members' equity	**1,955,095**	1,736,129	1,472,055	1,237,086	1,119,072
Total liabilities and members' equity	**$ 13,212,220**	$ 10,498,939	$ 8,842,208	$ 7,690,318	$ 6,619,246
Statement of Income Data					
Net interest income	**$ 340,472**	$ 304,136	$ 265,051	$ 237,010	$ 207,494
(Provision) negative provision for loan losses	**(1,084)**	157,325	(11,602)	(11,317)	(9,252)
Noninterest expense, net	**(118,872)**	(117,177)	(84,509)	(98,339)	(87,735)
(Provision for) benefit from income taxes	**(639)**	(1,768)	(324)	724	1,596
Net income	**$ 219,877**	$ 342,516	$ 168,616	$ 128,078	$ 112,103

Key Financial Ratios (unaudited)					
Net income to:					
Average assets	**1.92%**	3.66%	2.07%	1.80%	1.83%
Average members' equity	**11.80**	21.89	12.53	10.84	10.37
Net interest income to average earning assets	**3.04**	3.26	3.29	3.36	3.45
Net charge-offs (recoveries) to average loans	**0.02**	0.08	0.05	0.04	(0.01)
Total members' equity to total assets	**14.80**	16.54	16.65	16.09	16.91
Allowance for loan losses to total loans	**0.09**	0.13	2.39	2.44	2.61
Regulatory permanent capital ratio (bank only)	**17.36**	19.82	23.71	18.06	18.10
Total surplus ratio (bank only)	**14.97**	16.55	19.15	14.01	14.01
Core surplus ratio (bank only)	**8.82**	11.51	14.44	12.56	12.82
Net collateral ratio (bank only)	**105.90**	105.69	106.62	105.32	105.33

Other (unaudited)					
Net income distributions declared					
Preferred stock dividends	**$ 11,342**	$ 7,561	$ 798	$ —	$ —
Patronage distributions					
Cash	**49,964**	37,946	22,649	19,070	20,297
Retained earnings	**6,435**	1,886	4,143	6,983	4,889

* As discussed more fully in the following pages, net income and certain profitability ratios for 2004 were affected by the nonrecurring negative provision for loan losses of $157.7 million.

Combined Average Balances and Net Interest Earnings

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS
(unaudited)
December 31,

	2005			2004			2003		
(dollars in thousands)	**Average Balance**	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets									
Investment securities, federal funds sold and securities purchased under resale agreements	**$ 2,034,438**	**$ 76,735**	**3.77%**	$ 1,615,127	$ 48,621	3.01%	$ 1,130,819	$ 24,269	2.15%
Loans	**9,170,084**	**595,995**	**6.50**	7,705,487	419,862	5.45	6,930,625	381,215	5.50
Total interest-earning assets	**11,204,522**	**672,730**	**6.00**	9,320,614	468,483	5.03	8,061,444	405,484	5.03
Cash	**22,907**			16,215			43,736		
Accrued interest receivable	**140,233**			106,954			103,843		
Allowance for loan losses	**(10,368)**			(163,065)			(170,469)		
Other noninterest-earning assets	**90,310**			82,700			97,941		
Total average assets	**$ 11,447,604**			$ 9,363,418			$ 8,136,495		
Liabilities and Members' Equity									
Bonds and medium-term notes, net	**$ 8,181,609**	**$ 290,312**	**3.55%**	$ 6,623,243	$ 148,396	2.24%	$ 5,852,857	$ 129,157	2.21%
Discount notes, net, and other	**1,188,291**	**41,946**	**3.53**	1,028,875	15,951	1.55	824,685	11,276	1.37
Total interest-bearing liabilities	**9,369,900**	**332,258**	**3.55**	7,652,118	164,347	2.15	6,677,542	140,433	2.10
Noninterest-bearing liabilities	**213,853**			146,533			112,803		
Total liabilities	**9,583,753**			7,798,651			6,790,345		
Members' equity and retained earnings	**1,863,851**			1,564,767			1,346,150		
Total average liabilities and members' equity	**$ 11,447,604**			$ 9,363,418			$ 8,136,495		
Net interest rate spread		**$ 340,472**	**2.45%**		$ 304,136	2.88%		$ 265,051	2.93%
Net interest margin			**3.04%**			3.26%			3.29%

Management's Discussion and Analysis

(dollars in thousands, except as noted)

The following commentary provides a discussion and analysis of the combined financial position and results of operations of the Farm Credit Bank of Texas (bank), the Federal Land Credit Associations (FLCAs) and the Agricultural Credit Associations (ACAs) of the Tenth Farm Credit District (district). FLCAs and ACAs collectively are referred to as "associations." The commentary should be read in conjunction with the accompanying combined financial statements, notes to the combined financial statements (Notes) and additional sections of this report.

The district, which serves Texas, Alabama, Mississippi, Louisiana and portions of New Mexico, is part of the federally chartered Farm Credit System (System). The bank provides funding to the associations, which, in turn, provide credit to their borrower/shareholders. As of December 31, 2005, the district comprised the bank, 8 FLCAs and 13 ACAs. The bank also had funding relationships with four Other Financing Institutions (OFIs).

Any statements contained in this Management's Discussion and Analysis which are not historical facts are forward-looking statements that involve risks and uncertainties. Such forward-looking statements include, but are not limited to, the impact of economic conditions (both generally and more specifically in the markets in which the district operates), the impact of competition for the district's customers from other providers of financial services, the impact of government legislation or regulation and other risks detailed in this annual report.

Financial Highlights

- The aggregate principal amount of loans outstanding at December 31, 2005, was $10.2 billion, compared to $8.4 billion at December 31, 2004, and $7.3 billion at December 31, 2003, reflecting increases of 21.0 and 40.5 percent over December 31, 2004 and 2003, respectively.
- Net income totaled $219.9 million for the year ended December 31, 2005, compared to $342.5 million for 2004 and $168.6 million for 2003, reflecting a decrease of 35.8 percent from 2004 and an increase of 30.4 percent over 2003. Net income for 2004 included the effect of a $157.7 million nonrecurring reduction in the provision for loan losses.
- Net interest income for the year ended December 31, 2005, was $340.5 million compared to $304.1 million for 2004 and $265.1 million for 2003, reflecting 11.9 and 28.5 percent increases over the years ended December 31, 2004 and 2003, respectively.
- Return on average assets and return on average members' equity for the year ended December 31, 2005, were 1.92 and 11.80 percent, respectively, compared to 3.66 and 21.89 percent for 2004 and 2.07 and 12.53 percent for 2003, respectively.
- Patronage distributions declared totaled $56.4 million in 2005, compared to $39.8 and $26.8 million in 2004 and 2003, respectively.
- In 2005, the bank issued an additional 100,000 shares of $1,000 cumulative perpetual preferred stock for net proceeds of $106.8 million. Also, the bank sold $100 million of participations in district direct notes receivable to another System bank. These transactions enhance the composition of the bank's capital and liquidity position to support district loan growth and service opportunities to our members and rural America.

Risk Management

The major risks to which the district is exposed are:

- **Credit risk** – Credit risk is the risk of loss due to borrower or counterparty default. Credit risk to borrowers is discussed in the "Financial Condition" section on page 13 of this commentary, in Note 4, "Loans and Allowance for Loan Losses" and in Note 14, "Financial Instruments With Off-Balance-Sheet Risk." Credit risk to counterparties is the possibility of default on the part of a counterparty of a derivative financial instrument that has a positive fair value, and is discussed in the "Asset/Liability Management" section on page 15 of this commentary and more fully in Note 16, "Derivative Instruments and Hedging Activity."
- **Interest rate risk and liquidity risk** – Interest rate risk is the exposure of the district's financial condition to adverse movements in interest rates. Liquidity risk is the risk that the district would be unable to fund increases in assets or meet obligations as they become due. These risks are discussed in the "Asset/Liability Management" section on page 15 of this commentary and in Note 16, "Derivative Instruments and Hedging Activity."
- **Operational and business risks** – Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. The bank maintains and monitors a business continuity plan, which includes safeguards and alternatives in the event of failures or damage that might affect the district's critical functions or systems infrastructure.

RESULTS OF OPERATIONS

Net Income

The district's net income of $219.9 million for the year ended December 31, 2005, reflected a decrease of 35.8 percent from net income of $342.5 million for the year ended December 31, 2004, and an increase of 30.4 percent from net income of $168.6 million for 2003. The decrease from 2004 to 2005 includes the effects of a $157.7 million nonrecurring negative provision for loan losses recorded in 2004. The return on average assets decreased to 1.92 percent for the year ended December 31, 2005, from 3.66 percent reported for the year ended December 31, 2004. The decrease includes the effect of the 2004 negative provision for loan losses mentioned above. The return on average assets was 2.07 percent for the year ended December 31, 2003. The table on the following page provides an analysis of the major components of changes in net income for the current and preceding years.

Changes in Components of Net Income

(dollars in thousands)	2005 versus 2004	2004 versus 2003
Net income, prior period	$ 342,516	$ 168,616
Interest income	204,247	62,999
Interest expense	(167,911)	(23,914)
Net interest income	36,336	39,085
Provision for loan losses	(158,409)	168,927
Noninterest income	2,542	(31,287)
Noninterest expense	(4,237)	(1,381)
Provision for income taxes	1,129	(1,444)
Total (decrease) increase in net income	(122,639)	173,900
Net income	$ 219,877	$ 342,516

Discussion of the changes in components of net income is included in the following narrative.

Interest Income

Total interest income for the year ended December 31, 2005, was $672.7 million, an increase of $204.2 million, or 43.6 percent, compared to 2004. This increase was due to an increase in the interest rates on earning assets and to an increase in average interest-earning assets.

Total interest income for 2004 was $468.5 million, an increase of $63.0 million, or 15.5 percent, from 2003. This increase was due to an increase in the average interest-earning assets, offset by a slight decrease in the interest rate on those assets.

The following table illustrates the impact that volume and yield changes had on interest income over these periods.

	Year Ended December 31, 2005 vs. 2004	Year Ended December 31, 2004 vs. 2003
Increase in average earning assets	$ 1,883,908	$ 1,259,170
Average yield, prior year	5.03%	5.03%
Interest income variance attributed to change in volume	94,761	63,336
Average earning assets, current year	11,204,522	9,320,614
Increase in average yield	0.97%	< (0.01)%
Interest income variance attributed to change in yield	109,486	(337)
Net change in interest income	$ 204,247	$ 62,999

Interest Expense

Total interest expense for the year ended December 31, 2005, was $332.3 million, an increase of $167.9 million, or 102.3 percent, from the prior year. Total interest expense for the year ended December 31, 2004, was $164.3 million, an increase of $23.9 million, or 17.0 percent, from 2003. The increases for both years were attributable to rising interest rates and increases in average interest-bearing liabilities.

The following table illustrates the impact that volume and rate changes had on interest expense over these periods.

	Year Ended December 31, 2005 vs. 2004	Year Ended December 31, 2004 vs. 2003
Increase in average interest-bearing liabilities	$ 1,717,782	$ 974,576
Average rate, prior year	2.15%	2.10%
Interest expense variance attributed to change in volume	36,932	20,466
Average interest-bearing liabilities, current year	9,369,900	7,652,118
Increase in average rate	1.40%	0.05%
Interest expense variance attributed to change in rate	130,979	3,448
Net change in interest expense	$ 167,911	$ 23,914

Net Interest Income

Net interest income increased by $36.3 million, or 11.9 percent, from 2004 to 2005 and increased by $39.1 million, or 14.7 percent, from 2003 to 2004. Factors responsible for these changes are illustrated in Figure 1.

Net interest income for 2005 increased from 2004 due to an increase in average-earning assets, partially offset by a 43-basis-point decrease in the interest rate spread, which is the difference between the average rate received on interest-earning assets and the average rate paid on interest-bearing debt. The decrease in the district's interest rate spread reflects the competitive pricing offered by district associations, changing market conditions and an increase in the allocation of earning assets to the district's investment portfolio in order to accomplish liquidity goals of the bank. The effective rates received on the investment portfolio are less than average rates received on loans.

Figure 1

Analysis of Net Interest Income

	2005 Avg. Balance	2005 Interest	2004 Avg. Balance	2004 Interest	2003 Avg. Balance	2003 Interest
Loans	**$ 9,170,084**	**$ 595,995**	$ 7,705,487	$ 419,862	$ 6,930,625	$ 381,215
Investments	**2,034,438**	**76,735**	1,615,127	48,621	1,130,819	24,269
Total earning assets	**11,204,522**	**672,730**	9,320,614	468,483	8,061,444	405,484
Interest-bearing liabilities	**9,369,900**	**332,258**	7,652,118	164,347	6,677,542	140,433
Impact of capital	**$ 1,834,622**		$ 1,668,496		$ 1,383,902	
NET INTEREST INCOME		**$ 340,472**		$ 304,136		$ 265,051

	2005 Average Yield	2004 Average Yield	2003 Average Yield
Yield on loans	**6.50%**	5.45%	5.50%
Yield on investments	**3.77**	3.01	2.15
Yield on earning assets	**6.00**	5.03	5.03
Cost of interest-bearing liabilities	**3.55**	2.15	2.10
Interest rate spread	**2.45**	2.88	2.93
Impact of capital	**0.59**	0.38	0.36
Net interest income/average earning assets	**3.04**	3.26	3.29

Analysis of Operating Margin to Average Earning Assets

	For the Years Ended December 31,		
	2005	2004	2003
Net interest margin	**3.04%**	3.26%	3.29%
Operating expense	**1.21**	1.39	1.70
Operating margin	**1.83%**	1.87%	1.59%

Net interest income for 2004 increased from 2003 due to an increase in average-earning assets and to an 86-basis-point increase in the interest rate yield on investments, offset by a decline in the district's interest rate spread. The interest rate spread increase in investments for 2004 as compared to 2003 was due to a reallocation into higher yield term securities as the portfolio size was increased to enhance liquidity and earnings.

Noninterest Income

Noninterest income of $18.0 million reflected an increase of $2.5 million, or 16.4 percent, from 2004 to 2005. The increase is mainly attributable to a $3.2 million increase in loan-related fee income, partially offset by a $420 decrease in gains on the sale of investments.

Noninterest income for 2004 of $15.5 million reflected a decrease of $31.3 million, or 66.9 percent, from 2003 to 2004. The decrease is attributable to the bank's gain of $30.5 million in 2003 on the sale of mineral rights that were retained by the bank when the surface rights on certain foreclosed properties were subsequently sold, prior to the amendment of the Farm Credit Act in 1987. These rights were recorded at zero value on the balance sheet. In addition, annual income from these mineral rights was included in "Miscellaneous income (expense), net," and totaled $5.0 million in 2003.

Provision for Loan Losses

The provision for loan losses for 2005 was $1.1 million, reflecting an increase of $158.4 million from the $157.3 million negative provision recorded in 2004. In 2004, the bank and associations refined their allowance for loan loss methodologies, as further described in the "Allowance for Loan Losses" section of this commentary. The new methodologies resulted in the $157.3 million negative provision for loan losses for 2004. This negative provision for 2004 was a $168.9 decrease from the $11.6 million provision for loan losses recorded in 2003.

Noninterest Expenses

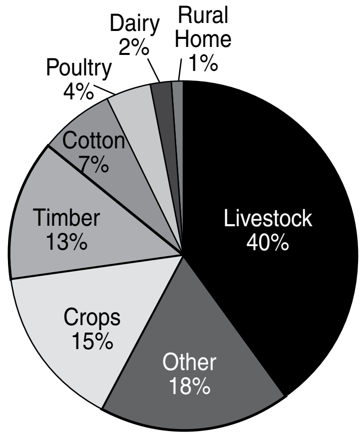
Noninterest expenses for 2005 totaled $136.9 million, increasing $4.2 million, or 3.2 percent, from 2004. The increase was primarily due to an increase of $2.8 million in salaries and employment benefits, an increase of $2.3 million in other operating expenses, and an increase of $776 in premiums to the Farm Credit System Insurance Corporation (FCSIC or Insurance Fund), partially offset by a $1.9 million decrease in intra-System financial assistance expense. Salaries and employment benefits for 2005 increased due to a $6.1 million increase in compensation and related payroll taxes and a $1.2 million increase in pension and retirement expenses, substantially offset by a $4.6 million decrease in other benefits. Compensation and payroll-related taxes increased primarily due to increases in compensation rates and increases in the number of employees at the district's associations from 2004 to 2005. The increases in pension and retirement expenses were primarily related to the district's defined benefit pension plans. Other benefits decreased due to changes in coverage of postretirement plans sponsored by district employers in an effort to control future costs for these benefits. The increase in other operating expenses included a $2.0 million increase in professional and contract services, which included services related to district compliance with system governance and controls initiatives as well as fees for payroll-related services and loan accounting services. Premiums to the Insurance Fund rose as a result of increased premium rates effective in 2005 compared with 2004 and increased loan volume to which the rates are applied. Intra-System financial assistance expenses decreased due to the maturity and retirement of the last of the remaining issuances of debt obligations at the end of the second quarter of 2005.

