COOPERATIVE ADVANTAGE

COMPETITIVE EDGE

2006 FIRST QUARTER REPORT

MARCH 31, 2006

TENTH FARM CREDIT DISTRICT

FIRST QUARTER 2006

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April 26, 2006

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

(dollars in thousands, except as noted)

The following discussion reviews the combined financial condition 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) for the three months ended March 31, 2006. FLCAs and ACAs are collectively referred to as associations. These comments should be read in conjunction with the accompanying combined financial statements and footnotes, along with the 2005 Annual Report to stockholders.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended March 31, 2006, was $56,569, an increase of $6,377, or 12.7 percent, from the three months ended March 31, 2005. The increase was due to an increase in net interest income of $11,271, an increase in noninterest income of $1,190 and a decrease in the provision for income taxes of $174, offset by an increase in noninterest expense of $4,836 and an increase in the provision for loan losses of $1,422.

Net Interest Income

Net interest income for the three months ended March 31, 2006, was $92,571, an increase of $11,271, or 13.9 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 loan growth at the district's associations and, to a lesser extent, to increases in the bank's investment portfolio and capital markets portfolio. Decreases in the district's interest rate spreads for the three months were primarily due to increases in the district's average cost of debt, which outpaced the district's increases in average yield on interest-earning assets. Competitive pricing on district associations' loans and 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 district's provision for loan losses for the quarter ended March 31, 2006, was $973, representing an increase of $1,422 compared to the first quarter of 2005. The allowance for loan losses for the district represents the aggregate of each entity's individual evaluation of its allowance for loan loss requirements. The allowance at each period end was considered by management to be adequate 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 $4,630, an increase of $1,190, or 34.6 percent, from the three months ended March 31, 2005. The increase is primarily attributable to a $475 increase in surplus distributions from the Farm Credit System Association Captive Insurance Company; a $350 increase in other gains, net; a $245 increase in patronage received; and an $80 increase in fees for financially related services.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2006, was $39,537, an increase of $4,836, or 13.9 percent, over the first quarter of 2005. The increase was primarily attributed to a $3,053 increase in premiums to the Farm Credit System Insurance Corporation (FCSIC or Insurance Fund), an increase of $1,592 in other operating expenses, and an $877 increase in salaries and employee benefits, partially offset by a $906 decrease in intra-System financial assistance expense. The increase in premiums to the Insurance Fund was a result of an increase in rates and an increase in the loan balances to which those rates are applied. Other operating expenses increased due to an increase in advertising and member relations expenses of $898, an increase of $243 in directors' expenses, an increase of $187 in travel expenses, and an increase of $136 in assessments from the Funding Corporation, partially offset by a $441 decrease in professional and contract services. Salaries and employee benefits increased as a result of a $1,136 increase in compensation and related payroll taxes and a $55 increase in pension and retirement expenses, offset by a $314 decrease in other employee benefits. Compensation increased primarily as a result of increases in compensation rates and increases in the number of employees at the district's associations. The decrease in other employee benefits was attributable to changes in coverage of postretirement plans sponsored by district employers in an effort to control future costs for those benefits. Intra-System financial assistance expense 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.

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	**1.73%**	1.93%
Return on average members' equity	**11.58%**	11.49%
Net interest income as a percentage of average earning assets	**2.89%**	3.20%
Recoveries, net of charge-offs, to average loans	**0.01%**	0.00%
Operating expenses as a percentage of net interest income and noninterest income	**40.48%**	39.85%
Operating expenses as a percentage of average earning assets	**1.23%**	1.33%

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2006, was $10,373,485, an increase of $153,889, or 1.5 percent, from $10,219,596 at December 31, 2005, and an increase of $1,739,284, or 20.1 percent, from $8,634,201 at March 31, 2005. 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.

Overall credit quality in the district improved during the quarter. Loans classified as "acceptable" or "other assets especially mentioned" as a percentage of total loans and accrued interest receivable were 98.7 percent and 98.4 percent at March 31, 2006, and December 31, 2005, respectively. Nonaccrual loans for the district were 0.36 percent of total loans at March 31, 2006, compared to 0.28 percent at December 31, 2005, and 0.41 percent at March 31, 2005. The $10,874 allowance for loan losses at March 31, 2006, constituted 0.10 percent of total loans, and was considered by management to be adequate to absorb potential losses on existing loans.

