The lender who can get you there

2007 FIRST QUARTER REPORT

FARM CREDIT BANK OF TEXAS

FIRST QUARTER 2007

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May 2, 2007

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, 2007. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2006 Annual Report to shareholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

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, 2007, the bank served 20 district associations and certain other financing institutions.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended March 31, 2007, was $17,523, an increase of $1,811, or 11.5 percent, from the three months ended March 31, 2006. The increase was due to a $2,629 increase in net interest income and a $1,954 increase in noninterest income offset by a $2,772 increase in noninterest expenses.

Net Interest Income

Net interest income for the three months ended March 31, 2007, was $25,009, an increase of $2,629, or 11.7 percent, from the three months ended March 31, 2006. The increase is attributable to a $1.93 billion volume increase in the bank's average earning assets, offset by a 6 basis point decrease in the bank's net interest rate spread. The growth in interest-earning assets was due primarily to increases in direct loans to district associations and other financing institutions and to increases in the bank's participations portfolio. Decreases in the interest rate spread for the quarter were primarily due to several factors: Competitive lending conditions continued to compress the interest rate spread on the bank's participations portfolio; issuance of longer-term debt to manage the bank's interest rate risk profile resulted in a narrower earnings spread; and the benefit of the increased value of the bank's equity in a higher interest rate environment was passed on to district associations. Although the bank's net interest rate spread decreased by 6 basis points, the net interest margin decreased by only 4 basis points due to the added value of equity financing.

Provision for Loan Losses

The bank recorded no provision for loan losses for the quarters ended March 31, 2007, and March 31, 2006. The allowance at March 31, 2007, was considered adequate by management to absorb probable losses inherent to its loan portfolio.

Noninterest Income

Noninterest income for the quarter ended March 31, 2007, was $5,970, reflecting an increase of $1,954 over the same period of 2006. The increase is due mainly to an $873 increase in patronage income from another Farm Credit System entity, a $543 gain on the sale of investments by the bank, a $242 increase in patronage income from participation loans, a $235 increase in fees for financially related services, and a $61 increase in all other noninterest income items, collectively.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2007, was $13,456, reflecting an increase of $2,772 over the first quarter of 2006. The increase is primarily attributable to a $1,020 increase in salaries and employee benefits, a $403 increase in premiums to the Farm Credit System Insurance Corporation (FCSIC or Insurance Fund), a $253 increase in occupancy and equipment expenses related primarily to computer and technology expenses, and a $1,082 increase in other operating expenses. The $1,020 increase in salaries and employee benefits was primarily due to a $907 increase in compensation and related payroll taxes, a $95 increase in pension and retirement expenses, and an $18 increase in other benefits. Compensation increased due to increases in the number of employees and increases in compensation rates. Premiums to the Insurance Fund increased due to increases in the loan balances on which premium rates are applied. Other operating expenses increased due to an increase in professional and contract services of $446, an increase in advertising and member relations expenses of $354, a $69 increase in directors' expenses, a $60 increase in supervisory and examination expenses, and a $153 increase in all other operating expenses, collectively.

Key results of operations comparisons:

	Annualized for the Three Months Ended 3/31/2007	Annualized for the Three Months Ended 3/31/2006
Return on average assets	**0.54%**	0.57%
Return on average shareholders' equity	**10.51%**	10.11%
Net interest income as a percentage of average earning assets	**0.77%**	0.81%
Charge-offs, net of recoveries, to average loans	**0.00%**	0.00%
Operating expenses as a percentage of net interest income and noninterest income	**43.44%**	40.53%
Operating expenses as a percentage of average earning assets	**0.42%**	0.39%

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2007, was $10,612,529, reflecting an increase of $557,101, or 5.5 percent, compared to $10,055,428 at December 31, 2006, and an increase of $2,143,113, or 25.3 percent, compared to $8,469,416 at March 31, 2006. The changes are net of the effect of the sale of a total of $900 million in participations in its direct notes receivable from associations to another Farm Credit entity during the third and fourth quarters of 2006. 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 increases in the bank's capital markets loan portfolio. Overall credit quality remained strong, with loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" at 99.7 percent of total loans and accrued interest at March 31, 2007, compared to 99.8 percent and 99.7 percent at December 31, 2006, and March 31, 2006, respectively.