Noninterest expenses for 2004 totaled $132.7 million, increasing $1.4 million, or 1.1 percent, from 2003. The increase was primarily due to an increase of $3.7 million in salaries and employment benefits and an increase of $6.5 million in other operating expenses, offset by a decrease of $4.4 million in premiums to the Farm Credit System Insurance Corporation (FCSIC) and a $3.0 million decrease in intra-System financial assistance expense. Salaries and benefits for the year increased over 2003 due to a $3.8 million increase in annual compensation, a $3.0 million increase in pension and retirement expenses, and a $296 increase in payroll taxes, offset by a $3.8 million decrease in employee benefits. Other operating expenses increased over 2003 due primarily to $1.9 million in nonrecurring costs incurred during 2004 related to the sale of the bank's old headquarters building; a $1.9 million increase in professional fees and services; a $1.0 million increase in advertising and member relations; an $816 increase in assessments from the Federal Farm Credit Banks Funding Corporation (the Funding Corporation); and a $446 increase in director-related expenses. Premiums to the FCSIC decreased due to a decrease in rates in 2004 on accrual loans, from 12 basis points to 5 basis points per $1,000 of loans outstanding. The decrease in intra-System financial assistance expense is due to the maturity in July 2003 of most of the remaining outstanding debt issues.

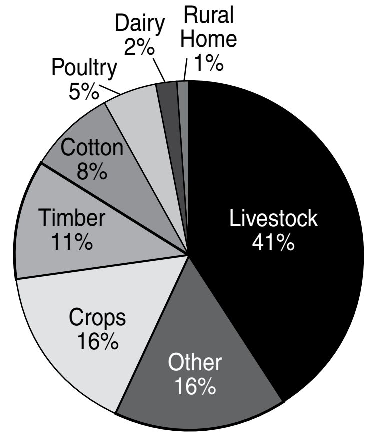
Operating expense (salaries and employee benefits, occupancy and equipment, Insurance Fund premiums, and other operating expenses) statistics are set forth below for each of the three years ended December 31,

	2005	2004	2003
Excess of net interest income over operating expense	**$205,418**	$174,832	$140,971
Operating expense as a percentage of net interest income	**39.7%**	42.5%	46.8%
Operating expense as a percentage of net interest income and noninterest income	**37.7**	40.5	39.8
Operating expense as a percentage of average loans	**1.47**	1.68	1.79
Operating expense as a percentage of average earning assets	**1.21**	1.39	1.54

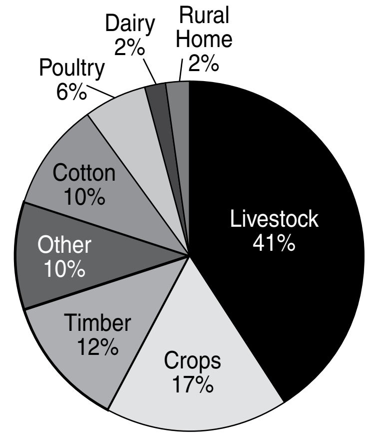
Noninterest income for 2003 included $30.5 million in nonrecurring gains on sales of mineral rights holdings. The district's ability to improve its operating expense statistics is due primarily to the growth in the loan and investments portfolios and, to a lesser extent, to the district's ability to control the growth of its operating expenses. Net interest income has increased 11.9 percent and 14.7 percent for the years ended December 31, 2005 and 2004, respectively, while operating expenses increased at the lesser rates of 4.4 percent and 4.2 percent for the same periods.



Total Loans 2005
Figure 2



Total Loans 2004
Figure 3



Total Loans 2003
Figure 4

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume of $10.220 billion at December 31, 2005, reflected an increase of $1.776 billion, or 21.0 percent, from the $8.444 billion loan portfolio balance at December 31, 2004. Loans, net of the allowance for loan losses, represented 77.3 percent, 80.3 percent and 80.3 percent of total assets as of December 31, 2005, 2004 and 2003, respectively.

Agricultural real estate mortgage loans totaled $7.543 billion at December 31, 2005, an increase of $966 million, or 14.7 percent, from 2004, and currently comprise approximately 74 percent of the district's loan portfolio. Commercial loans for agricultural production, processing and marketing totaled $1.820 billion, an increase of $512 million, or 39.2 percent, from 2004, and represented 18 percent of the loan portfolio at December 31, 2005. All other loans, including energy loans, communications loans, farm-related business loans, rural home loans and loans to OFIs, increased by $297.2 million to $856.4 million. The composition of the district's loan portfolio by category may be found in Note 4, "Loans and Allowance for Loan Losses." The primary factors contributing to the growth in the district's loan volume included an increased focus on market share and loan growth opportunities within the territory; competitive pricing; increased marketing and customer service efforts by the associations; and growth in loan participations.

The following table discloses the credit quality of the district's loan portfolio at December 31,

	2005	2004	2003
Acceptable	**96.5%**	96.3	95.0
Special mention	**1.9**	1.9	2.4
Substandard	**1.6**	1.8	2.6
Total	**100.0%**	100.0%	100.0%

The composition of the district's loan portfolio at December 31, 2005, may be found in Figures 2, 3 and 4. The geographic distribution of loan volume at December 31, 2005, is presented in Figure 5.

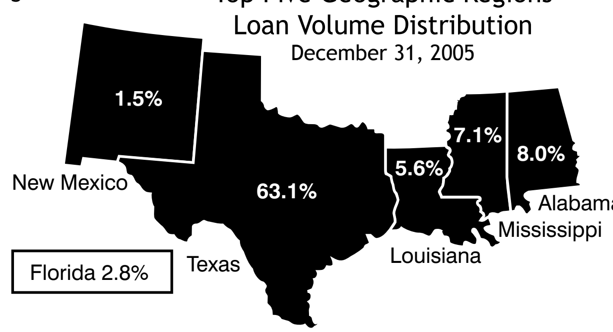
During 2005, overall credit quality improved. Loans classified (under the Farm Credit Administration's Uniform Loan Classification System) as "acceptable" or "other assets especially mentioned" as a percentage of total loans and accrued interest receivable were 98.4 percent at December 31, 2005, compared to 98.2 percent at December 31, 2004, and 97.4 percent at December 31, 2003.

Overview of Economic Conditions Affecting Commodities Underlying District Loans

While the bank and district associations have a significant number of loans to cattle producers, nearly half of these loans are not dependent on agricultural income for repayment, and the majority are collateralized by real estate. Livestock operations, including fed cattle stockers and cow-calf operations, represented approximately 40 percent of the district's loan portfolio at year-end 2005. South Korea recently announced a partial reopening of its market. Livestock operations have been impacted during 2005 and 2004 by the December 2003 discovery of bovine spongiform encephalopathy (BSE, or "mad cow disease") in the United States. Despite the effects of foreign embargoes on U.S. beef which resulted from this discovery, prices have remained strong. In December 2005, Japan announced the opening of its market for higher quality fed beef and then re-imposed its ban in January 2006. Although it is not expected that export levels to Japan will reach the pre-BSE levels, possible re-opening of these markets would definitely benefit livestock operations. All sectors of the cattle industry remained profitable during 2005 and appear optimistic in the near future as more countries open their markets to U.S. beef. However, access to foreign markets and its impact on American livestock operations is difficult to predict. At the end of 2005, domestic cattle supply remained tight; however, winter feeding conditions have been more costly. Deteriorating pasture conditions resulting from drought conditions in much of the district resulted in more cattle being put in feed lots, where rising protein meal prices are making winter feeding more costly.

Figure 5

Top Five Geographic Regions
Loan Volume Distribution
December 31, 2005



Tenth Farm Credit District

Poultry production has been fair, and profit margins have remained strong in 2005 and 2004, during the periods affected by foreign bans on U.S. beef. However, the spread of high pathogenic avian influenza (HPAI) in Southeast Asia and parts of eastern Europe have impacted exports to some of those markets as demand from the affected countries and their purchasing neighbors has changed. The impact of any potential outbreak in the U.S. is difficult to predict. U.S. poultry are generally raised indoors and are not as exposed to the migratory birds that carry the disease, and although there has been no incidence of the Asian HPAI in the U.S., domestic processors have increased their testing of their flocks.

Given the industry and government responses in the past to HPAI events and their demonstrated containment and eradication protocols, it is believed that any outbreak would be minimal and isolated.

Consumer concerns over the safety of poultry have recently reduced demand and prices, and may adversely affect profitability in the U.S. poultry industry. If this continues, the result could be an increase in nonperforming loans and provisions for loan losses on poultry-related loans. Given the current financial soundness of most of our borrowers in this industry, and the use of government guarantees, any decline in performance of these loans is not expected to have an adverse impact on the financial performance of the bank or associations.

The district experienced generally favorable growing conditions during 2005, but much of the district was affected by drought conditions during the fourth quarter. Some of the district's major crops, including cotton, rice and corn, have had increases in production and reductions in prices during 2005. There is a possibility of softening prices for commodities that may result from excess supplies and world demand.

During the third quarter of 2005, two hurricanes made landfall in the district. Despite the devastating effects of the hurricanes, the economic impact on district lenders is considered to be minimal. The associations impacted by these events are well-capitalized, with excellent credit liquidity and asset quality. Crop-related loans and facilities are generally insured and will be supported by government disaster support, and a significant portion of crops from the region were already harvested.

Cotton production has generally been good in the district. Acreage devoted to cotton in the Mississippi Delta region is expected to be the highest in the last four years; however, cotton prices have experienced declines during the year due to downward pressure resulting from increased global production. Production for the 2005/06 season is expected to decrease in China and Pakistan, and while world production is expected to decrease this season, global cotton consumption is expected to continue to grow.

Wheat production in the district was above average during the 2004/05 growing season, due to adequate rainfall during the growing season. In the fourth quarter of 2005, however, much of central and north-central Texas was experiencing significant drought. Contrary to what had been projected, exports are down from a year ago, and wheat prices generally have been lower than the last two years.

Corn production in the district during the 2004/05 growing season was above average, consistent with the record U.S. crop forecasts. With increased corn supplies and unchanged demand, prices have been declining and for the 2004/05 season were projected to be lower than last year; however, projected corn prices have risen due to projected decreases in supplies. Drought in much of the district will affect the 2005/06 growing season.

Rice plantings declined in Texas and Louisiana, and were up slightly in Mississippi. U.S. rice supplies have proven to be tighter than originally expected; rice price estimates have been raised recently; and the December mid-month price was the highest since October 2004. Government support payments will continue to be critical to the profitability of rice production.

Costs for fuel, fertilizer and chemicals are higher than last year. Input costs are playing a major part in the profitability of farm production. Increasing fuel costs will continue to be a significant factor in farm profitability in the foreseeable future. Fuel prices will be affected by high crude oil costs, strong gasoline demands, and low oil and gas inventories. Fuel prices may also be vulnerable to severe price shocks if major pipeline or refinery outages occur. Increases in the cost of labor, electricity, fertilizer and pesticide are also expected to impact producer margins for 2006.

The district continued to realize loan volume growth, strong earnings and strong credit quality in 2005, despite the economic challenges previously mentioned. The availability of off-farm income sources and Farm Service Agency guarantees have helped mitigate the impact of adverse agricultural economic conditions, allowing district entities to maintain the high credit quality of their loan portfolios during 2005. Overall district loan credit quality is expected to remain stable or decline modestly during 2006.

Figure 6

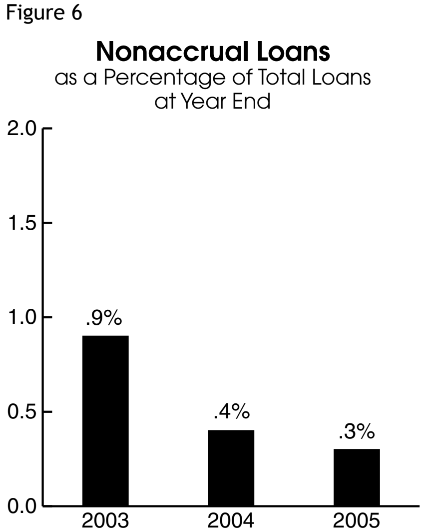


Figure 7

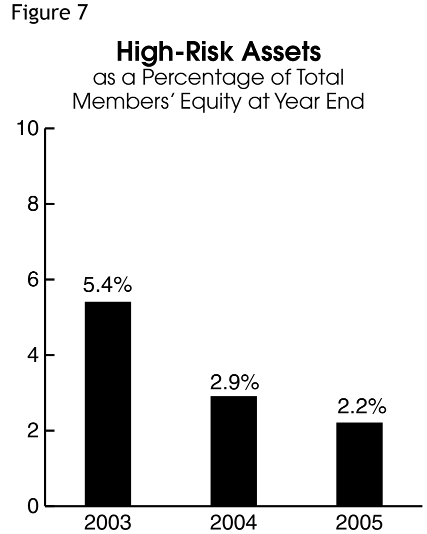
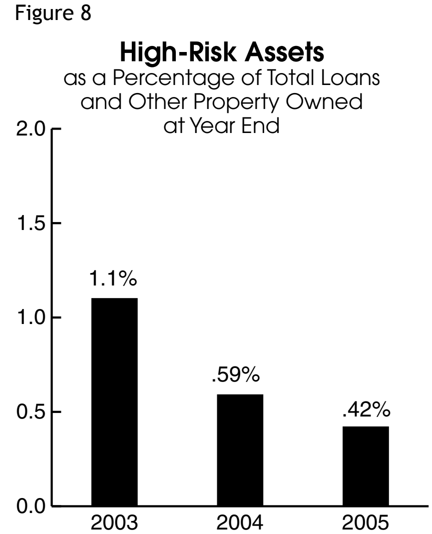


Figure 8



The Federal Reserve Board's Open Markets Committee increased the intended federal funds rate eight times in 2005, for a total increase of 200 basis points, and increased the rate another 25 basis points in January 2006. Although interest rates may increase further, it is expected that most of the operators in the district will continue to benefit from this interest rate environment in the near term.

The challenging conditions faced by the district require the managements of both the bank and associations to maintain caution in credit controls and monitoring and to continue to explore options for diversifying portfolio risk, increasing efficiency and streamlining operations where possible.

High-Risk Assets

Total high-risk assets have decreased by $7.1 million, or 14.2 percent, from $49.9 million at December 31, 2004, to $42.8 million at December 31, 2005. The decrease is primarily attributable to an $8.7 million decrease in nonaccrual loans, including decreases of $10.0 million at district associations and an increase of $1.3 million at the bank. The reductions at the district's associations were the result of paydowns, reinstatements to accrual status and, to a lesser extent, charge-offs. The increase at the bank included an addition of participation loans to one borrower totaling $3.0 million. The following table discloses the components of the district's high-risk assets at December 31,

(in millions)	**2005**	2004	2003
Nonaccrual loans	**$ 29.1**	$ 37.8	$ 66.6
Formally restructured loans	**7.1**	3.8	4.8
Loans past due 90 days or more and still accruing interest	**2.7**	3.1	1.9
Other property owned, net	**3.9**	5.2	6.1
Total	**$ 42.8**	$ 49.9	$ 79.4

At December 31, 2005, $19.5 million, or 67.1 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $20.2 million, or 53.4 percent, of nonaccrual loans at December 31, 2004, and $43.0 million, or 64.5 percent, at December 31, 2003.

Figures 6, 7 and 8 provide analyses of the relationships of nonaccrual loans and high-risk assets to total loans and members' equity at December 31, 2005, 2004 and 2003.

Allowance and Provision for Loan Losses

At December 31, 2005, the allowance for loan losses was $9.5 million, or 0.09 percent of total loans outstanding, compared to $10.6 million (0.13 percent) and $174.0 million (2.39 percent) at December 31, 2004 and 2003, respectively. Net charge-offs of $2.2 million, $6.0 million and $3.5 million were recorded in 2005, 2004 and 2003, respectively. The district's net provision for loan losses of $1.1 million for 2005 reflected an increase of $158.4 million, or 100.7 percent, from the $157.3 million negative provision recorded for 2004. The allowance for loan losses for the district represents the aggregate of each entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the combined financial statements, the allowance for loan losses of each entity is particular to that institution and is not available to absorb losses realized by other institutions. The allowance for loan losses at each period end was considered by management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. Management's evaluations consider factors including loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions and economic conditions.

During 2004, the bank and affiliated associations completed studies to further refine their allowance for loan losses methodologies, taking into account guidance that had been recently issued by the Farm Credit Administration (FCA), the System's regulator, as well as the Securities and Exchange Commission (SEC) and Federal Financial Institutions Examination Council guidelines. As a result of these studies and the resulting refinements in methodologies, during 2004, the bank and affiliated associations recorded a $157.3 million reversal of the allowance for loan losses. While the reversals had a significant impact on 2004 results of operations and the previously recorded allowance for loan losses, the refinement in methodologies is not expected to have a significant impact on comparative results of operations in subsequent periods.

The following table provides an analysis of key statistics related to the allowance for loan losses at:

	December 31,		
	2005	2004	2003
Allowance for loan losses as a percentage of:			
Average loans	**0.1%**	0.1%	2.5%
Loans at year end			
Total loans	**0.1**	0.1	2.4
Nonaccrual loans	**32.8**	28.1	261.1
Total impaired loans	**24.5**	23.8	237.3
Net charge-offs to average loans	**—**	0.1	0.1
Provision expense to average loans	**—**	(2.0)	0.2

ASSET/LIABILITY MANAGEMENT

Asset/liability management is the bank's process for directing and controlling the composition, level and flow of funds related to the district's interest-rate-sensitive assets and liabilities. Management's objective is to generate adequate and stable net interest income in a changing interest rate environment.