Total district high-risk asset volume increased by $8,202, or 19.2 percent, to $51,028 at March 31, 2006, from $42,826 at December 31, 2005.

Comparative balances of high-risk assets follow (*in millions*):

	March 31, 2006	December 31, 2005	Increase (Decrease) $	Increase (Decrease) %
Nonaccrual loans	**$ 36.9**	$ 29.1	$ 7.8	26.8 %
Formally restructured loans	**6.8**	7.1	(0.3)	(4.2)
Loans 90 days past due and still accruing interest	**5.8**	2.7	3.1	114.8
Total impaired loans	**49.5**	38.9	10.6	27.2
Other property owned, net	**1.6**	3.9	(2.3)	(59.0)
Total high-risk assets	**$ 51.1**	$ 42.8	$ 8.3	19.4 %

Impaired loans, consisting of nonaccrual loans, formally restructured loans and loans past due 90 days or more and still accruing interest, constituted 0.5 percent of gross loans at March 31, 2006, and 0.4 percent of gross loans at December 31, 2005. The $7.8 million increase in nonaccrual loans includes the addition of a $5.5-million loan by a district association.

Liquidity and Funding Sources

As of March 31, 2006, the Farm Credit Bank of Texas and all district associations exceeded all regulatory liquidity requirements. Cash and investment securities totaled $2,872,118, or 21.4 percent, of total assets at March 31, 2006, compared to $2,792,167, or 21.1 percent, at December 31, 2005, reflecting an increase of $79,951, or 2.9 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 $170,731, or 1.6 percent, in order to fund the increases in loan volume.

Capital Resources

Total members' equity increased $40,057, or 2.0 percent, from December 31, 2005, to the March 31, 2006, total of $1,995,152. This increase is the result of net income of $56,569 for the three months ended March 31, 2006, and an increase in capital stock of $8,749, offset by an increase in unrealized net losses on investment securities totaling $9,910; an increase in unrealized losses on cash flow derivatives of $491; retirements in capital stock of $10,149; and patronage distributions of $4,711.

Key financial condition comparisons:

	March 31, 2006	December 31, 2005
Members' equity to assets	**14.84%**	14.80%
Total liabilities to members' equity	**5.74:1**	5.76:1
Allowance for loan losses to total loans	**0.10%**	0.09%

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

Ralph W. Cortese
Chairman of the Board
Farm Credit Bank of Texas

Combined Balance Sheets

(dollars in thousands)	March 31, 2006 (Unaudited)	December 31, 2005
Assets		
Cash	**$ 31,217**	$ 51,847
Federal funds sold and securities purchased under resale agreements	**79,953**	42,444
Investment securities	**2,760,948**	2,697,876
Loans	**10,373,485**	10,219,596
Less allowance for loan losses	**10,874**	9,533
Net loans	**10,362,611**	10,210,063
Accrued interest receivable	**150,709**	146,769
Other property owned, net	**1,573**	3,902
Premises and equipment, net	**39,048**	37,982
Other assets	**18,053**	21,337
Total assets	**$ 13,444,112**	$ 13,212,220
Liabilities and members' equity		
Liabilities		
Bonds and notes, net	**$ 11,134,009**	$ 10,963,278
Accrued interest payable	**72,900**	61,718
Other liabilities	**242,051**	232,129
Total liabilities	**11,448,960**	11,257,125
Commitments and contingent liabilities (Note 3)		
Members' equity		
Preferred stock, net	**203,565**	203,569
Capital stock and participation certificates	**72,246**	73,642
Allocated retained earnings	**32,820**	32,327
Unallocated retained earnings	**1,743,899**	1,692,534
Accumulated other comprehensive loss	**(57,378)**	(46,977)
Total members' equity	**1,995,152**	1,955,095
Total liabilities and members' equity	**$ 13,444,112**	$ 13,212,220

