COOPERATIVE **ADVANTAGE**

COMPETITIVE **EDGE**

2006
FIRST
QUARTER REPORT
MARCH 31, 2006

FCBT

FARM CREDIT BANK OF TEXAS

FIRST QUARTER 2006

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April 26, 2006

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands, except as noted)

The following discussion reviews the financial condition and results of operations of the Farm Credit Bank of Texas (bank) for the three months ended March 31, 2006. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2005 Annual Report to shareholders.

The bank is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration promulgated thereunder.

The United States is currently served by four Farm Credit Banks (FCBs), each of which has specific regional lending authority within a chartered territory (or district), and by one Agricultural Credit Bank (ACB), which has the lending authority of an FCB within its chartered territory and limited nationwide lending authority. The FCBs and the ACB are collectively referred to as "System banks." The primary purpose of the FCBs is to serve as a source of funding for System associations within its district. The System associations make loans to or for the benefit of eligible borrowers for qualified purposes.

The bank and its related associations collectively are referred to as the Tenth Farm Credit District (district). At March 31, 2006, the bank served 21 district associations and certain other financing institutions.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended March 31, 2006, was $15,712, an increase of $3,090, or 24.5 percent, from the three months ended March 31, 2005. The increase is primarily the result of increases in the bank's net interest income and increases in noninterest income, net of increases in the bank's noninterest expenses.

Net Interest Income

Net interest income for the three months ended March 31, 2006, was $22,446, an increase of $3,907, or 21.1 percent, from the three months ended March 31, 2005. The increase is primarily the result of increases in interest-earning assets, partially offset by decreases in the net interest rate spreads for the three months ended March 31, 2006, from the same period of 2005. The growth in interest-earning assets for the three months was primarily due to increases in direct loans to district associations and, to a lesser extent, to increases in the bank's investment portfolio and increases in the bank's capital markets portfolio. Decreases in the interest rate spreads for the three months were primarily due to several factors. Competitive pricing on the bank's participation portfolio has compressed the interest rate spread on those loans. The bank also issued longer-term debt in order to manage its interest rate risk profile. In addition, the average balance of the bank's investment portfolio increased over the first quarter of 2005 as the bank increased the portfolio to increase liquidity, albeit at lower spreads.

Provision for Loan Losses

The bank recorded no provision for loan losses for the quarter ended March 31, 2006, which represents a decrease of $96 from the negative provision recorded in the first quarter of 2005. The allowance at each period end was considered adequate by management to absorb probable losses existing in and inherent to its loan portfolio.

Noninterest Income

Noninterest income for the three months ended March 31, 2006, was $4,016, an increase of $275 over the same period of 2005. The increase is primarily attributable to an increase of $245 in patronage from System entities and a $192 increase in surpluses received from the Farm Credit System Association Captive Insurance Company, partially offset by a $213 decrease in loan-related fees.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2006, was $10,750, an increase of $996 over the same period of 2005. The increase was primarily attributable to a $606 increase in salaries and employee benefits, a $469 increase in premiums to the Farm Credit System Insurance Corporation (FCSIC or Insurance Fund), and a $148 increase in other operating expenses, offset by a $218 decrease in intra-System financial assistance expense and a $19 increase in net gains from other property owned. Salaries and employee benefits increased primarily as a result of increases in compensation rates and related payroll taxes and increases in pension and retirement expenses, partially offset by a decrease in other employee benefits. The decrease in other employee benefits was attributable to changes in coverage of postretirement plans designed to control future costs for those benefits. Premiums to the Insurance Fund increased due to increases in the premium rates and increases in the loan balances on which they are applied. Intra-System financial assistance expense decreased due to the maturity and retirement of all remaining debt issuances during 2005.

Key results of operations comparisons:

	Annualized for the Three Months Ended 3/31/2006	Annualized for the Three Months Ended 3/31/2005
Return on average assets	**0.57%**	0.59%
Return on average shareholders' equity	**10.11%**	10.15%
Net interest income as a percentage of average earning assets	**0.81%**	0.87%
Charge-offs, net of recoveries, to average loans	**0.00%**	0.00%
Operating expenses as a percentage of net interest income and noninterest income	**40.68%**	42.78%
Operating expenses as a percentage of average earning assets	**0.39%**	0.45%

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2006, was $8,469,416, reflecting a decrease of $12,085, or 0.1 percent, compared to $8,481,501 at December 31, 2005, and an increase of $1,506,703, or 21.6 percent, compared to $6,962,713 at March 31, 2005. The changes are net of the effect of the February 2006 sale of $100 million in participations in its direct notes receivable from associations. The increases are mainly attributable to retail loan growth at district associations, which are primarily funded through direct notes payable to the bank, and, to a lesser extent, to increases in the bank's capital market loan portfolio. Bank's credit quality has remained strong, with all direct notes to associations and other financing institutions (OFIs) rated acceptable during these periods. Credit quality for all loans other than direct notes to associations and OFIs classified as "acceptable" or "other assets especially mentioned" as a percentage of total loans and accrued interest receivable was 98.4 and 98.5 percent at March 31, 2006, and December 31, 2005, respectively.