The bank uses a variety of techniques to manage the district's financial exposure to changes in market interest rates. These include monitoring the difference in the maturities or repricing cycles of interest-rate-sensitive assets and liabilities; monitoring the change in the market value of interest-rate-sensitive assets and liabilities under various interest rate scenarios; and simulating changes in net interest income under various interest rate scenarios.

The interest rate risk inherent in a district association's loan portfolio is substantially mitigated through its funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset/liability management process. Under the Farm Credit Act of 1971, as amended, a district association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. An association's indebtedness to the bank, under a general financing agreement between the bank and the association, represents demand borrowings by the association to fund the majority of its loan advances to association members.

The district's net interest income is determined by the difference between income earned on loans and investments and the interest expense paid on funding sources, typically systemwide bonds, medium-term notes and discount notes. The district's level of net

Figure 9

Interest Rate Gap Analysis
as of December 31, 2005

	Interest Sensitive Period						
	One Month or Less	Over One Through Six Months	Over Six Through Twelve Months	**Total Twelve Months or Less**	Over One Year but Less Than Five Years	Over Five Years and Non-Rate Sensitive	**Total**
Earning Assets							
Total loans	$ 5,805,346	$ 899,264	$ 522,052	**$ 7,226,662**	$ 1,941,645	$ 1,051,289	**$ 10,219,596**
Total investments	1,191,451	153,092	161,673	**1,506,216**	985,879	248,225	**2,740,320**
Total earning assets	6,996,797	1,052,356	683,725	**8,732,878**	2,927,524	1,299,514	**12,959,916**
Interest-Bearing Liabilities							
Total interest-bearing funds*	6,413,278	720,000	510,000	**7,643,278**	2,600,000	720,000	**10,963,278**
Excess of earning assets over interest-bearing liabilities	—	—	—	**—**	—	1,996,638	**1,996,638**
Total interest-bearing liabilities	6,413,278	720,000	510,000	**7,643,278**	2,600,000	2,716,638	**$ 12,959,916**
Interest rate sensitivity gap	$ 583,519	$ 332,356	$ 173,725	**$ 1,089,600**	$ 327,524	$ (1,417,124)	
Cumulative interest rate sensitivity gap	$ 583,519	$ 915,875	$ 1,089,600	**$ 1,089,600**	$ 1,417,124		

*The impact of interest rate swaps is included with interest-bearing funds.

interest income is affected by both changes in market interest rates and timing differences in the maturities or repricing cycles of interest-rate-sensitive assets and liabilities. Depending upon the direction and magnitude of changes in market interest rates, the district's net interest income may be affected either positively or negatively by the mismatch in the maturity or the repricing cycle of interest-rate-sensitive assets and liabilities.

The rate sensitivity gap analysis in Figure 9 sets forth a static measurement of the district's volume of interest-rate-sensitive assets and liabilities outstanding as of December 31, 2005, which are projected to mature or reprice in each of the future time periods shown. The "interest rate sensitivity gap" line reflects the mismatch, or gap, in the maturity or repricing of interest-rate-sensitive assets and liabilities. A gap position can be either positive or negative. A positive gap indicates that a greater volume of assets than liabilities reprices or matures in a given time period, and conversely, a negative gap indicates that a greater volume of liabilities than assets reprices or matures in a given time period. On a 12-month cumulative basis, the district has a positive gap position, indicating that the district has an exposure to declining interest rates. This occurs when maturing or repricing interest-rate-sensitive assets are replaced by loans and investments earning lower market interest rates, while corresponding funding costs decrease more slowly due to the lag in their maturity or repricing cycle.

To more appropriately reflect the cash flow and repricing characteristics of the district's balance sheet, an estimate of expected prepayments on loans is reflected in the maturities of the loans in the earning assets section of Figure 9. Changes in market interest rates will affect the volume of prepayments on loans. Correspondingly, adjustments have been made to reflect the characteristics of callable debt instruments and the effect derivative financial instruments have on the repricing structure of the district's balance sheet.

The bank uses derivative financial instruments, consisting of interest rate swaps, to manage the district's interest rate risk and liquidity position. Interest rate swaps for asset/liability management purposes are used to change the repricing characteristics of liabilities to match the repricing characteristics of the assets they support. The bank does not hold, and is restricted by policy from holding, derivative financial instruments for trading purposes and is not a party to leveraged derivative transactions.

At December 31, 2005, the bank had fair value hedges outstanding with a notional amount of $882 million and a negative value of $11.5 million, and cash flow hedges with a notional amount of $95 million and a positive fair value of $1.0 million. To the extent that its derivatives have a negative fair value, the bank has a payable on the instrument and the counterparty is exposed to the credit risk of the bank. To the extent that its derivatives have a positive fair value, the bank has a receivable on the instrument and is therefore exposed to credit risk from the counterparty. To manage this credit risk, the bank diversifies counterparties in the bank's transactions and monitors the credit ratings of all counterparties with whom it transacts. Figure 10 summarizes the bank's activity in derivative financial instruments for 2005.

Interest rate risk exposure is measured by simulation modeling, which calculates the district's expected net interest income based upon projections of interest-rate-sensitive assets and liabilities, derivative financial instruments and interest rate scenarios. The bank monitors the district's financial exposure to instantaneous and parallel changes in interest rates of 200 basis points up or

Figure 10

Activity in Derivative Financial Instruments
(Notional Amounts)

(in millions)	
Balance, December 31, 2004	$ 1,925
Additions	107
Maturities/calls	(970)
Terminations	(85)
Balance, December 31, 2005	**$ 977**

down over a rolling 12-month period. As of December 31, 2005, projected district net interest income would increase by $14.6 million, or 4.1 percent, if interest rates were to increase by 200 basis points, and would increase by $3.1 million, or 0.9 percent, if interest rates were to decrease by 200 basis points. In general, the bank's ability to exercise call options on debt benefit the district in the event of decreasing interest rates. In a rising interest rate scenario, the benefit of rate increases on association loans and the bank's participation loans would outpace the increase in the cost of debt.

The primary source of funds for the district is the issuance of systemwide debt securities through the Federal Farm Credit Banks Funding Corporation. The types and characteristics of securities are described in Note 7, "Bonds and Notes." As a condition of the bank's participation in the issuance of systemwide debt securities, the bank is required by regulation to maintain specified eligible assets as collateral in an amount equal to or greater than the total amount of bonds and notes outstanding for which the bank is liable. At December 31, 2005, the bank had excess collateral of $633.2 million. Management expects the bank to maintain sufficient collateral to permit its continued participation in systemwide debt issuances in the foreseeable future.

The following tables provide a summary of the debt obligations of the district *(dollars in millions)*:

	December 31,		
	2005	2004	2003
Bonds and term notes outstanding	**$ 9,155**	$ 7,500	$ 6,657
Average effective interest rate	**4.13%**	2.89%	1.91%
Average life (years)	**1.8**	1.6	1.8
Discount notes outstanding	**$ 1,408**	$ 733	$ 230
Average effective interest rate	**4.11%**	1.96%	0.82%
Average life (days)	**35**	20	19
Notes payable to other System banks	**$ 400**	$ 300	$ 300
Average effective interest rate	**4.81%**	2.81%	1.64%
Average life (years)	**1.0 or less**	1.0 or less	1.0 or less

	For the years ended December 31,		
	2005	2004	2003
Average interest-bearing liabilities outstanding	**$ 9,370**	$ 7,652	$ 6,678
Average interest rates on interest-bearing liabilities	**3.55%**	2.15%	2.10%

In February 2005, the bank sold an additional $100 million of participations in five of its direct notes receivable from district associations to another System bank. The purpose of these sales was to diversify the credit exposure of the bank by allowing the acquisition of mortgage-type investment securities and interests in other capital market loan participations. Also, the bank issued an additional $100 million in preferred stock in September 2005, which improves the bank's capital and liquidity and enables growth in the district's loan portfolio. The preferred stock issuance is discussed more fully in the "Members' Equity" section of this commentary and in Note 8, "Members' Equity."

The district had no commercial bank lines of credit in use at December 31, 2005.

The bank is required by FCA regulations to maintain a liquidity reserve fund composed of cash and investment securities to provide the bank with a short-term source of funds to cover maturing debt and debt interest obligations in the event that temporary disruptions in normal funding sources would limit the bank's ability to borrow funds at cost-effective interest rates. The bank is in compliance with its liquidity reserve requirement as of December 31, 2005.

Fair Value of Financial Instruments

Disclosure of the fair value of the bank's and associations' financial instruments is presented in Note 15, "Disclosure About the Fair Value of Financial Instruments," to the accompanying combined financial statements.

MEMBERS' EQUITY

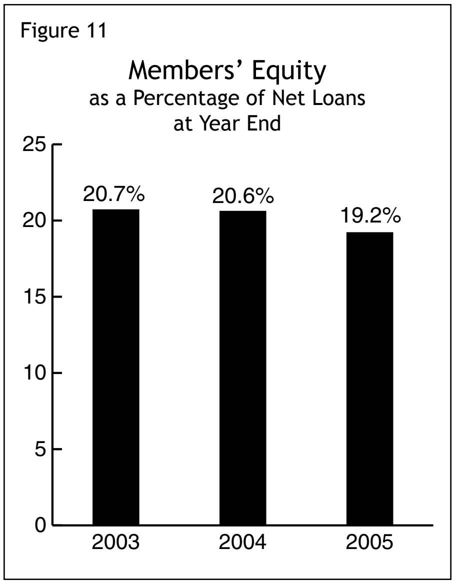
In November 2003, the bank issued 100,000 shares of $1,000 Cumulative Perpetual Preferred Stock for net proceeds of $98.6 million. The preferred stock is treated as equity and is not mandatorily redeemable. The preferred stock was issued to provide capital for the expansion of the bank's participations portfolio. In September 2005, an additional 100,000 shares of $1,000 Cumulative Perpetual Preferred Stock was issued for net proceeds of $108.9 million, which included $2.1 million in accrued dividends payable. Net proceeds from the additional issue were used to enhance the composition of the bank's capital and liquidity position; to support the bank's loan growth; to provide a base for further growth and service opportunities to our members and to rural America; and for general corporate purposes.

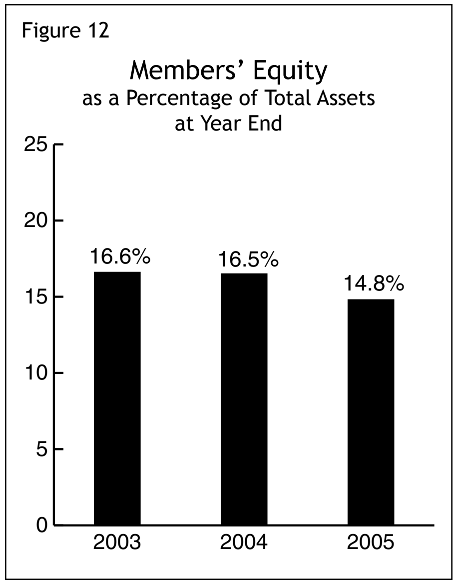
Borrower equity purchases required by association capitalization bylaws (see Note 8, "Members' Equity"), combined with a history of growth in retained earnings at district institutions, have resulted in district institutions being able to maintain strong capital positions. The $1.96 billion capital position of the district at December 31, 2005, reflects an increase of 12.6 percent over the December 31, 2004, capital position of $1.74 billion. This increase is attributable to the $219.9 million of net income earned in 2005 and net issuances of preferred stock, capital stock, participation certificates and allocated retained earnings of $130.8 million. These increases were offset by dividend and patronage distributions of $59.2 million, net retirements of capital stock, participation certificates, allocated retained earnings of $46.5 million, an increase in net unrealized losses on investments of $18.3 million, an increase of additional minimum pension liabilities of $7.4 million and a decrease in the net unrealized gain on cash flow derivative instruments of $262.

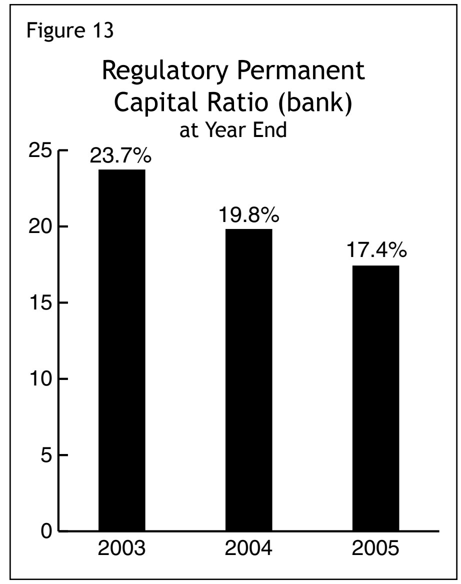
The return on average members' equity for the year ended December 31, 2005, was 11.8 percent, compared to 21.9 percent and 12.5 percent reported for the years ended December 31, 2004 and 2003, respectively.

In addition to the $59.2 million of cash patronage and dividend distributions that have either been paid or declared for payment, allocated equities of $6.4 million also have been declared for future distribution to stockholders, totaling $65.6 million in equity distributions.

FCA regulations require System institutions to compute a total surplus ratio, a core surplus ratio and a net collateral ratio (bank only) and maintain at least the minimum standard for each ratio. In those instances where an entity may not be in compliance, the regulations require the entity to submit a corrective plan to the FCA







designed to move the institution into compliance. As of December 31, 2005, the bank and all district associations were in compliance with the regulations. Note 8, "Members' Equity," outlines the ranges of capital ratios for the bank and district associations. The bank's permanent capital ratio of 17.36 percent at December 31, 2005, is considered adequate, in accordance with the capital plan adopted by the bank's board of directors. An analysis of the trend in the district's capital ratios is presented in Figures 11, 12 and 13.

OTHER

Contractual Interbank Performance Agreement

All banks in the System, the Federal Farm Credit Banks Funding Corporation and the Farm Credit System Financial Assistance Corporation (FAC) participate in the Contractual Interbank Performance Agreement (CIPA). The objective of CIPA is to encourage districts to achieve and/or maintain higher levels of financial condition and performance by subjecting them to a scoring process based on district profitability, asset quality and capital adequacy, with penalties for weak liquidity and excessive interest rate risk. The district's composite CIPA score is in compliance with agreed-upon CIPA standards and is expected to remain so during 2006.

Association Structural Changes

As of December 31, 2005, there were 13 ACAs and 8 FLCAs, totaling 21 associations within the district, reflecting no change from December 31, 2004. The bank had funding relationships with four OFIs at December 31, 2005 and 2004.

Report of Audit Committee

The Farm Credit Bank of Texas and the Tenth Farm Credit District Associations

The Audit Committee (Committee) is composed of the entire board of directors of the Farm Credit Bank of Texas (bank). The Committee oversees the scope of the district's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those internal control activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the bank's Web site at www.farmcreditbank.com. In 2005, four Committee meetings were held. At the first of their meetings, the Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) independent auditors for 2005.

Management is responsible for the district's internal controls and the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the district's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the district's audited financial statements for the year ended December 31, 2005 (the "Audited Financial Statements") with management and PwC. The Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 61, as amended ("Communications With Audit Committees"), and both PwC and the district's internal auditors directly provided reports on significant matters to the Committee.

The Committee discussed with appropriate representatives of PwC the firm's independence from the district. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the independent accountant's independence. Furthermore, throughout 2005 the Committee has discussed with management and PwC such other matters and received such assurances from them as the Committee deemed appropriate.