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	Quarter Ended March 31, 2006	2005
Interest Income		
Investment securities	**$ 30,424**	$ 15,436
Loans	**184,197**	128,214
Total interest income	**214,621**	143,650
Interest Expense		
Bonds and notes	**115,409**	58,950
Notes payable and other	**6,641**	3,400
Total interest expense	**122,050**	62,350
Net interest income	**92,571**	81,300
Provision (negative provision) for loan losses	**973**	(449)
Net interest income after negative provision for loan losses	**91,598**	81,749
Noninterest Income		
Loan-related fees	**2,827**	2,747
Miscellaneous income, net	**1,803**	693
Total noninterest income	**4,630**	3,440
Noninterest Expense		
Salaries and employee benefits	**21,889**	21,012
Occupancy and equipment	**2,486**	2,436
Insurance Fund premiums	**3,895**	842
Losses on other property owned, net	**193**	23
Intra-System financial assistance expenses	**-**	906
Other operating expenses	**11,074**	9,482
Total noninterest expense	**39,537**	34,701
Income before provision for income taxes	**56,691**	50,488
Provision for income taxes	**122**	296
Net Income	**$ 56,569**	$ 50,192

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

Combined Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Allocated Retained Earnings	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2004	$ 103,963	$ 88,962	$ 32,662	$ 1,531,503	$ (20,961)	$ 1,736,129
Comprehensive income						
Net income	-	-	-	50,192	-	50,192
Unrealized net losses on investment securities	-	-	-	-	(13,111)	(13,111)
Unrealized net gains on cash flow derivatives	-	-	-	-	527	527
Total comprehensive income	-	-	-	50,192	(12,584)	37,608
Capital stock/participation certificates issued	-	7,416	-	-	-	7,416
Capital stock/participation certificates and allocated retained earnings retired	-	(12,610)	-	-	-	(12,610)
Patronage distributions						
Cash	-	-	-	(2,446)	-	(2,446)
Members' equity	-	-	119	(119)	-	-
Balance at March 31, 2005	$ 103,963	$ 83,768	$ 32,781	$ 1,579,130	$ (33,545)	$ 1,766,097
Balance at December 31, 2005	$ 203,569	$ 73,642	$ 32,327	$ 1,692,534	$ (46,977)	$ 1,955,095
Comprehensive income						
Net income	-	-	-	56,569	-	56,569
Unrealized net losses on investment securities	-	-	-	-	(9,910)	(9,910)
Unrealized net losses on cash flow derivatives	-	-	-	-	(491)	(491)
Total comprehensive income	-	-	-	56,569	(10,401)	46,168
Capital stock/participation certificates issued	-	8,749	-	-	-	8,749
Capital stock/participation certificates and allocated retained earnings retired	(4)	(10,145)	-	-	-	(10,149)
Patronage distributions						
Cash	-	-	-	(4,711)	-	(4,711)
Members' equity	-	-	493	(493)	-	-
Balance at March 31, 2006	**$ 203,565**	**$ 72,246**	**$ 32,820**	**$ 1,743,899**	**$ (57,378)**	**$ 1,995,152**