Comparative balances of high-risk assets follow:

	March 31, 2006	December 31, 2005	Increase (Decrease) $	Increase (Decrease) %
Nonaccrual loans	**$ 3,359**	$ 3,542	$ (183)	(5.17) %
Formally restructured loans	**907**	908	(1)	(0.11)
Loans 90 days past due and still accruing interest	**145**	147	(2)	(1.36)
Total high-risk assets	**$ 4,411**	$ 4,597	$ (186)	(4.05) %

Impaired loans, consisting of nonaccrual loans, formally restructured loans and loans 90 days or more past due and still accruing interest, constituted 0.1 percent of gross loans both at March 31, 2006, and at December 31, 2005.

At March 31, 2006, the allowance for loan losses was $142, equating to less than 0.01 percent of total loans outstanding, and 0.01 percent of participation loans outstanding, and was considered by management to be adequate to absorb estimated losses inherent in the loan portfolio at that date.

Liquidity and Funding Sources

As of March 31, 2006, the bank exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under Farm Credit Administration regulations. At March 31, 2006, the bank's permanent capital ratio was 16.09 percent, core surplus was 7.77 percent, total surplus was 13.56 percent and the net collateral ratio was 105.84 percent. Cash and investment securities totaled $2,842,964, or 25.0 percent of total assets, at March 31, 2006, compared to $2,744,712, or 24.3 percent, at December 31, 2005, reflecting an increase of $98,252 or 3.6 percent. Investment securities at March 31, 2006, included $2,663,914 in investments classified as available-for-sale and $97,034 in investments classified as held-to-maturity. The held-to-maturity investments consist of commercial paper purchased by the bank under its similar entity participation authority with contractual maturities of less than 60 days. Similar entities are entities with operations that are functionally similar to the activities of borrowers eligible to borrow from a Farm Credit bank or association. Interest-bearing liabilities, consisting of bonds and notes, increased by $70,731, or 0.7 percent, in order to fund the increases in loan volume previously discussed.

Capital Resources

Total shareholders' equity at March 31, 2006, totaled $626,819, an increase of $2,512 from December 31, 2005. The increase is primarily the result of net income of $15,712, offset by an increase in unrealized losses on investment securities of $9,910, an increase in unrealized losses on cash flow derivatives of $491, a retirement of allocated surplus of $1,225 and patronage distributions of $1,574. The increase in unrealized losses on investment securities was primarily due to the effect of rising market interest rates on fixed-rate mortgage-backed securities in the bank's investment portfolio.

Key financial condition comparisons:

	March 31, 2006	December 31, 2005
Total shareholders' equity to total assets	**5.51%**	5.53%
Total liabilities to shareholders' equity	**17.15:1**	17.08:1
Allowance for loan losses to total loans	**0.00%**	0.00%

Larry R. Doyle
Chief Executive Officer

Ralph W. Cortese
Chairman of the Board

Balance Sheets

(dollars in thousands)	March 31, 2006 (Unaudited)	December 31, 2005
Assets		
Cash	**$ 2,063**	$ 4,392
Federal funds sold and securities purchased under resale agreements	**79,953**	42,444
Investment securities	**2,760,948**	2,697,876
Loans	**8,469,416**	8,481,501
Less allowance for loan losses	**142**	142
Net loans	**8,469,274**	8,481,359
Accrued interest receivable	**45,807**	43,994
Premises and equipment, net	**2,634**	2,489
Other assets	**14,120**	12,234
Total assets	**$ 11,374,799**	$ 11,284,788
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 10,634,009**	$ 10,563,278
Accrued interest payable	**70,753**	60,113
Other liabilities	**43,218**	37,090
Total liabilities	**10,747,980**	10,660,481
Commitments and contingent liabilities (Note 3)		
Shareholders' equity		
Preferred stock, net	**200,000**	200,000
Capital stock	**135,390**	135,390
Allocated retained earnings	**7,518**	8,742
Unallocated retained earnings	**320,442**	306,305
Accumulated other comprehensive loss	**(36,531)**	(26,130)
Total shareholders' equity	**626,819**	624,307
Total liabilities and shareholders' equity	**$ 11,374,799**	$ 11,284,788