William F. Staats, Chairman
Ralph W. Cortese
Jon M. Garnett
C. Kenneth Andrews
Joe R. Crawford
James F. Dodson

Audit Committee Members

March 1, 2006

PricewaterhouseCoopers LLP
300 West 6th Street
Suite 1800
Austin TX 78701
Telephone (512) 477 1300
Facsimile (512) 477 8681

Report of Independent Auditors

To the Board of Directors and Shareholders
of the Farm Credit Bank of Texas and
the Tenth Farm Credit District Associations

In our opinion, the accompanying combined balance sheets and the related combined statements of income, of changes in member' equity and of cash flows present fairly, in all material respects, the financial position of the Farm Credit Bank of Texas (Bank) and the Tenth Farm Credit District Associations (District) at December 31, 2005, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 1, 2006

FINANCIAL STATEMENTS

Combined Balance Sheets

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	December 31,		
(in thousands)	**2005**	2004	2003
Assets			
Cash	**$ 51,847**	$ 44,169	$ 47,417
Federal funds sold and securities purchased under resale agreements	**42,444**	47,500	21,800
Investment securities	**2,697,876**	1,787,706	1,518,102
Loans	**10,219,596**	8,444,347	7,272,314
Less allowance for loan losses	**9,533**	10,617	173,980
Net loans	**10,210,063**	8,433,730	7,098,334
Accrued interest receivable	**146,769**	106,209	92,473
Other property owned, net	**3,902**	5,184	6,057
Premises and equipment, net	**37,982**	34,983	28,652
Other assets	**21,337**	39,458	29,373
Total assets	**$ 13,212,220**	$ 10,498,939	$ 8,842,208
Liabilities and members' equity			
Liabilities			
Bonds and notes, net	**$ 10,963,278**	$ 8,532,533	$ 7,186,738
Accrued interest payable	**61,718**	37,551	33,129
Intra-System financial assistance payable	**—**	77	453
Other liabilities	**232,129**	192,649	149,833
Total liabilities	**11,257,125**	8,762,810	7,370,153
Commitments and contingencies (Note 13)			
Members' equity			
Preferred stock	**203,569**	103,963	103,998
Common stock and participation certificates	**73,642**	88,962	101,168
Allocated retained earnings	**32,327**	32,662	35,328
Unallocated retained earnings	**1,692,534**	1,531,503	1,236,010
Accumulated other comprehensive loss	**(46,977)**	(20,961)	(4,449)
Total members' equity	**1,955,095**	1,736,129	1,472,055
Total liabilities and members' equity	**$ 13,212,220**	$ 10,498,939	$ 8,842,208

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

Combined Statements of Income

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	Year Ended December 31,		
(in thousands)	**2005**	2004	2003
Investment securities, federal funds sold and securities purchased under resale agreements	**$ 76,735**	$ 48,621	$ 24,269
Loans	**595,995**	419,862	381,215
Total interest income	**672,730**	468,483	405,484
Bonds and notes	**316,201**	157,818	139,447
Notes payable and other	**16,057**	6,529	986
Total interest expense	**332,258**	164,347	140,433
Net interest income	**340,472**	304,136	265,051
Provision (negative provision) for loan losses	**1,084**	(157,325)	11,602
Net interest income after provision for loan losses	**339,388**	461,461	253,449
Fees for loan-related services	**14,028**	10,845	8,750
Gain on sale of mineral rights	**—**	—	30,494
Gain from sale of investment securities	**—**	420	—
Miscellaneous income, net	**4,017**	4,238	7,546
Total noninterest income	**18,045**	15,503	46,790
Salaries and employee benefits	**79,133**	76,349	72,630
Occupancy and equipment expense	**10,524**	10,593	11,150
Insurance Fund premiums	**4,587**	3,811	8,229
Losses (gains) on other property owned, net	**(42)**	(428)	425
Intra-System financial assistance expenses	**1,905**	3,804	6,794
Other operating expenses	**40,810**	38,551	32,071
Total noninterest expense	**136,917**	132,680	131,299
Income before income taxes	**220,516**	344,284	168,940
Provision for income taxes	**639**	1,768	324
Net income	**$ 219,877**	$ 342,516	$ 168,616

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

Combined Statements of Changes in Members' Equity

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(in thousands)	Preferred Stock	Common Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Retained Earnings Total	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2002	$ 2,909	$ 103,836	$ 34,743	$ 1,095,380	$ 1,130,123	$ 218	$ 1,237,086
Comprehensive income							
Net income	—	—	—	168,616	168,616	—	168,616
Unrealized net losses on investment securities	—	—	—	—	—	(5,647)	(5,647)
Minimum pension liability adjustment	—	—	—	—	—	980	980
Total comprehensive income	—	—	—	168,616	168,616	(4,667)	163,949
Preferred stock issued	100,000	—	—	—	—	—	100,000
Issuance costs on preferred stock	—	—	—	(1,356)	(1,356)	—	(1,356)
Capital stock/participation certificates issued	5	23,130	—	—	—	—	23,135
Capital stock/participation certificates and allocated retained earnings retired	(76)	(25,798)	(1,212)	(226)	(1,438)	—	(27,312)
Cash dividends on preferred stock	—	—	—	(798)	(798)	—	(798)
Patronage distributions							
Cash	—	—	(1,186)	(21,463)	(22,649)	—	(22,649)
Members' equity	1,160	—	2,983	(4,143)	(1,160)	—	—
Balance at December 31, 2003	103,998	101,168	35,328	1,236,010	1,271,338	(4,449)	1,472,055
Comprehensive income							
Net income	—	—	—	342,516	342,516	—	342,516
Unrealized net losses on investment securities	—	—	—	—	—	(4,418)	(4,418)
Unrealized net gains on cash flow hedge derivatives	—	—	—	—	—	1,309	1,309
Minimum pension liability adjustment	—	—	—	—	—	(13,403)	(13,403)
Total comprehensive income	—	—	—	342,516	342,516	(16,512)	326,004
Capital stock/participation certificates issued	—	16,470	—	—	—	—	16,470
Capital stock/participation certificates and allocated retained earnings retired	(35)	(28,676)	(4,182)	—	(4,182)	—	(32,893)
Cash dividends on preferred stock	—	—	—	(7,561)	(7,561)	—	(7,561)
Patronage distributions							
Cash	—	—	(370)	(37,576)	(37,946)	—	(37,946)
Members' equity	—	—	1,886	(1,886)	—	—	—
Balance at December 31, 2004	103,963	88,962	32,662	1,531,503	1,564,165	(20,961)	1,736,129
Comprehensive income							
Net income	—	—	—	219,877	219,877	—	219,877
Unrealized net losses on investment securities	—	—	—	—	—	(18,310)	(18,310)
Unrealized net losses on cash flow hedge derivatives	—	—	—	—	—	(262)	(262)
Minimum pension liability adjustment	—	—	—	—	—	(7,444)	(7,444)
Total comprehensive income	—	—	—	219,877	219,877	(26,016)	193,861
Preferred stock issued	100,000	—	—	—	—	—	100,000
Premium received on preferred stock net of issuance costs	—	—	—	6,773	6,773	—	6,773
Capital stock/participation certificates issued	—	23,983	—	—	—	—	23,983
Capital stock/participation certificates and allocated retained earnings retired	(394)	(39,303)	(6,770)	—	(6,770)	—	(46,467)
Cash dividends on preferred stock	—	—	—	(9,220)	(9,220)	—	(9,220)
Patronage distributions							
Cash	—	—	—	(49,964)	(49,964)	—	(49,964)
Members' equity	—	—	6,435	(6,435)	—	—	—
Balance at December 31, 2005	**$ 203,569**	**$ 73,642**	**$ 32,327**	**$ 1,692,534**	**$ 1,724,861**	**$ (46,977)**	**$ 1,955,095**

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

Combined Statements of Cash Flows

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(in thousands)	Year Ended December 31, 2005	2004	2003
Operating Activities			
Net income	**$ 219,877**	$ 342,516	$ 168,616
Reconciliation of net income to net cash provided by operating activities			
Provision (negative provision) for loan losses	**1,084**	(157,325)	11,602
(Negative provision) provision for losses on other property owned	**(46)**	(323)	272
Depreciation and amortization on premises and equipment	**4,625**	4,443	4,911
Accretion of net discount on loans	**(3,434)**	(1,945)	(3,167)
Amortization of net discount (premium) on notes	**29,879**	3,913	(7,006)
Accretion of net (discount) premium on investments	**7,009**	(3,466)	(7,663)
Gains on sales of investment securities	**—**	(420)	—
Gains on sales of mineral rights, net	**—**	—	(30,494)
(Gains) losses on sales of other property owned, net	**(14)**	(729)	4
(Gains) losses on sales of premises and equipment	**(4,217)**	(461)	1,563
(Increase) decrease in accrued interest receivable	**(40,560)**	(13,736)	6,928
Decrease (increase) in other assets, net	**15,277**	(20,434)	(1,434)
Increase (decrease) in accrued interest payable	**24,167**	4,422	(5,200)
Decrease in intra-System financial assistance payable	**(77)**	(376)	(3,881)
Increase in other liabilities, net	**24,142**	10,409	17,551
Net cash provided by operating activities	**277,712**	166,488	152,602
Investing Activities			
Net (increase) decrease in federal funds sold and securities purchased under resale agreements	**5,056**	(25,700)	32,169
Investment securities available for sale:			
Purchases	**(4,653,111)**	(2,938,373)	(7,713,178)
Proceeds from maturities, calls and prepayments	**3,717,622**	2,582,672	6,982,163
Proceeds from sales	**—**	85,565	—
Increase in loans, net	**(1,772,641)**	(1,177,383)	(481,218)
Proceeds from sale of loans	**100,000**	—	300,000
Proceeds from sales of mineral rights, net	**—**	—	30,494
Proceeds from sales of other property owned, net	**—**	3,182	4,544
Proceeds from sales of premises and equipment	**6,471**	3,134	3,231
Expenditures for premises and equipment	**(9,878)**	(13,447)	(6,767)
Net cash used in investing activities	**(2,606,481)**	(1,480,350)	(848,562)
Financing Activities			
Bonds and notes issued	**24,454,370**	92,467,455	32,137,344
Bonds and notes retired	**(22,149,048)**	(91,092,157)	(31,522,033)
Increase (decrease) in advanced conditional payments	**6,020**	(2,754)	5,680
Preferred stock issued, net of expenses	**106,773**	—	98,644
Capital stock and participation certificates issued	**23,983**	16,470	23,135
Capital stock and participation certificates retired and allocated retained earnings distributed	**(46,467)**	(32,893)	(27,312)
Cash dividends on preferred stock	**(9,220)**	(7,561)	(798)
Cash dividends and patronage distributions paid	**(49,964)**	(37,946)	(22,649)
Net cash provided by financing activities	**2,336,447**	1,310,614	692,011
Net increase (decrease) in cash	**7,678**	(3,248)	(3,949)
Cash at beginning of year	**44,169**	47,417	51,366
Cash at end of year	**$ 51,847**	$ 44,169	$ 47,417
Supplemental Schedule of Noncash Investing and Financing Activities			
Financed sales of other property owned	**$ 3,618**	$ 4,866	$ 923
Loans transferred to other property owned	**2,276**	6,123	5,608
Unrealized net losses on investment securities	**(18,310)**	(4,418)	(5,647)
Cash dividends or patronage distributions payable	**44,284**	38,158	19,069
Supplemental Schedule of Noncash Changes in Fair Value Related to Hedging Activities			
Decrease in bonds and notes	**$ (2,097)**	$ (17,363)	$ (3,067)
Supplemental Information			
Cash paid during the year for:			
Interest	**$ 297,009**	$ 149,255	$ 148,591
Income taxes	**448**	397	771

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

Notes to Combined Financial Statements

Farm Credit Bank of Texas and District Associations
(dollars in thousands, except per share amounts and as noted)

Note 1 — Organization and Operations

A. Organization:

The Farm Credit Bank of Texas (bank) is one of the banks of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations established by acts of Congress. The System is currently subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act).

The United States is served by four Farm Credit Banks (FCBs), each of which has specific lending authority within its chartered territory, and one Agricultural Credit Bank (ACB), which has nationwide lending authority for lending to cooperatives. The ACB also has lending authorities of an FCB within its chartered territories. The bank is chartered to service the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Each FCB and the ACB serve one or more Agricultural Credit Associations (ACAs) and/or Federal Land Credit Associations (FLCAs). The bank and its related associations collectively are referred to as the Tenth Farm Credit District (district). The district's 8 FLCAs, 13 ACA parent associations, each containing two wholly-owned subsidiaries (an FLCA and a Production Credit Association [PCA]), certain Other Financing Institutions (OFIs) and preferred stockholders jointly owned the bank at December 31, 2005. FLCAs and ACAs collectively are referred to as associations.

Each FCB and the ACB are responsible for supervising certain activities of the associations within their districts. The FCBs and/or associations make loans to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. All district associations borrow funds from the bank. Funds for the FCBs and the ACB are principally raised through the sale of consolidated systemwide bonds and notes to the public.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the bank and associations. The activities of the bank and associations are examined by the FCA, and certain actions by these entities are subject to the FCA's prior approval.

B. Operations:

The Farm Credit Act sets forth the types of authorized lending activities and financial services which can be offered by the bank and the associations and defines the eligible borrowers which they may serve. The associations are authorized to provide, or participate with other lenders to provide, credit, credit commitments and related services to eligible borrowers. Eligible borrowers are defined as (a) bona fide farmers and ranchers and producers or harvesters of aquatic products, (b) persons furnishing to farmers and ranchers services directly related to their on-farm operating needs, (c) owners of rural homes, (d) rural residents and (e) farm-related businesses. The bank also may lend to any national bank, state bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union or any association of agricultural producers (aggregately referred to as OFIs) engaged in the making of loans to farmers and ranchers, and any corporation engaged in the making of loans to producers or harvesters of aquatic products.

The associations also serve as intermediaries in offering credit life and multi-peril crop insurance and financial management services to their borrowers.

FCA regulations require borrower information 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.

FLCAs borrow funds from the bank and in turn originate and service long-term real estate mortgage loans made to their members. The OFIs borrow from the bank and, in turn, originate and service short- and intermediate-term loans for their members. The ACAs borrow from the bank and in turn may originate and service both long-term real estate mortgage and short- and intermediate-term loans to their members. ACAs may form a parent-subsidiary structure and may operate their long-term mortgage activities through an FLCA subsidiary and their short- and intermediate-term lending activities through a PCA subsidiary. In the states of Alabama and Mississippi, the bank may discount or purchase from FLCAs long-term real estate mortgage loans. In the states of Louisiana, New Mexico and Texas, the bank may discount or purchase from FLCAs and ACAs long-term real estate mortgage loans and, from ACAs, short- and intermediate-term loans.

The bank, in conjunction with other banks in the System, jointly owns several service organizations which were created to provide a variety of services for the System. The bank has ownership interests in the following service organizations:

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) — provides for the issuance, marketing and processing of systemwide debt securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- Farm Credit System Building Association — leases premises and equipment to the FCA, as required by the Farm Credit Act.
- Farm Credit System Association Captive Insurance Company — as a reciprocal insurer, provides insurance services to its member organizations.

In addition, the Farm Credit Council acts as a full-service, federated trade association which represents the System before Congress, the executive branch and others, and provides support services to System institutions on a fee basis.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (FCSIC or Insurance Fund) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is 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 also is available for the permissible uses of providing assistance to certain troubled and insured System institutions and for covering the operating expenses of the FCSIC.

Each System bank is insured and is required to pay premiums to the Insurance Fund 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 (systemwide debt obligations). When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. The premium is based on the average principal outstanding of accrual and nonaccrual loans of the district for the year. At December 31, 2005, the assets in the Insurance Fund were approximately $2.1 billion; however, due to the other authorized uses of the Insurance Fund, there is no assurance that any available amount in the Insurance Fund will be sufficient to ensure the timely payment of principal or interest on an insured debt obligation in the event of a default by any System bank having primary liability thereon.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the combined bank and associations conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of combined financial statements in conformity with GAAP requires the managements of the bank and associations to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes. Significant estimates are discussed in these notes as applicable. Certain amounts in prior years' combined financial statements have been reclassified to conform to the current year's presentation.

The accompanying combined financial statements include the accounts of the bank and associations, and reflect the investments in and allocated earnings of the service organizations in which the bank has partial ownership interests. All significant transactions and balances between the bank and associations have been eliminated in combination. The multi-employer structure of the district's defined benefit retirement plan results in the recording of the plan upon combination only.

A. Cash:

Cash, as included in the financial statements, represents cash on hand and on deposit at banks.

B. Investment Securities:

The bank, as permitted under FCA regulations, holds eligible investments for the purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk.

The bank's investments are to be held for an indefinite time period and, accordingly, have been classified as available for sale at December 31, 2005, 2004 and 2003. These investments are reported at fair value, and unrealized holding gains and losses are netted and reported as a separate component of members' equity in the combined balance sheets. Purchased premiums and discounts are amortized or accreted using the constant yield method (which is not materially different from the effective interest method) over the term of the respective issues. Realized gains and losses are determined using the specific identification method and are recognized in current operations.

The bank reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other than temporary. In the event of other than temporary impairment, the cost basis of the investment would be written down to its fair value, and the loss would be included in current earnings.

C. Loans and Allowance for Loan Losses:

Long-term real estate mortgage loans generally have maturities ranging from five to 40 years. Substantially all short-term and intermediate-term loans are made for agricultural production or operating purposes and have maturities of 10 years or less.

Loans are carried at their principal amount outstanding less any unearned income or unamortized discount. Interest on loans is accrued and credited to interest income based on the daily principal amount outstanding. Funds which are held by the district on behalf of the borrowers, where legal right of setoff exists, and which can be used to reduce outstanding loan balances at the district's discretion, are netted against loans in the combined balance sheets.

Loan origination fee income and salary and benefits expenses attributable to loans originated are deferred and amortized over the life of the related loans as an adjustment to yield.

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 full collection of principal and interest is in doubt. In accordance with FCA regulations, all loans 180 days or more past due are considered nonaccrual. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if current year interest) or charged against the allowance for loan losses (if prior year interest).

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, payments are recognized as interest income. Nonaccrual loans may be returned to accrual status when contractual principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss." If previously unrecognized interest income exists upon reinstatement of a nonaccrual loan to accrual status, interest income will only be recognized upon receipt of cash payments applied to the loan.

In cases where a borrower experiences financial difficulties and the bank or association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

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. 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 the result of past due status, is collected or otherwise discharged in full.

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 and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through reversals of provisions for loan losses and loan charge-offs. The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors.

The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss. The determination of the allowance for loan losses is based on management's current judgments about the credit quality of its loan portfolio. A specific allowance may be established for impaired loans under SFAS No. 114. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent. See Note 4 for a discussion on the refinement of the allowance for loan losses methodologies.

D. Other Property Owned:

Other property owned, consisting of real and personal property acquired through foreclosure or other collection action, is recorded at fair value, based on appraisal, less estimated selling costs upon acquisition. 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 losses (gains) on other property owned, net.

E. Premises and Equipment:

Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation expense is calculated using the straight-line method over the estimated useful lives of 40 years for buildings and improvements, three to 10 years for furniture, equipment and certain leasehold improvements, and three to four years for automobiles. Computer software and hardware are amortized over three years. Gains and losses on dispositions are reflected currently. Maintenance and repairs are charged to operating expense, and improvements are capitalized and amortized over the remaining useful life of the asset.