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	Three Months Ended March 31, 2006	2005
Operating activities		
Net income	**$ 56,569**	$ 50,192
Reconciliation of net income to net cash provided by operating activities		
Provision (negative provision) for loan losses	**973**	(449)
Provision for losses on other property owned	**240**	53
Depreciation and amortization on premises and equipment	**1,186**	1,130
Accretion of net discount on loans	**(270)**	(291)
Amortization of net discount on notes	**8,699**	3,850
Amortization of net discount on investment securities	**878**	1,299
Gains from sales of other property owned, net	**(419)**	(69)
Gains from sales of premises and equipment	**(1,406)**	(1,831)
Increase in accrued interest receivable	**(3,940)**	(6,488)
Decrease in other assets	**2,793**	15,892
Increase in accrued interest payable	**11,182**	4,266
Increase in intra-System financial assistance payable	**-**	485
Decrease in other liabilities	**(8,577)**	(21,537)
Net cash provided by operating activities	**67,908**	46,502
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	**(150,743)**	(188,726)
Proceeds from sale of loans	**100,000**	100,000
Proceeds from sales of premises and equipment	**608**	2,846
Expenditures for premises and equipment	**(1,454)**	(2,950)
Net cash used in investing activities	**(162,957)**	(140,165)
Financing activities		
Bonds and notes issued	**5,114,945**	6,589,245
Bonds and notes retired	**(5,053,642)**	(6,515,657)
Increase in advanced conditional payments	**19,227**	10,399
Capital stock and participation certificates issued	**8,749**	7,416
Capital stock and participation certificates retired	**(10,149)**	(12,610)
Cash patronage distributions declared	**(4,711)**	(2,446)
Net cash provided by financing activities	**74,419**	76,347
Net decrease in cash	**(20,630)**	(17,316)
Cash at beginning of year	**51,847**	44,169
Cash at end of quarter	**$ 31,217**	$ 26,853
Supplemental schedule of noncash investing and financing activities		
Financed sales of other property owned	**$ 2,820**	$ 602
Loan assets transferred to other property owned	**312**	1,524
Unrealized net losses on investment securities	**(9,909)**	(13,112)
Cash dividends or patronage distributions payable	**44,788**	15,085
Supplemental schedule of noncash changes in fair value related to hedging activities		
(Decrease) increase in bonds and notes	**$ (728)**	$ 7,726
Supplemental information		
Cash paid for:		
Interest	**$ 119,819**	$ 50,735
Income taxes	**53**	36

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

Notes to Combined Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying combined financial statements (financial statements) include the accounts of the Farm Credit Bank of Texas (bank) and the accounts of the Agricultural Credit Associations (ACAs) and Federal Land Credit Associations (FLCAs) of the Tenth Farm Credit District (district) of the Farm Credit System (System). The ACAs and FLCAs are collectively referred to as associations. The financial statements also reflect the investments in and allocated earnings of the service organizations in which the bank has a partial ownership interest. All significant transactions and balances between the bank and the associations have been eliminated in combination.

The significant accounting policies followed and the financial condition and results of operations of the combined bank and associations as of and for the year ended December 31, 2005, are contained in the 2005 Annual Report to stockholders (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 district 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.

NOTE 2 — ALLOWANCE FOR LOAN LOSS

An analysis of the allowance for loan losses follows:

	Three Months Ended March 31,	
	2006	2005
Balance at beginning of period	$ 9,533	$ 10,617
Provision for loan losses	973	(449)
Loans charged off	(66)	(562)
Recoveries	434	467
Balance at end of period	$ 10,874	$ 10,073

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 and associations in which claims for monetary damage 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 positions or results of operations of the bank and associations.

NOTE 4 — EMPLOYEE BENEFIT PLANS

The multi-employer structure of certain of the district's retirement and benefit plans results in the recording of these plans only upon combination. The following table summarizes the components of net periodic benefit costs for the three months ended March 31:

	Pension Benefits		Other Benefits	
	2006	2005	**2006**	2005
Service cost	**$ 1,326**	$ 1,267	**$ 351**	$ 463
Interest cost	**2,860**	2,788	**501**	717
Expected return on plan assets	**(2,861)**	(2,482)	**-**	-
Amortization of transition obligations	**-**	-	**-**	(224)
Amortization of prior service costs	**263**	272	**(480)**	-
Amortization of net loss	**1,072**	733	**65**	51
Net periodic benefit cost	**$ 2,660**	$ 2,578	**$ 437**	$ 1,007

As of March 31, 2006, $7.0 million of contributions has been made. The district presently anticipates no additional contributions to fund its pension plan in 2006.

NOTE 5 — 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.

Balance sheet data	March 31, 2006	December 31, 2005
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
Bonds and notes	$ 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
Preferred stock	200,000	200,000
Capital stock	135,390	135,390
Retained earnings	327,960	315,047
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

	Three Months Ended March 31,	
Statement of income data	2006	2005
Interest income	$ 137,859	$ 77,500
Interest expense	115,413	58,961
Net interest income	22,446	18,539
Negative provision for loan losses	-	(96)
Net interest income after provision for loan losses	22,446	18,635
Noninterest income	4,016	3,741
Noninterest expense	10,750	9,754
Net income	$ 15,712	$ 12,622