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

Statements of Income

(unaudited)

(dollars in thousands)	Quarter Ended March 31, 2006	2005
Interest Income		
Investment securities	**$ 30,424**	$ 15,436
Loans	**107,435**	62,064
Total interest income	**137,859**	77,500
Interest Expense		
Bonds and notes	**115,409**	58,950
Notes payable and other	**4**	11
Total interest expense	**115,413**	58,961
Net interest income	**22,446**	18,539
Negative provision for loan losses	**-**	(96)
Net interest income after negative provision for loan losses	**22,446**	18,635
Noninterest Income		
Fees for services to associations	**2,150**	2,132
Loan-related fees	**1,068**	1,281
Miscellaneous income, net	**798**	328
Total noninterest income	**4,016**	3,741
Noninterest Expense		
Salaries and employee benefits	**6,634**	6,028
Occupancy and equipment	**927**	935
Insurance Fund premiums	**554**	85
(Gains) losses on other property owned, net	**(14)**	5
Intra-System financial assistance expenses	**-**	218
Other operating expenses	**2,649**	2,483
Total noninterest expense	**10,750**	9,754
Net Income	**$ 15,712**	$ 12,622

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Allocated Retained Earnings	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2004	$ 100,000	$ 118,323	$ 9,980	$ 280,686	$ (7,558)	$ 501,431
Comprehensive income						
Net income	-	-	-	12,622	-	12,622
Unrealized net losses on investment securities	-	-	-	-	(13,111)	(13,111)
Unrealized net gains on cash flow derivatives	-	-	-	-	527	527
Total comprehensive income	-	-	-	12,622	(12,584)	38
Capital stock issued	-	-	-	-	-	-
Capital stock retired	-	-	-	-	-	-
Patronage distributions						
Cash	-	-	-	(1,002)	-	(1,002)
Shareholders' equity	-	-	-	-	-	-
Balance at March 31, 2005	$ 100,000	$ 118,323	$ 9,980	$ 292,306	$ (20,142)	$ 500,467
Balance at December 31, 2005	$ 200,000	$ 135,390	$ 8,742	$ 306,305	$ (26,130)	$ 624,307
Comprehensive income						
Net income	-	-	-	15,712	-	15,712
Unrealized net losses on investment securities	-	-	-	-	(9,910)	(9,910)
Unrealized net losses on cash flow derivatives	-	-	-	-	(491)	(491)
Total comprehensive income	-	-	-	15,712	(10,401)	5,311
Allocated surplus retired	-	-	(1,225)	-	-	(1,225)
Patronage distributions						
Cash	-	-	-	(1,574)	-	(1,574)
Shareholders' equity	-	-	1	(1)	-	-
Balance at March 31, 2006	**$ 200,000**	**$ 135,390**	**$ 7,518**	**$ 320,442**	**$ (36,531)**	**$ 626,819**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	Three Months Ended March 31, 2006	2005
Operating activities		
Net income	**$ 15,712**	$ 12,622
Reconciliation of net income to net cash provided by operating activities		
(Negative provision) provision for loan losses	**-**	(96)
Depreciation and amortization on premises and equipment	**160**	158
Accretion of net discount on loans	**(128)**	(29)
Amortization and accretion on debt instruments	**8,699**	3,850
Amortization of net discount (premium) on investment securities	**878**	1,299
Losses from sales of other property owned, net	**14**	2
Losses from sales of premises and equipment	**4**	-
Increase in accrued interest receivable	**(1,813)**	(2,819)
(Increase) decrease in other assets	**(2,377)**	2,875
Increase in accrued interest payable	**10,640**	3,888
Increase in intra-System financial assistance payable	**-**	345
Increase (decrease) in other liabilities	**6,856**	(437)
Net cash provided by operating activities	**38,645**	21,658
Investing activities		
Net increase in federal funds sold and securities purchased under resale agreements	**(37,509)**	(1,600)
Investment securities		
Purchases	**(1,347,119)**	(704,031)
Proceeds from maturities, calls and prepayments	**1,273,260**	654,296
Increase in loans, net	**(87,801)**	(144,450)
Proceeds from sale of loans	**100,000**	100,000
Proceeds from sales of premises and equipment	**41**	55
Expenditures for premises and equipment	**(350)**	(324)
Net cash used in investing activities	**(99,478)**	(96,054)
Financing activities		
Bonds and notes issued	**5,114,945**	6,589,245
Bonds and notes retired	**(5,053,642)**	(6,515,657)
Capital stock retired and allocated retained earnings retired	**(1,225)**	-
Cash patronage distributions paid	**(1,574)**	(1,002)
Net cash provided by financing activities	**58,504**	72,586
Net (decrease) increase in cash	**(2,329)**	(1,810)
Cash at beginning of year	**4,392**	3,614
Cash at end of quarter	**$ 2,063**	$ 1,804
Supplemental schedule of noncash investing and financing activities		
Unrealized net losses on investment securities	**$ (9,910)**	$ (13,112)
Supplemental schedule of noncash changes in fair value related to hedging activities		
(Decrease) increase in bonds and notes	**$ (728)**	$ 7,726
Supplemental information		
Interest paid	**$ 113,179**	$ 47,815