F. Other Assets and Other Liabilities:

Direct expenses incurred in issuing debt are deferred and amortized using the straight-line method (which is not materially different from the effective interest method) over the term of related indebtedness.

In connection with past foreclosure and sale proceedings, the bank retained certain mineral interests and equity positions in land from which it received revenues from lease bonuses, rentals and royalties. These intangible assets were recorded at nominal or no value in the combined balance sheets. Income received from mineral and royalty holdings, net of related property taxes, in 2003 was $5.0 million, and is included in miscellaneous income in the combined statements of income. These mineral interests were sold in November 2003 for proceeds of $30.5 million, which is included in "Gain on sale of mineral rights."

The bank and associations are authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. ACPs which are held by the district but cannot be used to reduce outstanding loan balances, except at the direction of the borrower, are classified as other liabilities in the combined balance sheets. ACPs are not insured, and interest is generally paid by the associations on such balances. The total outstanding gross balances of advance conditional payments, both netted against loans and classified as other liabilities, at December 31, 2005, 2004 and 2003 were $248.1 million, $283.8 million and $227.7 million, respectively.

Derivative financial instruments are included on the balance sheet at fair value, as either other assets or other liabilities.

G. Employee Benefit Plans:

The employees of the bank and associations participate in one of two districtwide retirement plans and are eligible to participate in the 401(k) Plan of the district. Additionally, certain qualified individuals in the bank may participate in a separate, supplemental pension plan. Within the 401(k) Plan, a certain percentage of employee contributions is matched by the bank and associations. The 401(k) Plan costs are expensed as incurred.

As more fully described in Note 10, "Employee Benefit Plans," these plans are accounted for and reported in accordance with SFAS No. 87, "Employers' Accounting for Pensions," SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits." The bank and all but one association provide certain health care and life insurance benefits to eligible retired employees and directors. District employees' eligibility for these benefits upon retirement is dependent on conditions set by each district employer.

The structure of the district's defined benefit plans 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, nor is any participating employer required to pay for plan liabilities upon withdrawal from the plans. As a result, participating employers of the plans 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. The majority of plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination only.

H. Income Taxes:

The bank, FLCAs and FLCA subsidiaries of ACA parent companies are exempt from federal and certain other income taxes as provided in the Farm Credit Act. The ACAs and their PCA subsidiaries provide for federal and certain other income taxes.

Certain ACAs operate as cooperatives which qualify for tax treatment under Subchapter T of the Internal Revenue Code. These ACAs and their PCA subsidiaries can exclude from taxable income amounts distributed as qualified patronage distributions to borrowers in the form of cash, stock or allocated retained earnings. Provisions for income taxes for these ACAs are made only on the earnings not distributed as qualified patronage distributions. Certain ACAs distribute patronage on the basis of taxable income. In this method, deferred income taxes are provided on the taxable income of ACAs on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. Other ACAs distribute patronage on the basis of book income. In this method, deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. For all ACAs, a valuation allowance is provided for the 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.

As of December 31, 2005, deferred income taxes have not been provided by the ACAs and their PCA subsidiaries on $29.4 million of pre-1993 patronage distributions from the bank because management's intent is to (1) permanently invest these and other undistributed earnings in the bank, thereby indefinitely postponing their conversion to cash, or (2) pass through any distributions related to pre-1993 earnings to borrowers through qualified patronage allocations. No deferred taxes have been provided on the bank's pre-1993 unallocated earnings. The bank currently has no plans to distribute unallocated bank earnings and does not contemplate circumstances which, if distributions were made, would result in income taxes being paid at the association level. Deferred income taxes have also not been provided on accumulated FLCA subsidiary earnings of $112,056, as it is management's intent to permanently maintain this investment in the FLCA subsidiary or to distribute the earnings to stockholders in a manner that results in no additional tax liability.

I. Derivative Instruments and Hedging Activity:

The bank is party to derivative financial instruments, consisting of interest rate swaps, which are principally used to manage interest rate risk on assets, liabilities and firm commitments. Derivatives are recorded on the balance sheet as assets and liabilities at fair value.

For fair-value hedge transactions which hedge changes in the fair value of assets, liabilities or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value. For cash flow hedges, which hedge the exposure to variability in expected future cash flows, changes in the fair value of the derivative are reflected in accumulated other comprehensive income. The bank formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific liabilities on the balance sheet. The bank uses interest rate swaps whose critical terms match the corresponding hedged item, thereby qualifying for short-cut treatment under the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and are presumed to be highly effective in offsetting changes in the fair value. The bank would discontinue hedge accounting prospectively when the bank determines that a derivative has not been or is not expected to be effective as a hedge. In the event that hedge accounting were discontinued and the derivative remained outstanding, the bank would carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

Note 3 — Investment Securities

A summary of the amortized cost and estimated fair value of investment securities available for sale at December 31, 2005, 2004 and 2003, follows.

	December 31, 2005				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Commercial paper and other	**$ 550,981**	**$ —**	**$ (67)**	**$ 550,914**	**4.35%**
CMOs	**1,749,796**	**702**	**(27,835)**	**1,722,663**	**4.31%**
Asset-backed securities	**424,276**	**118**	**(95)**	**424,299**	**4.62%**
Total	**$ 2,725,053**	**$ 820**	**$(27,997)**	**$ 2,697,876**	**4.37%**

	December 31, 2004				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper and other	$ 170,744	$ 7	$ (6)	$ 170,745	2.33%
CMOs	1,592,344	1,019	(9,928)	1,583,435	3.58%
Asset-backed securities	33,485	41	—	33,526	2.69%
Total	$ 1,796,573	$ 1,067	$ (9,934)	$ 1,787,706	3.42%

	December 31, 2003				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper and other	$ 290,331	$ 56	$ (6)	$ 290,381	1.16%
CMOs	1,196,072	2,586	(7,225)	1,191,433	3.17%
Asset-backed securities	36,148	144	(4)	36,288	1.36%
Total	$ 1,522,551	$ 2,786	$ (7,235)	$ 1,518,102	2.72%

A summary of expected maturity, amortized cost, estimated fair value and weighted average yield of investment securities at December 31, 2005, follows:

	Weighted Amortized Cost	Fair Value	Weighted Average Yield
Due in one year or less	$ 550,981	$ 550,914	4.35%
Due after one year through five years	—	—	—
Due after five years through 10 years	117,485	113,954	3.95
Due after 10 years	2,056,587	2,033,008	4.40
Total	$ 2,725,053	$ 2,697,876	4.37%

CMOs have stated contractual maturities in excess of 15 years. However, the security structure of the CMOs is designed to produce a relatively short-term life. At December 31, 2005, the CMO portfolio had a weighted average remaining life of approximately two years.

Proceeds and related gains and losses on sales of investment securities follow:

	Year Ended December 31,		
	2005	2004	2003
Proceeds on sales	**$ —**	$ 85,645	$ —
Realized gains	**—**	420	—

The net realized gain and loss is included on the combined statements of income as part of total noninterest income.

The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized position at December 31, 2005. The continuous loss position is based on the date the impairment occurred. An investment is considered impaired if its fair value is less than its cost. The impairments of these investments are considered temporary. The ratings of all of the investments meet all applicable regulatory standards and their current loss positions result solely from interest rate fluctuations and not from any deterioration of investment quality. The bank has the ability and the intent to hold these investments for a period of time sufficient to collect all amounts due according to the contractual terms of the investments, obtaining a full recovery of the cost of the investment.

(in thousands)	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Mortgage-backed securities	$ 553,263	$ (5,318)	$ 907,993	$ (22,517)
Commercial paper	450,914	(67)	—	—
Asset-backed securities	126,022	(95)	—	—
Total	$ 1,130,199	$ (5,480)	$ 907,993	$ (22,517)

Note 4 — Loans and Allowance for Loan Losses

Loans comprised the following categories at December 31:

	2005	2004	2003*
Production agriculture			
Real estate mortgage	**$ 7,543,357**	$ 6,577,566	$ 6,157,243
Production and intermediate term	**1,209,962**	924,783	887,639
Agribusiness			
Loans to cooperatives	**33,868**	37,082	—
Processing and marketing	**609,909**	382,814	—
Farm-related business	**149,622**	100,467	91,114
Communication	**206,084**	109,929	—
Energy	**242,146**	104,018	—
Water/waste disposal	**997**	—	—
Rural home	**116,832**	115,955	109,684
International	**1,035**	—	—
OFIs	**91,998**	73,192	26,634
Lease receivables	**13,786**	18,541	—
Total	**$ 10,219,596**	$ 8,444,347	$ 7,272,314

*Beginning with year-end 2004, the bank and associations have changed the loan type information to provide more granular information.

A significant source of liquidity for the district is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by type at December 31, 2005, and indicates that approximately 67 percent of loans had maturities of one year or less.

	Due in 1 year or less	Due after 1 through 5 years	Due after 5 years	Total
Production agriculture				
Real estate mortgage	$ 4,614,609	$ 1,537,900	$ 1,390,848	$ 7,543,357
Production and Intermediate term	1,116,631	80,197	13,134	1,209,962
Agribusiness				
Loans to cooperatives	21,477	6,223	6,168	33,868
Processing and marketing	477,106	75,840	56,963	609,909
Farm-related business	126,862	10,948	11,812	149,622
Communication	200,466	5,618	—	206,084
Energy	143,535	20,039	78,572	242,146
Water/waste disposal	997	—	—	997
Rural home	62,815	33,456	20,561	116,832
International	55	355	625	1,035
OFIs	80,392	1,449	10,157	91,998
Lease receivables	12,767	969	50	13,786
Total	$ 6,857,712	$ 1,772,994	$ 1,588,890	$10,219,596

The district's concentration of credit risk in various agricultural commodities is shown in the following table at December 31 *(dollars in millions)*:

	2005		2004		2003	
Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$ 4,037**	**40%**	$ 3,447	41%	$ 3,014	41%
Crops	**1,530**	**15**	1,328	16	1,227	17
Timber	**1,285**	**13**	951	11	883	12
Cotton	**698**	**7**	716	8	707	10
Poultry	**423**	**4**	413	5	410	6
Dairy	**248**	**2**	160	2	163	2
Rural home	**117**	**1**	111	1	109	2
Other	**1,882**	**18**	1,318	16	759	10
Total	**$ 10,220**	**100%**	$ 8,444	100%	$ 7,272	100%

While the amounts in the table above represent the maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the district's lending activities is collateralized, and, accordingly, the actual credit risk associated with lending activities is considerably less than the recorded loan principal. An estimate of actual credit risk is considered in the combined financial statements in the allowance for loan losses.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loans. Interest income recognized and cash payments received on nonaccrual impaired loans are applied in a similar manner as for nonaccrual loans, as described in Note 2, "Summary of Significant Accounting Policies."

The following table presents information concerning nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due. Restructured loans are loans whose terms have been modified and on which concessions have been granted because of borrower financial difficulties.

	December 31, **2005**	2004	2003
Nonaccrual loans			
Current as to principal and interest	**$ 19,513**	$ 20,205	$ 42,971
Past due	**9,581**	17,562	23,668
Total nonaccrual loans	**29,094**	37,767	66,639
Accrual loans			
Restructured	**7,111**	3,844	4,742
90 days or more past due	**2,719**	3,070	1,939
Total impaired accrual loans	**9,830**	6,914	6,681
Total impaired loans	**$ 38,924**	$ 44,681	$ 73,320
Average impaired loans	**$ 43,991**	$ 64,350	$ 68,964

There were $2.2 million in commitments to lend additional funds to borrowers whose loans were classified as nonaccrual or restructured at December 31, 2005.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2, "Summary of Significant Accounting Policies." The following table presents interest income recognized on impaired loans for the years ended December 31:

	2005	2004	2003
Interest income recognized on nonaccrual loans	**$ 2,034**	$ 3,364	$ 1,961
Interest income on impaired accrual loans	**773**	546	882
Interest income recognized on impaired loans	**$ 2,807**	$ 3,910	$ 2,843

The following table presents information concerning impaired loans as of December 31:

	2005	2004	2003
With related specific allowance	$ 9,730	$ 6,247	$ 5,679
With no related specific allowance	29,194	38,434	67,641
Total impaired loans	$ 38,924	$ 44,681	$ 73,320
Allowance on impaired loans	$ 2,159	$ 3,802	$ 1,692

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans during 2005 were as follows:

	2005	2004	2003
Interest income which would have been recognized under the original loan terms	$ 7,144	$ 4,655	$ 6,779
Less: Interest income recognized	2,807	3,910	2,843
Foregone interest income	$ 4,337	$ 745	$ 3,936

During 2004, the bank and associations conducted studies to further refine their allowance for loan losses methodologies, taking into account recently issued guidance by the Farm Credit Administration, the System's regulator, as well as the Securities and Exchange Commission (SEC) and Federal Financial Institutions Examination Council guidelines.

The bank and associations allowance for loan losses methodologies were adjusted and revised in the late 1980s to take into account credit losses in that period. Given the long cyclical nature of the agricultural economy, loss factors utilized to determine the allowance for loan losses subsequent to 1989 continued to reflect, to some extent, the loss history of the mid-to-late 1980s, which resulted in conservative estimates of the allowance for loan losses. The bank and associations allowance for loan losses methodologies utilized throughout the period were in accordance with generally accepted accounting principles and were consistently applied.

While conservative in estimating the allowance for loan losses, the methodologies used resulted in annual provisions for loan losses over the periods that reflected changes in credit quality and loss experience. Accordingly, the reserves provided in the mid-to-late 1980s have, in effect, remained part of the allowance for loan losses. The bank and associations allowance for loan losses methodologies have consistently adhered to proper accounting policies, under the regulatory supervision of the Farm Credit Administration in its role as a "safety and soundness" regulator. It was the Farm Credit Administration's view that the allowance for loan losses should include, among others, an assessment of probable losses, historical loss experience and economic conditions.

In April 2004, the Farm Credit Administration issued an "Informational Memorandum" to System institutions regarding the criteria and methodologies that would be used in evaluating the adequacy of a System institution's allowance for loan losses. The Farm Credit Administration endorsed the direction provided by other bank regulators and the SEC and indicated that the conceptual framework addressed in their guidance would be included as part of their examination process.

During the fourth quarter of 2004, the bank and associations completed their studies and refined their methodologies to be in compliance with the guidance discussed in the previous paragraph. The refinement in methodologies resulted in a calculated allowance for loan losses that was significantly less than the previously recorded balance due to revised loss factors that are more indicative of actual loss experience in recent years and current borrower analysis. As a result of these studies and the resulting refinements in methodologies during 2004, the bank and associations recorded a $157.7 million reversal of the allowance for loan losses.

While the $157.7 million reversal had a significant impact on 2004 results of operations and the previously recorded allowance for loan losses, the refinement in methodologies is not expected to have a significant impact on comparative results of operations in subsequent periods. Additionally, the refinement in methodologies did not have a significant impact on the level of the risk-bearing capacity of the bank and associations, generally referred to as "risk funds" (capital plus the allowance for loan losses), which totaled $1.75 billion at December 31, 2004 (20.7 percent of bank and associations loans), as compared with $1.65 billion at December 31, 2003 (22.6 percent of bank and associations loans).

A summary of changes in the allowance for loan losses follows:

	December 31,		
	2005	2004	2003*
Balance at beginning of year	$ 10,617	$ 173,980	$ 165,855
Charge-offs:			
Production agriculture			
Real estate mortgage	263	17,608	1,458
Production and intermediate term	2,244	2,112	2,614
Agribusiness	1,220	1,928	—
Communication	—	506	—
Energy	—	495	—
Rural home	—	266	—
Lease receivables	—	100	—
Total charge-offs	3,727	23,015	4,072
Recoveries:			
Production agriculture			
Real estate mortgage	24	13,018	24
Production and intermediate term	1,187	1,584	565
Agribusiness	348	1,392	6
Communication	—	361	—
Energy	—	352	—
Rural home	—	199	—
Lease receivables	—	71	—
Total recoveries	1,559	16,977	595
Net charge-offs	(2,168)	(6,038)	(3,477)
Provision for loan losses	1,084	355	11,602
Nonrecurring negative provision for loan losses	—	(157,680)	—
Balance at end of year	$ 9,533	$ 10,617	$ 173,980
Ratio of net charge-offs during the period to average loans outstanding during the period	0.02%	0.08%	0.05%

*Beginning with year-end 2004, the bank and associations have changed the loan type information to provide more granular information.

The following table presents a breakdown of the allowance for loan losses at December 31 *(dollars in thousands)*:

	2005		2004		2003*	
	Amount	**%**	Amount	%	Amount	%
Production agriculture						
Real estate mortgage	**$ 7,549**	**79%**	$ 8,532	80%	$ 148,079	85%
Production and intermediate term	**1,135**	**12**	1,268	12	25,901	15
Agribusiness	**548**	**6**	502	5	—	—
Communication	**101**	**1**	78	1	—	—
Energy	**67**	**1**	69	1	—	—
Water/waste disposal	**1**	**—**	—	—	—	—
Rural home	**125**	**1**	159	1	—	—
International	**1**	**—**	—	—	—	—
Lease receivables	**6**	**—**	9	—	—	—
Total	**$ 9,533**	**100%**	$ 10,617	100%	$ 173,980	100%

*Beginning with year-end 2004, the bank and associations have changed the loan type information to provide more granular information.

To mitigate risk of loan losses, district associations have entered into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation ("Farmer Mac") through an arrangement with the bank. The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the associations the right to sell the loans identified in the agreements to Farmer Mac in the event of default, subject to certain conditions. The balance of loans under long-term standby commitments to purchase was $122.0 million at December 31, 2005. Fees paid to Farmer Mac for such commitments totaled $523 for the year ended December 31, 2005, and are classified as noninterest expense.

In November 2003 the bank sold, at par, $300 million of participations in five of its direct notes with district associations to another System bank. In February 2005, an additional $100 million of participations were sold. The purpose of the sale was to diversify the credit exposure of the bank by facilitating its acquisition of high-quality mortgage-type investment securities and interests in other capital market loan participations.

Note 5 — Premises and Equipment

Premises and equipment comprised the following at:

	December 31,		
	2005	2004	2003
Land	**$ 8,937**	$ 7,529	$ 6,270
Buildings and improvements	**29,707**	28,073	24,108
Furniture and equipment	**28,990**	30,414	31,153
	67,634	66,016	61,531
Accumulated depreciation	**(29,652)**	(31,033)	(32,879)
Total	**$ 37,982**	$ 34,983	$ 28,652

On September 30, 2003, the bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility. The lease was effective September 30, 2003, and its term is from September 1, 2003, to August 31, 2013. Under the terms of the lease, the bank was obligated to pay base rental or its share of basic costs during the first 12 months of the lease. Thereafter, the bank will pay annual base rental ranging from $11 per square foot in the second year to $19 per square foot in the tenth year. The bank moved to the new facilities during the second quarter of 2004.

Following is a schedule of the minimum lease payments on the lease:

	Minimum Lease Payments
2006	$ 1,264
2007	1,366
2008	1,503
2009	1,674
2010	1,776
Subsequent years	5,123
Total minimum lease payments	$ 12,706

Note 6 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2005	2004	2003
Accounts receivable	**$ 9,418**	$ 22,527	$ 3,885
Unamortized debt issue costs	**4,316**	3,181	2,743
Deferred tax assets	**2,490**	4,599	6,800
Intangible assets related to pensions	**1,522**	2,136	1,315
Fair value of derivatives	**1,047**	2,469	8,711
Land investment	**179**	151	877
Other, net	**2,365**	4,395	5,042
Total	**$ 21,337**	$ 39,458	$ 29,373

Other liabilities comprised the following at December 31:

	2005	2004	2003
Postretirement benefits	**$ 49,332**	$ 46,801	$ 39,111
Patronage distributions payable	**42,676**	38,123	19,069
Advance conditional payments	**34,568**	28,548	31,302
Bank draft payable	**26,893**	11,205	15,687
Additional minimum pension liability	**22,639**	15,539	1,315
Accrued pension cost	**19,662**	16,481	13,048
Fair value of derivatives	**11,538**	10,601	790
Accounts payable	**11,275**	7,919	7,513
FCSIC premium payable	**4,540**	3,811	8,229
Deferred tax liabilities	**1,603**	3,499	4,158
Notes payable	**1,142**	1,903	1,293
Income taxes payable	**472**	349	905
Other, net	**5,789**	7,870	7,413
Total	**$ 232,129**	$ 192,649	$ 149,833

Note 7 — Bonds and Notes

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of systemwide debt securities issued by the banks through the Funding Corporation. Certain conditions must be met before the bank can participate in the issuance of systemwide debt securities. The bank is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable as a condition for participation in the issuance of systemwide debt. This requirement does not provide holders of systemwide debt securities, or bank and other bonds, with a security interest in any assets of the banks. In general, each bank determines its participation in each issue of systemwide debt securities based on its funding and operating requirements, subject to the availability of eligible assets as described above and subject to Funding Corporation determinations and FCA approval. At December 31, 2005, the bank had such specified eligible assets totaling $11.2 billion and obligations and accrued interest payable totaling $10.6 billion, resulting in excess eligible assets of $633.2 million.

In 1994, the System banks and the Funding Corporation entered into the Market Access Agreement (MAA), which established criteria and procedures for the banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. At December 31, 2005, the bank was, and currently remains, in compliance with the conditions and requirements of the MAA.

Each issuance of systemwide debt securities ranks equally, in accordance with the FCA regulations, with other unsecured systemwide debt securities. Systemwide debt securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide debt securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The bank's participation in systemwide debt securities follows *(dollars in millions)*:

	Systemwide						Notes Payable to Other System Bank		Total	
	Bonds		Medium-Term Notes		Discount Notes					
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2006	$ 3,795.3	3.76%	$ 71.5	5.98%	$ 1,407.8	4.11%	$ 400.0	4.81%	$ 5,674.6	3.95%
2007	2,801.9	3.99	—	—	—	—	—	—	2,801.9	3.99
2008	763.0	4.28	20.0	5.57	—	—	—	—	783.0	4.31
2009	535.0	4.54	—	—	—	—	—	—	535.0	4.54
2010	500.0	5.12	—	—	—	—	—	—	500.0	5.12
Subsequent years	668.8	5.35	—	—	—	—	—	—	668.8	5.35
Total	$ 9,064.0	4.11%	$ 91.5	5.89%	$ 1,407.8	4.11%	$ 400.0	4.81%	$ 10,963.3	4.15%

In the preceding table, the weighted average effective rate reflects the effects of interest rate swaps used to manage the interest rate risk on the bonds and notes issued by the bank. The bank's interest rate swap strategy is discussed more fully in Note 2, "Summary of Significant Accounting Policies" and Note 16, "Derivative Instruments and Hedging Activity."

Systemwide bonds, medium-term notes, master notes, discount notes (systemwide debt securities) and bank bonds are the joint and several obligations of all System banks. Discount notes are issued with maturities ranging from one to 365 days. The average maturity of discount notes at December 31, 2005, was 35 days.

The bank's systemwide debt includes callable debt, consisting of the following at December 31, 2005:

Year of Maturity	Amount	Range of First Call Dates
2006	$ 260,000	1/1/2006-6/15/2006
2007	455,000	1/1/2006-1/26/2006
2008	580,000	1/1/2006-8/25/2006
2009	455,000	1/1/2006-12/28/2007
2010	430,000	1/1/2006-12/27/2007
Subsequent Years	415,000	1/1/2006-12/22/2010
Total	$ 2,595,000	1/1/2006-12/22/2010

Callable debt may be called on the first call date and every day thereafter with seven days' notice.

As described in Note 1, "Organization and Operations," the Insurance Fund is available to ensure the timely payment of principal and interest on bank bonds and systemwide debt securities (insured debt) of insured System banks to the extent net assets are available in the Insurance Fund. All other liabilities in the combined financial statements are uninsured.

In November 2003, the bank sold $300 million of participations in its direct notes from district associations to another System bank. In February 2005, an additional $100 million of participations were sold to the same System bank. Accordingly, this $400 million is included as a liability in "bonds and notes, net" on the district's balance sheet.

The bank had no outstanding commercial bank lines of credit at December 31, 2005.

Note 8 — Members' Equity

Descriptions of the bank's and associations' capitalization requirements, regulatory capitalization requirements and restrictions and equities are provided below.

A. Capitalization Requirements:

As a condition of borrowing, in accordance with the Farm Credit Act, each borrower is required to invest in common stock (in the case of mortgage or agricultural loans) or participation certificates (in the case of rural residence or farm-related business loans) of their respective association. Capitalization bylaws of the associations establish minimum and maximum stock purchase requirements for borrowers. The initial investment requirement varies by association and ranges from the statutory minimum of $1,000, or 2 percent of the loan amount, whichever is less, to a maximum of 2 percent of the loan amount. The capitalization bylaws also limit the capital contributions that an institution can require from its borrowers to 10 percent of defined borrowings for associations. If necessary, each association's board of directors may modify, within the range defined in their bylaws, the capitalization requirements to meet the association's capital needs.

A borrower obtaining a mortgage or agricultural loan purchases voting common stock which entitles the holder to a single vote, regardless of the number of shares held in the respective association. Within two years after a borrower's loan is repaid in full, any voting common stock held by the borrower will be converted to nonvoting common stock. A borrower obtaining a rural residence or farm-related business loan purchases participation certificates which provide no voting rights to their owner.

Each class of nonvoting stock must approve, as a class, the adoption of future revisions of capitalization bylaws if the class of stock is affected by a change in the preference provided for in the proposed capitalization bylaws.

Capitalization bylaws for each association provide for the amount of voting common stock or participation certificates that are required to be purchased by a borrower as a percentage of the loan obtained. The borrower acquires ownership of the common stock or participation certificates at the time the loan is made, but usually does not make a cash investment; the aggregate par value is added to the principal amount of the related loan obligation. The bank and the associations have a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

B. Regulatory Capitalization Requirements and Restrictions:

FCA's capital adequacy regulations require the bank and associations to achieve and maintain, at minimum, permanent capital of 7 percent of risk-adjusted assets and off-balance-sheet commitments. The Farm Credit Act has defined permanent capital to include all capital except stock and other equities that may be retired upon the repayment of the holder's loan or otherwise at the option of the holder, or is otherwise not at risk. Risk-adjusted assets have been defined by regulations as the balance sheet assets and off-balance-sheet commitments adjusted by various percentages ranging from 0 to 100 percent, depending on the level of risk inherent in the various types of assets. The bank and associations are prohibited from reducing permanent capital by retiring stock or by making certain other distributions to stockholders unless the minimum permanent capital standard is met.

The bank's permanent capital ratio at December 31, 2005, was 17.36 percent and exceeded FCA standards. All associations currently meet the minimum capital standard established by FCA regulations. All associations are able to retire stock or distribute earnings in accordance with the Farm Credit Act and FCA regulatory restrictions. Management knows of no reasons why the bank and associations would be prohibited from retiring stock or from making patronage distributions during 2006.

The following table sets forth the ranges of capital standards for the district at December 31, 2005:

	Permanent Capital Ratio Ranges %	Core Surplus Ratio Ranges %	Total Surplus Ratio Ranges %
Bank	17.36	8.82	14.97
FLCAs	13.54 - 20.78	13.06 - 20.19	13.06 - 20.19
ACAs	11.08 - 19.54	9.63 - 18.90	10.74 - 18.90
Regulatory minimum standard	7.00	3.50	7.00

The bank is required by FCA regulations to achieve and maintain net collateral of 103 percent of total liabilities. Net collateral consists of loans, real or personal property acquired in connection with loans, marketable investments, and cash and cash equivalents. At December 31, 2005, the bank's net collateral ratio was 105.90 percent.

C. Description of Associations' Equities:

The following is a summary of the associations' stock and participation certificates outstanding:

Stock and Participation Certificates	Par Value	Number of Shares at December 31, 2005	2004	2003
Stock				
Common – voting (eligible for dividends, convertible)	$ 5.00	**13,880,028**	17,094,893	19,482,205
Common – nonvoting (eligible for dividends, convertible)	$ 5.00	**101,421**	92,823	127,736
Preferred – nonvoting (eligible for dividends, nonconvertible)	$ 5.00	**713,769**	792,572	799,650
Participation certificates – nonvoting (eligible for dividends, convertible)	$ 5.00	**431,332**	447,274	521,885

The preferred stock noted above is nonvoting stock. It is issued by one association as evidence of borrowers' claims to allocated retained earnings of a specific year. The preferred stock may be retired at the sole discretion of the association's board of directors.

In the event of the liquidation or dissolution of an association, any assets of the association remaining after payment or retirement of all liabilities shall be distributed to stockholders in the following order:

First, holders of preferred stock at par value, if any;

Second, ratably to holders of all classes of common stock and participation certificates at par value or face amount;

Third, ratably to the holders of allocated retained earnings on the basis of oldest allocations first;

Fourth, ratably to the holders of nonqualified written notices of allocation on the basis of the oldest allocations first;

Then, the remainder of assets ratably to all holders of common stock and participation certificates, in proportion to the aggregate patronage of each such holder to the total patronage of all holders.

ACA bylaws provide for operation as cooperatives which qualify for tax treatment under Subchapter T of the Internal Revenue Code. Under cooperative operations, earnings of the ACA may be distributed to borrowers. Patronage distributions are generally in the form of allocated retained earnings and cash. At least 20 percent of the total patronage distribution must be paid in cash. Amounts not distributed are retained as unallocated retained earnings.

D. Description of Bank Equities:

According to the bank's bylaws, the minimum and maximum stock investments required of the ACAs and FLCAs are 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of each association's average borrowings from the bank. The investments in the bank are required to be in the form of Class A voting common stock. These intercompany balances and transactions are eliminated in combination.

The bank requires OFIs to make cash purchases of common nonvoting stock in the bank based on the OFI's average borrowings from the bank. The bank has a first lien on these equities for the repayment of any indebtedness to the bank. At December 31, 2005, the bank had $1.62 million of common stock outstanding to OFIs at a par value of $5.00 per share.

On November 7, 2003, the bank issued 100,000 shares of $1,000 Cumulative Perpetual Preferred Stock for net proceeds of $98,644, after expenses of $1,356 associated with the offering. The preferred stock was issued to provide capital for the expansion of the bank's participations portfolio. On September 26, 2005, an additional 100,000 shares was issued for net proceeds of $108,894, including $2,121 of accrued dividends payable and after expenses of $1,687 associated with the offering. Net proceeds from the additional issue were to enhance the composition of the bank's capital and liquidity, to support the bank's loan growth, to provide a base for further growth and service opportunities to our members and to rural America, and for general corporate purposes. The dividend rate on the Cumulative Perpetual Preferred Stock is 7.561 percent, payable semi-annually to December 31, 2013, after which dividends are payable quarterly at a rate equal to 3-month London Interbank Offered Rate (LIBOR) plus 445.75 basis points. For regulatory purposes, the preferred stock is treated as equity, and is not mandatorily redeemable. Dividends on the stock are reported as declared. Preferred stock dividends totaling $11,342 were paid during 2005. At December 31, 2005, accumulated dividends on the preferred stock totaled $672.

Note 9 — Income Taxes

The information that follows relates only to the district's ACAs, as the bank and FLCAs are exempt from federal and other income taxes.

The provision for income taxes follows for years ended December 31:

	2005	2004	2003
Current			
Federal	**$ 383**	$ 216	$ 667
State	**42**	10	20
Total current	**425**	226	687
Deferred			
Federal	**286**	1,486	(396)
State	**(72)**	56	33
Total deferred	**214**	1,542	(363)
Total provision for income taxes	**$ 639**	$ 1,768	$ 324

The provision for income tax differs from the amount of income tax determined by applying the statutory federal income tax rate to pretax income as a result of the following differences for years ended December 31:

	2005	2004	2003
Federal tax at statutory rate	**$ 42,150**	$ 60,597	$ 30,948
State tax, net	**42**	10	20
Effect of nontaxable entities	**(38,099)**	(55,981)	(27,246)
Patronage distributions	**(4,222)**	(2,715)	(2,675)
Capital download to associations	**(1,912)**	(580)	322
Other, net	**2,680**	437	(1,045)
Total provision for income taxes	**$ 639**	$ 1,768	$ 324

Deferred tax assets and liabilities comprised the following elements at December 31:

	2005	2004	2003
Allowance for loan losses	**$ 1,936**	$ 2,110	$ 6,566
U.S. Treasury advanced interest payable	**—**	26	107
Allowance for acquired property	**120**	120	247
Postretirement benefits	**2,290**	2,143	—
Other	**742**	455	647
Gross deferred tax assets	**5,088**	4,854	7,567
Less valuation allowance	**(2,598)**	(255)	(767)
Adjusted gross deferred tax assets	**2,490**	4,599	6,800
FCBT stock redemption	**(1,586)**	(3,499)	(4,078)
Other	**(18)**	—	(80)
Gross deferred tax liabilities	**(1,604)**	(3,499)	(4,158)
Net deferred tax assets	**$ 886**	$ 1,100	$ 2,642

Note 10 — Employee Benefit Plans

Employees of the bank and district associations participate in either the defined benefit retirement plan (DB plan) or a defined contribution plan (DC plan) and are eligible to participate in the district's 401(k) plan.

The DB plan is noncontributory and benefits are based on salary and years of service. 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 in 1998 and beyond, to facilitate reorganization and/or restructuring. Under SFAS No. 88, pension plan termination benefits recognized resulting from employees who qualified for an early retirement option under a retention plan totaled $87, $580 and $501 during the years ended December 31, 2005, 2004 and 2003, respectively.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and all employees hired on or after January 1, 1996. DC plan participants direct the placement of their employers' contributions (4.0 percent of eligible compensation during 2005) made on their behalf into various investment alternatives. Employer contributions to the DC plan were $1.6 million, $1.3 million and $1.1 million for the years ended December 31, 2005, 2004 and 2003, respectively.

The district also participates in a districtwide 401(k) plan, which offers a pre-tax and after-tax compensation deferral feature. In 2004, the bank and associations made contribution enhancements to employer contributions under the plan. Beginning January 1, 2003, employers matched 100 percent of employee contributions for the first 3 percent of eligible compensation and then matched 50 percent of employee contributions on the next 2 percent of eligible compensation, for a maximum employer contribution of 4 percent of eligible compensation. Employer contributions were $2.2 million, $2.1 million and $1.8 million for the years ended December 31, 2005, 2004 and 2003, respectively. Additionally, certain qualified individuals in the bank may participate in a separate, defined benefit supplemental pension plan. Effective January 1, 2006, the districtwide 401(k) plan was merged with the AgFirst Farm Credit Employee Thrift Plan. The new plan is known as the AgFirst/FCBT 401(k) Benefit Plan.