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

Notes to Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of the Farm Credit Bank of Texas (bank). The significant accounting policies followed and the financial condition and results of operations of the bank as of and for the year ended December 31, 2005, are contained in the 2005 Annual Report to shareholders (Annual Report). These unaudited first quarter 2006 financial statements should be read in conjunction with the Annual Report.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations of the bank and conform to generally accepted accounting principles. The preparation of these financial statements required the use of management's estimates. The results of operations for any interim period are not necessarily indicative of the results to be expected for the entire year.

The bank is part of the Tenth Farm Credit District (district), which is part of the federally chartered Farm Credit System (System). The bank provides funding to district associations, which, in turn, provide credit to their borrower-shareholders. At March 31, 2006, the bank served 21 district associations and certain other financing institutions.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	Three Months Ended March 31,	
	2006	2005
Balance at beginning of period	**$ 142**	$ 239
Negative provision for loan losses	**-**	(96)
Balance at end of period	**$ 142**	$ 143

NOTE 3 — COMMITMENTS AND CONTINGENT LIABILITIES

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 the other System banks. Total consolidated bank and systemwide obligations of the System at March 31, 2006, were approximately $115.9 billion.

Other actions are pending against the bank 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 financial position or results of operations of the bank.

NOTE 4 — EMPLOYEE BENEFIT PLANS

The following table summarized the components of net periodic benefit cost for nonpension postretirement benefit cost for the quarter ended:

	March 31,	
	2006	2005
Service cost	**$ 55**	$ 71
Interest cost	**95**	144
Expected return on plan assets	**-**	-
Amortization of transition obligations	**-**	(38)
Amortization of prior service costs	**(85)**	-
Amortization of net loss	**(1)**	1
Net periodic benefit cost	**$ 64**	$ 178

The structure of the district's defined benefit plans is characterized as multi-employer, since neither the assets, liabilities, nor cost of the plan is segregated or separately accounted for by participating employers (bank and associations).

NOTE 5 — COMBINED ASSOCIATION FINANCIAL DATA

Condensed financial information for the associations follows. All significant transactions and balances between the associations are eliminated in combination. The multi-employer structure of certain of the district's retirement and benefit plans results in the recording of these plans only in the district's combined financial statements.

Balance sheet data	**March 31, 2006**	December 31, 2005
Cash	**$ 29,154**	47,455
Loans	**8,888,019**	8,774,807
Less allowance for loan losses	**10,732**	9,391
Net loans	**8,877,287**	8,765,416
Accrued interest receivable	**133,350**	129,467
Other property owned, net	**1,573**	3,902
Other assets	**188,141**	186,512
Total assets	**$ 9,229,505**	$ 9,132,752
Bonds and notes	**$ 7,479,941**	$ 7,430,075
Other liabilities	**200,862**	191,082
Total liabilities	**7,680,803**	7,621,157
Capital stock and participation certificates	**74,193**	75,593
Retained earnings	**1,474,509**	1,436,002
Total members' equity	**1,548,702**	1,511,595
Total liabilities and members' equity	**$ 9,229,505**	$ 9,132,752

	Three Months Ended March 31,	
Statement of income data	**2006**	2005
Interest income	**$ 159,760**	$ 116,105
Interest expense	**89,296**	53,171
Net interest income	**70,464**	62,934
Provision (negative provision) for loan losses	**973**	(353)
Net interest income after provision for loan losses	**69,491**	63,287
Noninterest income	**8,985**	6,396
Intra-System financial assistance expense	**-**	688
Other expense	**35,158**	30,503
Provision for income taxes	**122**	296
Net income	**$ 43,196**	$ 38,196