The bank and associations also provide certain health care and life insurance benefits to eligible retired employees, beneficiaries and directors (retiree medical plan). District employees' eligibility for these benefits upon retirement is dependent on conditions set by their district employer.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act) was signed into law. This act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Subsidies under the Medicare Act will reduce the current period measurements of benefits expected to be provided in future periods. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require changes to previously reported information.

In order to be consistent with the practices of other System entities, the district changed the measurement date for the valuation of plan assets and plan liabilities from December 31 to September 30 in 2004.

The following table reflects the benefit obligation, cost and actuarial assumptions for the district's pension and other postretirement benefit plans:

	Pension Benefits			Other Postretirement Benefits		
Change in benefit obligation	**2005**	2004	2003	**2005**	2004	2003
Benefit obligation at beginning of year	**$ 189,426**	$ 154,698	$ 137,466	**$ 48,500**	$ 54,311	46,234
Service cost	**4,778**	4,664	3,259	**1,851**	2,648	1,662
Interest cost	**11,154**	10,784	9,108	**2,868**	4,199	3,175
Plan participants' contributions	**—**	—	—	**636**	464	—
Actuarial loss (gain)	**24,057**	24,048	10,293	**796**	(8,084)	4,595
Plan amendments	**—**	—	2,097	**(13,434)**	(3,507)	—
Loss (gain) due to curtailments	**—**	200	(505)	**—**	—	—
Settlements	**—**	—	—	**—**	—	—
Special termination benefits	**87**	580	501	**—**	—	—
Benefits paid	**(7,548)**	(5,548)	(7,521)	**(2,487)**	(1,531)	(1,353)
Benefit obligation at end of year	**$ 221,954**	$ 189,426	$ 154,698	**$ 38,730**	$ 48,500	$ 54,313
Change in plan assets						
Fair value of plan assets at beginning of year	**$ 124,093**	$ 119,313	$ 96,978	**$ 288**	$ 360	465
Actual return on plan assets	**18,428**	3,840	21,434	**(58)**	3	(25)
Plan participants' contribution	**—**	—	—	**636**	464	—
Employer contribution	**6,878**	6,488	8,422	**1,621**	992	1,441
Settlements	**—**	—	—	**—**	—	(166)
Benefits paid	**(7,548)**	(5,548)	(7,521)	**(2,487)**	(1,531)	(1,353)
Fair value of plan assets at end of year	**$ 141,851**	$ 124,093	$ 119,313	**$ —**	$ 288	362
Unfunded status	**$ (80,103)**	$ (65,333)	$ (35,385)	**$ (38,730)**	$ (48,213)	$ (53,952)
Unrecognized actuarial loss	**58,048**	45,434	17,849	**8,038**	7,472	18,096
Unrecognized prior service cost	**2,306**	3,396	4,488	**(18,769)**	(6,312)	(3,255)
Fourth quarter contributions	**87**	22	—	**129**	252	—
Accrued benefit cost	**$ (19,662)**	$ (16,481)	$ (13,048)	**$ (49,332)**	$ (46,801)	$ (39,111)
Benefit obligation at end of year – pension plan	**$ 218,547**	$ 186,590	$ 151,925			
Benefit obligation at end of year – supplemental pension plan	**3,407**	2,836	2,773			
Total benefit obligation at end of year	**$ 221,954**	$ 189,426	$ 154,698			
Fair value of plan assets at end of year – pension plan	**$ 141,851**	$ 124,093	$ 119,313			
Fair value of plan assets at end of year – supplemental plan	**—**	—	—			
Total fair value of plan assets at end of year	**$ 141,851**	$ 124,093	$ 119,313			
Unfunded status – pension plan	**$ (76,696)**	$ (62,497)	$ (32,612)			
Unfunded status – supplemental plan	**(3,407)**	(2,836)	(2,773)			
Total unfunded status	**$ (80,103)**	$ (65,333)	$ (35,385)			
Amounts recognized in the combined balance sheets consist of:						
Accumulated benefit cost	**$ (19,662)**	$ (16,481)	$ (13,048)	**$ (49,332)**	$ (46,801)	$ (39,111)
Minimum pension liability adjustment	**(22,369)**	(15,539)	(1,315)	**—**	—	—
Intangible asset	**1,522**	2,136	1,315	**—**	—	—
Accumulated other comprehensive income	**20,847**	13,403	—	**—**	—	—
Information for pension plans with an accumulated benefit obligation in excess of plan assets						
Projected benefit obligation	**$ 221,954**	$ 189,426	$ 154,698			
Accrued benefit obligation	**182,569**	155,450	130,433			
Fair value of plan assets	**141,851**	124,093	119,313			
Components of net periodic benefit cost						
Service cost	**$ 4,778**	$ 4,664	$ 3,259	**$ 1,851**	$ 2,648	$ 1,662
Interest cost	**11,154**	10,784	9,108	**2,868**	4,199	3,175
Expected return on plan assets	**(9,916)**	(9,758)	(6,970)	**(2)**	(25)	(33)
Amortization of prior service cost	**1,090**	1,093	988	**(886)**	—	(511)
Recognized actuarial loss (gain)	**2,931**	2,380	—	**198**	2,838	1,107
Recognized net initial asset	**—**	—	—	**—**	(726)	—
Recognized loss due to curtailment	**—**	779	—	**—**	—	—
Total net periodic benefit cost	**$ 10,037**	$ 9,942	$ 6,385	**$ 4,029**	$ 8,934	$ 5,400

Weighted-average assumptions used to determine benefit obligations as of December 31,						
Measurement date	**09/30/2005**	09/30/2004	12/31/2003	**09/30/2005**	09/30/2004	12/31/2003
Discount rate	**5.25%**	6.00%	6.25%	**5.25%**	6.00%	6.25%
Rate of compensation increase	**4.50**	4.50	4.50			
Weighted-average income assumptions as of December 31,						
Measurement date	**09/30/2005**	09/30/2004	12/31/2003	**09/30/2005**	09/30/2004	12/31/2003
Discount rate	**6.00%**	6.25%	7.25%	**6.00%**	6.25%	6.75%
Expected return on plan assets*	**8.00**	8.00	7.00	**7.00**	7.00	7.00
Rate of compensation increase	**4.50**	4.50	4.50			

*The expected return on plan assets is based upon a review of historical rates of return experienced, combined with expected returns based upon the asset allocation strategy employed.

	Other Postretirement Benefits		
Assumed health care cost trend rates at December 31,	**2005**	2004	2003
Health care cost trend rate assumed for next year	**7.0% -9.5%**	9.0% - 10.5%	10.0% - 11.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**4.75%**	5.0% - 5.5%	5.0% - 5.5%
Year that the rate reaches the ultimate trend rate	**2016**	2008	2009

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

Effect of changes in assumed health care cost trend rates	1-Percentage Point Increase	1-Percentage Point Decrease
Increase (decrease) of service and interest cost components	$ 6,346.0	$ (5,062.8)
Increase (decrease) of postretirement benefit obligation	683.2	$ (530.7)

Plan assets

	Pension Benefits				Other Postretirement Benefits			
Asset Category	Target	**2005**	2004	2003	Target	**2005**	2004	2003
Equity securities	60%	**63%**	62%	56%	0%	**0%**	0%	0%
Debt securities	40	**34**	35	39	0	**0**	0	0
Cash/other	0	**3**	3	5	100	**100**	100	100
Total	100%	**100%**	100%	100%	100%	**100%**	100%	100%

Over time, the investment policy mandates allocation of 60 percent of the plan assets to equity securities. This strategy is expected to produce a reasonable rate of investment return over the long-term commensurate with and acceptable level of risk.

Changes Since the Last Valuation

The September 30, 2005 valuation reflects the following changes:

- The discount rate used to determine benefit obligations was reduced from 6.0 percent to 5.25 percent.
- The future medical inflation assumption was refined to vary by claim type and Medicare eligibility. In addition, the ultimate trend rate was decreased from 5.0 percent to 4.75 percent and the grading period was lengthened.
- The impact of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 is reflected through plan provision for medical and prescription drug coverage to Medicare-eligible retirees and spouses through fully insured AARP Medicare Supplement policies and basic Medicare part "D" Coverage through a selected prescription drug plan.

Cash Flows Contributions

The district expects to contribute $7.0 million to its pension plan in 2006. Contributions for other benefits in 2006 are expected to total $1.1 million.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year	Pension Benefits	Other Benefits
2006	$ 8,173	$ 1,120
2007	8,818	1,226
2008	9,858	1,336
2009	10,321	1,457
2010	11,194	1,613
2011-2015	71,126	10,425

Note 11 — Intra-System Financial Assistance

The FAC was established in 1988 primarily to provide capital to institutions of the System experiencing financial difficulty. Such assistance was funded through the FAC's issuance of $1.26 billion of 15-year U.S. Treasury–guaranteed debt. The interest rates on these issuances ranged from 8.80 percent to 9.45 percent. The proceeds from the debt offerings were used to fund existing intra-System financial assistance payables ($417 million), to purchase preferred stock from certain troubled System banks ($808 million) and for other purposes ($36 million).

Pursuant to the Farm Credit Act, the U.S. Treasury paid the interest on $844 million of the FAC bonds for the first five years of the respective terms of such bonds. The payment of interest on this debt was allocated between the U.S. Treasury and System banks during the second five years. As the result of growth of the System's surplus, the allocation provisions of the Farm Credit Act required that the banks pay 100 percent of the interest beginning in 1999.

Financial assistance was provided by the FAC to five System banks through its purchase of preferred stock of those institutions. Through 1994, four System banks redeemed their preferred stock in the amount of $419 million through the transfer of assets to the FAC. The FLB of Jackson, whose charter was canceled in January 1995, received $374 million of financial assistance for which the related preferred stock has not been redeemed.

All interest advanced by the U.S. Treasury were repaid by System banks in June 2005. System banks recorded their share of the liability based upon each bank's proportionate share of average accruing retail loan volume. To fund the repayment obligation, annual annuity-type payments were made by each bank to the FAC in an amount designed to accumulate, in total, including earnings thereon, the total amount of each bank's ultimate obligation.

The FAC assumed certain payables previously accrued by the bank under the System's Capital Preservation Agreements and funded payment of such accruals by the issuance of 15-year U.S. Treasury–guaranteed debt. Under the Farm Credit Act, the System banks were required to fund the bonds upon maturity. The obligation was paid in July 2003.

The district's financial assistance expense totaled $1.9 million, $3.8 million and $6.8 million for the years ended December 31, 2005, 2004 and 2003, respectively. All existing debt issuances of intra-System financial assistance have matured and been extinguished. There are no more foreseeable expenses for intra-System financial assistance.

Note 12 — Related Party Transactions

In the ordinary course of business, the bank and associations have entered into loan transactions with directors, officers and other employees of the bank or associations and other organizations with which such persons may be associated. Total loans to such persons at December 31, 2005, amounted to $162.0 million. In the opinion of management, such loans outstanding to directors, officers and other employees at December 31, 2005, did not involve more than a normal risk of collectibility and were subject to approval requirements contained in FCA regulations and were made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. Disclosures on individual associations' officers and directors are found in the associations' individual annual reports.

Note 13 — Commitments and Contingencies

In the normal course of business, the bank and associations have various outstanding commitments and contingent liabilities as discussed elsewhere in these notes. For a discussion of commitments to extend credit and standby letters of credit issued, see Note 14, "Financial Instruments With Off-Balance-Sheet Risk."

The bank is primarily liable for its portion of systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated systemwide bonds and notes of other System banks. The total bank and consolidated systemwide debt obligations of the System at December 31, 2005, were approximately $112.7 billion.

Other actions are pending against the bank and associations in which claims for monetary damages are asserted. Upon the basis of current information, management and legal counsel are of the opinion that the ultimate liability, if any resulting therefrom, will not be material in relation to the combined financial position or results of operations of the bank and associations.

Note 14 — Financial Instruments With Off-Balance-Sheet Risk

The bank and associations may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers and to manage their exposure to interest rate risk. In the normal course of business, various commitments are made to customers, including commitments to extend credit and standby letters of credit, which represent credit-related financial instruments with off-balance-sheet risk.

At any time, the bank and associations have outstanding a significant number of commitments to extend credit. The bank and associations also provide standby letters of credit to guarantee the performance of customers to third parties. 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. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Credit-related financial instruments have off-balance-sheet credit risk, because only origination fees (if any) are recognized in the combined balance sheets (as other liabilities) for these instruments until the commitments are fulfilled or expire. Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The district's commitments to extend credit totaled $2.267 billion, $1.529 billion and $727.3 million at December 31, 2005, 2004 and 2003, respectively. At December 31, 2005, the district had $87.0 million in outstanding standby letters of credit, issued primarily in conjunction with participation loans. The letters of credit are generally issued for terms up to one year or are annually renewable. The fair value of these obligations is $380, based on the fees for the unexpired period remaining.

The credit risk involved in issuing commitments and letters of credit is essentially the same as that involved in extending loans to customers, and the same credit policies are applied by management. In the event of funding, the credit risk amounts are equal to the contract amounts, assuming that counterparties 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 counterparty.

Note 15 — Disclosure About the Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the district's financial instruments at December 31, 2005, 2004 and 2003. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices are generally not available for System debt instruments. Accordingly, fair values on those instruments are based on judgments regarding anticipated cash flows, future expected loss experience, discount rates, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the district's financial instruments follow:

	December 31, 2005		December 31, 2004		December 31, 2003	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash, federal funds sold, securities purchased under resale agreements and investment securities	**$ 2,792,167**	**$ 2,792,167**	$ 1,879,375	$ 1,879,375	$ 1,587,319	$ 1,587,319
Loans	**10,219,596**	**10,016,888**	8,444,347	8,492,333	7,272,314	7,315,360
Allowance for loan losses	**(9,533)**	**—**	(10,617)	—	(173,980)	—
Loans, net	**10,210,063**	**10,016,888**	8,433,730	8,492,333	7,098,334	7,315,360
Derivative assets	**1,047**	**1,047**	2,469	2,469	8,711	8,711
Financial liabilities						
Bonds and notes	**10,974,816**	**10,978,323**	8,541,974	8,574,043	7,178,817	7,237,989
Fair value adjustment of derivatives	**(11,538)**	**(11,538)**	(9,441)	(9,441)	7,921	7,921
Total bonds and notes	**10,963,278**	**10,966,785**	8,532,533	8,564,602	7,186,738	7,245,910
Financial assistance related liabilities	**—**	**—**	77	281	453	1,211
Derivative liabilities	**11,538**	**11,538**	10,601	10,601	790	790

A description of the methods and assumptions used to estimate the fair value of each class of the district's financial instruments for which it is practicable to estimate that value follows:

A. Cash:

The carrying value is a reasonable estimate of fair value.

B. Federal Funds Sold, Securities Purchased Under Resale Agreements, and Investment Securities:

Fair value is based upon currently quoted market prices.

C. Loans:

Because no active market exists for the district's loans, fair value is estimated by discounting the expected future cash flows using the bank's and/or the associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the district's loan rates as well as on management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and discount rates reflecting appropriate credit risk are determined separately for each individual pool.

Fair value of loans in a nonaccrual status which are current as to principal and interest is estimated as described above, with appropriately higher discount rates to reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

D. Bonds and Notes:

Systemwide bonds and notes are not regularly traded; thus, quoted market prices are not available. Fair value of these instruments is estimated by discounting expected future cash flows based on the quoted market price of similar-maturity Treasury notes, assuming a constant estimated yield spread relationship between systemwide bonds and notes and comparable Treasury notes.

E. Obligation to FAC:

Fair value of these obligations is determined by discounting the cumulative expected future cash outflows of all of the obligations using a discount rate commensurate with bonds having a similar maturity.

F. Commitments to Extend Credit:

Fees on commitments to extend credit are not normally assessed; hence, there is no fair value to be assigned to these commitments until they are funded.

Note 16 — Derivative Instruments and Hedging Activity

The district maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The district's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet liabilities so that the net interest margin is not adversely affected by movements in interest rates. As a result of interest rate fluctuations, hedged fixed-rate liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the district's gains or losses on the derivative instruments that are linked to these hedged liabilities. Another result of interest rate fluctuations is that the interest expense of hedged variable-rate liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the district's gains and losses on the derivative instruments that are linked to these hedged liabilities. The district considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The bank enters into derivatives, particularly fair value hedges, primarily to lower interest rate risk. Fair value hedges allow the district to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the district if floating-rate borrowings were made directly. Under fair value hedge arrangements, the district agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating-rate index.

The district's interest-earning assets (principally loans and investments) tend to be medium-term floating-rate instruments, while the related interest-bearing liabilities tend to be short- or medium-term fixed-rate obligations. Given this asset-liability mismatch, interest rate swaps in which the district pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on the district's net interest income.

In 2004 the bank entered into two cash flow hedges, with a total notional amount of $95 million, which hedge the exposure to variability in expected future cash flows.

By using derivative instruments, the district exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the district's credit risk will equal the fair value gain of the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the district, thus creating a repayment risk for the district. When the fair value of the derivative contract is negative, the district owes the counterparty and, therefore, assumes no repayment risk. The credit exposure represents the exposure to credit loss on derivative instruments, which is estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts in a gain position.

To minimize the risk of credit losses, the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing of, and levels of exposure to, individual counterparties. The total $514 credit exposure was related to a receivable on interest rate swaps from one counterparty which had an "A+" credit rating at December 31, 2005. The bank does not anticipate nonperformance by any counterparties. The bank typically enters into master agreements that contain netting provisions. These provisions allow the bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts.

The table below presents the credit ratings of counterparties to whom the bank has credit exposure:

	Remaining Years to Maturity						
($ in millions)	Less than 1 year	1 to 5 Years	Total	Maturity Distribution Netting	Exposure	Collateral Held	Exposure Net of Collateral
Standard & Poors Credit Rating							
A+	.51	—	.51	—	.51	—	.51

The bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the ALCO's oversight of the bank's asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed through its analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the district's overall interest rate risk-management strategies. The bank enters into interest rate swaps classified as fair value hedges primarily to convert a portion of its non prepayable fixed-rate long-term debt to floating-rate debt.

The table below provides information about derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. The debt information below presents the principal cash flows and related weighted average interest rates by expected maturity dates. The derivative information below represents the notional amounts and weighted average interest rates by expected maturity dates.

December 31, 2005	Maturities of 2005 Derivative Products and Other Financial Instruments							
($ in millions)	2006	2007	2008	2009	2010	Subsequent Years	Total	Fair Value
Total debt obligations:								
Fixed rate	$ 2,809	$ 952	$ 783	$ 535	$ 500	$ 669	$ 6,248	$ 6,252
Weighted average interest rate	3.56%	3.56%	4.31%	4.54%	5.12%	5.35%	4.06%	
Variable rate	$ 2,865	$ 1,850	$ —	$ —	$ —	$ —	$ 4,715	$ 4,715
Weighted average interest rate	4.33%	4.22%	—	—	—	—	4.28%	
Total debt obligations	$ 5,674	$ 2,802	$ 783	$ 535	$ 500	$ 669	$ 10,963	$ 10,967
Weighted average interest rate	3.95%	3.99%	4.31%	4.54%	5.12%	5.35%	4.15%	
Derivative instruments:								
Receive fixed swaps								
Notional value	$ 632	$ 165	$ 75	$ —	$ —	$ 10	$ 882	$ (12)
Weighted average receive rate	2.98%	3.30%	3.47%	—	—	4.49%	3.10%	
Weighted average pay rate	4.22%	4.58%	4.55%	—	—	4.80%	4.57%	
Pay fixed swaps								
Notional value	$ 95	$ —	$ —	$ —	$ —	$ —	$ 95	$ 1
Weighted average receive rate	4.63%	—	—	—	—	—	4.63%	
Weighted average pay rate	2.32%	—	—	—	—	—	2.32%	

Note 17 — Selected Quarterly Financial Information (Unaudited)

Quarterly results of operations are shown below for the years ended December 31:

	2005				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 81,300**	**$ 82,382**	**$ 85,179**	**$ 91,611**	**$ 340,472**
Provision for loan losses	**(449)**	**(83)**	**883**	**733**	**1,084**
Noninterest expense, net	**30,651**	**26,000**	**26,632**	**34,323**	**117,606**
FAC expense	**906**	**668**	**331**	**—**	**1,905**
Net income	**$ 50,192**	**$ 55,797**	**$ 57,333**	**$ 56,555**	**$ 219,877**

	2004				
	First	Second	Third	Fourth	Total
Net interest income	$ 71,669	$ 73,262	$ 77,168	$ 82,037	$ 304,136
Nonrecurring negative provision for loan losses	—	—	—	(157,680)	(157,680)
Provision (negative provision) for loan losses	359	185	97	(286)	355
Noninterest expense, net	32,453	30,341	24,361	27,986	115,141
FAC expense	904	937	956	1,007	3,804
Net income	$ 37,953	$ 41,799	$ 51,754	$ 211,010	$ 342,516

	2003				
	First	Second	Third	Fourth	Total
Net interest income	$ 63,724	$ 65,705	$ 66,875	$ 68,747	$ 265,051
Provision for loan losses	3,934	3,935	3,579	154	11,602
Noninterest expense, net	28,088	21,869	24,464	3,618	78,039
FAC expense	2,051	2,628	1,008	1,107	6,794
Net income	$ 29,651	$ 37,273	$ 37,824	$ 63,868	$ 168,616

As discussed in Note 2, the bank's mineral interests were sold in November 2003 for proceeds of $30.5 million, which is included in "Noninterest expense, net."

Note 18 — Bank-Only Financial Data

Condensed financial information for the bank follows. All significant transactions and balances between the bank and associations are eliminated in combination. The multi-employer structure of the district's defined benefit plan results in the recording of this plan only upon combination.

	December 31,		
Balance Sheet Data	**2005**	2004	2003
Cash, federal funds sold and securities purchased under resale agreements	**$ 46,836**	$ 51,114	$ 28,265
Investment securities	**2,697,876**	1,787,706	1,518,102
Loans			
To associations	**7,036,341**	6,036,906	5,341,875
To others	**1,445,160**	881,330	493,054
Less allowance for loan losses	**142**	239	9,834
Net loans	**8,481,359**	6,917,997	5,825,095
Accrued interest receivable	**43,994**	26,032	19,194
Other property owned, net	**—**	—	529
Other assets	**14,723**	18,356	19,639
Total assets	**$ 11,284,788**	$ 8,801,205	$ 7,410,824
Bonds and notes	**$ 10,563,278**	$ 8,232,533	$ 6,886,738
Other liabilities	**97,203**	67,241	46,457
Total liabilities	**10,660,481**	8,299,774	6,933,195
Preferred stock	**200,000**	100,000	100,000
Capital stock	**135,390**	118,323	109,787
Retained earnings	**315,047**	290,666	272,291
Accumulated other comprehensive loss	**(26,130)**	(7,558)	(4,449)
Total members' equity	**624,307**	501,431	477,629
Total liabilities and members' equity	**$ 11,284,788**	$ 8,801,205	$ 7,410,824

	Year Ended December 31,		
Statement of Income Data	**2005**	2004	2003
Interest income	**$ 392,226**	$ 224,528	$ 189,306
Interest expense	**316,266**	157,866	139,480
Net interest income	**75,960**	66,662	49,826
(Negative provision) provision for loan losses	**(344)**	(7,878)	340
Net interest income after provision for loan losses	**76,304**	74,540	49,486
Noninterest income	**16,495**	14,881	49,788
Intra-System financial assistance expense	**761**	398	2,801
Other expense	**34,422**	42,049	31,649
Net income	**$ 57,616**	$ 46,982	$ 64,824

Disclosure Information and Index

Disclosures Required by Farm Credit Administration Regulations

Description of Business

The Farm Credit Bank of Texas (FCBT or bank), Agricultural Credit Associations (ACAs) and the Federal Land Credit Associations (FLCAs) of the Tenth Farm Credit District (district) are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes in the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. The district's ACA parent associations, which each contain wholly-owned FLCA and Production Credit Association (PCA) subsidiaries, and FLCAs are collectively referred to as associations. A further description of territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations required to be disclosed in this section are incorporated herein by reference to Note 1, "Organization and Operations," to the accompanying combined financial statements.

The description of significant developments that had or could have a material impact on results of operations or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting business, seasonal characteristics and concentrations of assets, if any, required to be disclosed in this section are incorporated herein by reference to "Management's Discussion and Analysis" of the district included in this annual report to stockholders.

Directors and Senior Officers

The following represents certain information regarding the district directors and senior officers of the bank as of February 1, 2006:

DIRECTORS

Ralph W. Cortese joined the board in 1995, and his current term expires December 31, 2007. Cortese has served as chairman since 2000. Prior to joining the bank board, Cortese was chairman of the PCA of Eastern New Mexico Board of Directors. Early in his career, he was vice president of Roswell PCA. He is a farmer and rancher from Fort Sumner, New Mexico. In 2001, he joined the American Land Foundation Board. He is a member of the bank's Audit Committee. In June 2003, he was appointed to the Farmer Mac Board.

Jon M. Garnett began his first term on the board in 1999, and his current term expires December 31, 2007. He has served as board vice chairman since 2000. Prior to joining the bank board, he was chairman of Panhandle-Plains Federal Land Bank Association (FLBA) Board of Directors. In January 2003, he joined the national Farm Credit Council Board of Directors as a Tenth District representative. He also serves on the bank's Audit Committee and the State Technical Committee for the Natural Resources Conservation Service. Garnett farms, feeds stocker cattle, and operates a custom haying and baling business near Spearman, Texas.

C. Kenneth Andrews began service on the board in 1994, and his current term expires December 31, 2008. He was manager of the former FLBA of Madisonville for 17 years and later served on the board of directors of the FLBA of Bryan. The Madisonville, Texas, rancher is chairman of the Tenth District Farm Credit Council and has represented the district on the national Farm Credit Council Board of Directors since 1996. He also serves on the bank's Audit Committee.

Joe R. Crawford began his first term on the board in 1998, and his current term expires December 31, 2006. Previously, he was a member of the FLBA of North Alabama Board of Directors. He also served on the Tenth District FLBA Legislative Advisory Committee. Currently, he serves as a director on the board of the Federal Farm Credit Banks Funding Corporation and is a member of the bank's Audit Committee. Crawford, who lives near Baileyton, Alabama, has owned and operated a cattle business since 1968.

James F. Dodson joined the board of directors in January 2003, and his current term will expire December 31, 2008. He is a past chairman of the Texas AgFinance, FCS Board of Directors and a former member of the Tenth Farm Credit District Stockholders' Advisory Committee. He currently serves on the Tenth District Farm Credit Council board and on the bank's Audit Committee. Dodson grows cotton and milo and operates a seed sales business with his family in Robstown, Texas. He is on the board of Cotton Incorporated and holds other national farm leadership positions.

William F. Staats joined the board in 1997, and his current term will expire December 31, 2008. Staats is Louisiana Bankers Association Chair Emeritus of Banking and Professor Emeritus, Department of Finance, at Louisiana State University, where he held the Hermann Moyse Jr. Distinguished Professorship. Previously, he was vice president and corporate secretary of the Federal Reserve Bank of Philadelphia. Staats also serves on the boards of the Money Management International Education Foundation, Money Management International, SevenOaks Capital Associates, LLC and Platinum Healthcare Staffing, Inc. He is a member of the Farm Credit System Audit Committee and is chairman of the bank's Audit Committee.

SENIOR OFFICERS

Name and Title	Time in Position	Experience — Past Five Years
Larry R. Doyle, *Chief Executive Officer*	2.5 years	Executive Vice President and Chief Operating Officer, AgFirst Farm Credit Bank
Thomas W. Hill, *Senior Vice President, Chief Financial Officer,* *Chief Operations Officer*	11 years 2 years	Senior Vice President, Chief Financial Officer, FCBT
Steven H. Fowlkes, *Senior Vice President,* *Chief Credit Officer*	8 years 2 years	Senior management and management positions, FCBT
David N. Clinton, *Senior Vice President,* *Chief Information Officer*	7 years	Senior management position, FCBT
William E. Zimmerman, *Senior Vice President, Corporate Affairs,* *General Counsel and Corporate Secretary*	18 years	Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary, FCBT

Compensation of Directors and Senior Officers

Directors of the bank are compensated for service on the bank's board. Compensation for 2005 was paid at the rate of $2,932 per month, the maximum allowed under the Farm Credit Administration's (FCA) "Annual Adjustment of Maximum Director Compensation for 2005." In addition to days served at board meetings, directors may serve additional days on other official assignments, and under exceptional circumstances the board may approve additional compensation, not to exceed 30 percent of the annual maximum. Information for each director for the year ended December 31, 2005, is provided below:

Board Member	Days Served at Board Meetings	Days Served on Other Official Assignments	Total Compensation Paid
Ralph W. Cortese	27.5	25.5	$ 35,178
Jon M. Garnett	25.0	39.5	35,178
C. Kenneth Andrews	24.0	30.5	35,178
Joe R. Crawford	23.0	27.0	35,178
James F. Dodson	19.5	26.5	35,178
William F. Staats	24.0	31.0	35,178
			$ 211,068

The following table summarizes the compensation paid to all senior officers of the bank during 2005, 2004 and 2003:

Summary Compensation Table

Name of Individual or Group	Year	Annual Salary (a)	Annual Bonus (b)	Other (c)	Total
Larry R. Doyle, Chief Executive Officer	2005	$ 440,017	$ 176,000	$ 24,750	$ 640,767
Larry R. Doyle, Chief Executive Officer	2004	440,000	100,000	25,072	565,072
Larry R. Doyle, Chief Executive Officer	2003	316,666	—	109,505	426,171
Arnold Henson, Chief Executive Officer, retired	2003	51,667	55,000	70,207	176,874
Aggregate number of senior officers: (includes Chief Executive Officer)					
6	2005	1,463,382	385,108	134,293	1,982,783
6	2004	1,396,992	298,247	125,766	1,821,005
8	2003	1,362,683	201,513	381,532	1,945,728

(a) Gross salary
(b) Incentive pay
(c) Other includes relocation benefits, retirement gifts, unused annual leave paid in conjunction with retirement, contributions to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance.

Disclosure of the compensation paid during 2005 to any senior officer included in the table above is available and will be disclosed to stockholders of the institution and stockholders of the district's associations upon written request.

Directors and senior officers are reimbursed for reasonable travel, subsistence and other related expenses while conducting bank business. The aggregate amount of expenses reimbursed to directors in 2005, 2004 and 2003 totaled $120,436, $91,473, and $71,001, respectively. A copy of FCBT's travel policy is available to shareholders upon request.

Bank employees, including senior officers, can earn compensation above base salary through an annual success-sharing incentive plan, which FCBT adopted during 2001. The plan is based upon the achievement of predetermined bank performance standards, which are approved by the board of directors annually.

Description of Property

In November of 2002, the bank sold the district headquarters building and 8.4 acres of land on which it was situated on the northeast side of Austin, Texas. As a part of the sale agreement, the bank leased space in the building until June 2004. On September 30, 2003, the bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility. The lease was effective September 30, 2003, and the term is from September 1, 2003 to August 31, 2013. The bank moved into the new facilities during May of 2004. The district associations own 18 headquarter locations and lease three. There are 114 owned and 67 leased association branch locations. The bank's and associations' investment in property is further detailed in Note 5, "Premises and Equipment," to the accompanying combined financial statements.

Legal Proceedings

There are no legal proceedings pending against the bank and associations, the outcome of which, in the opinion of legal counsel and management, would materially affect the financial position of the bank and associations. Note 13, "Commitments and Contingencies," to the accompanying combined financial statements outlines the bank's position with regard to possible contingencies at December 31, 2005.

Description of Capital Structure

The bank and associations are authorized to issue and retire certain classes of capital stock and retained earnings in the management of their capital structures. Details of the capital structures are described in Note 8, "Members' Equity," to the accompanying combined financial statements, and in the "Management's Discussion and Analysis" of the district included in this annual report to stockholders.

Description of Liabilities

The bank's debt outstanding is described in Note 7, "Bonds and Notes," to the accompanying combined financial statements. The bank's contingent liabilities and intra-System financial assistance rights and obligations are described in Note 13, "Commitments and Contingencies," and Note 11, "Intra-System Financial Assistance," to the accompanying combined financial statements.

Selected Financial Data

The selected financial data for the five years ended December 31, 2005, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Combined 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 combined financial statements in this annual report, is incorporated herein by reference.

Transactions With Senior Officers and Directors

The district's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference to Note 12, "Related Party Transactions," to the accompanying combined financial statements.

Relationship With Public Accountants

There were no changes in independent public accountants since the prior annual report to stockholders, and there were no material disagreements with our independent public accountants on any matter of accounting principles or financial statement disclosure during this period.

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 1, 2006, and the report of management in this annual report to stockholders, are incorporated herein by reference.

The Tenth Farm Credit District's annual and quarterly reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720 or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports can be requested by e-mailing *fcb@farmcreditbank.com*. The district's quarterly reports are available approximately 45 days after the end of each fiscal quarter. The district's quarterly and annual stockholder reports also are available on its Web site at *www.farmcreditbank.com*.

Credit and Services to Young, Beginning and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products (YBS)

The definitions for YBS, as prescribed by FCA regulations, are provided below.

Young Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.

Beginning Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who had 10 years or less of experience at farming, ranching, or producing or harvesting aquatic products as of the date the loan was originally made.

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

For the purposes of YBS, the term "loan" means an extension of, or a commitment to extend, credit authorized under the Farm Credit Act, whether it results from direct negotiations between a lender and a borrower or is purchased from, or discounted for, another lender, including participation interests. A farmer/rancher may be included in multiple categories as they are included in each category in which the definition is met.

The bank and associations' efforts to respond to the credit and related needs of YBS borrowers are evidenced by the following statistics.

Number of loans as a percentage of total loans as of December 31, 2005:

Young farmers and ranchers	18.3%
Beginning farmers and ranchers	43.0
Small farmers and ranchers	69.4

Volume outstanding (includes outstanding commitment) as a percentage of total volume as of December 31, 2005:

Young farmers and ranchers	11.7%
Beginning farmers and ranchers	37.1
Small farmers and ranchers	45.5

Gross new business during 2005 – number of loans as a percentage of total loans:

Young farmers and ranchers	18.1%
Beginning farmers and ranchers	42.3
Small farmers and ranchers	68.9

Gross new business during 2005 – volume as a percentage of total loans:

Young farmers and ranchers	10.3%
Beginning farmers and ranchers	33.9
Small farmers and ranchers	39.1