Comparative balances of high-risk assets follow:

		Increase (Decrease)		
	March 31, 2007	$	%	December 31, 2006
Nonaccrual loans	**$ 3,551**	$ (162)	(4.36) %	$ 3,713
Formally restructured loans	**877**	(8)	(0.90)	885
Total high-risk assets	**$ 4,428**	$ (170)	(3.70) %	$ 4,598

Impaired loans, consisting of nonaccrual loans, formally restructured loans and loans 90 days or more past due and still accruing interest, constituted less than 0.1 percent of gross loans both at March 31, 2007, and December 31, 2006.

At March 31, 2007, 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, 2007, the bank exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under Farm Credit Administration regulations. At March 31, 2007, the bank's permanent capital ratio was 13.29 percent, core surplus was 6.27 percent, total surplus was 10.92 percent and the net collateral ratio was 105.29 percent. Cash and investment securities totaled $2,626,088, or 19.7 percent, of total assets at March 31, 2007, compared to $2,775,636, or 21.5 percent, at December 31, 2006, reflecting a decrease of $149,548, or 5.4 percent. In March 2007, the bank sold investments with a book value of $83.3 million for a gain of $543. The sale was made for capital management purposes. Interest-bearing liabilities, consisting of bonds and notes, increased by $381,602, or 3.1 percent, in order to fund the increases in earning assets previously discussed.

The bank's investment portfolio includes $342.1 million in securitizations of sub-prime mortgage, asset-backed securities. Due to the economic conditions currently affecting that market, the bank has reviewed internally the investments in question, and has consulted with outside analysts. Currently the AAA bonds in question are not considered to be in jeopardy of credit downgrading due to the credit enhancement of the structures, the priority of payments assigned to the AAA tranches, and the relatively short weighted average lives. However, prepayments are expected to slow as underwriting standards tighten in this market and this may extend the expected lives on these assets. The bank will continue to monitor these investments. Asset-backed securities represent 13 percent of the bank's investment portfolio.

Capital Resources

Total shareholders' equity at March 31, 2007, totaled $686,222, an increase of $22,001 from December 31, 2006. The increase is primarily the result of net income of $17,523, a decrease in unrealized losses on investment securities of $6,505, and patronage distributions of $2,027. The change in unrealized losses on investment securities was due primarily to changes in the market value of fixed-rate mortgage-backed securities, whose values have changed as interest rates have fluctuated during the period.

Key financial condition comparisons:

	March 31, 2007	December 31, 2006
Total shareholders' equity to total assets	**5.15%**	5.14%
Total liabilities to shareholders' equity	**18.43:1**	18.44:1
Allowance for loan losses to total loans	**< 0.01%**	< 0.01%

OTHER

Prospective Accounting Changes

On September 30, 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The standard requires an employer to recognize the overfunded or underfunded status of postretirement benefit plans as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The bank will be required to implement the standard for the year ended December 31, 2007. In addition, this standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the bank uses a measurement date of September 30. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The bank is currently evaluating the impact of implementing this standard. It is anticipated that the implementation of this standard will have no impact on the income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the balance sheet.

In February 2007, the FASB issued Statement of Accounting Standards No. 159, "Fair Value Option for Financial Assets and Financial Liabilities." The standard permits entities to choose on an instrument-by-instrument basis, at special election dates, to measure eligible items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected shall be reported in earnings at each subsequent reporting date. Up-front costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. This standard is effective for financial statements issued for fiscal years beginning after November 1, 2007.

Larry R. Doyle	Ralph W. Cortese
Chief Executive Officer	Chairman of the Board

Balance Sheets

(dollars in thousands)	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
Cash	**$ 8,513**	$ 14,165
Federal funds sold and securities purchased under resale agreements	**92,681**	89,229
Investment securities	**2,524,894**	2,672,242
Loans	**10,612,529**	10,055,428
Less allowance for loan losses	**142**	142
Net loans	**10,612,387**	10,055,286
Accrued interest receivable	**68,400**	63,967
Premises and equipment, net	**2,619**	2,286
Other assets	**21,529**	18,585
Total assets	**$ 13,331,023**	$ 12,915,760
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 12,502,385**	$ 12,120,783
Accrued interest payable	**112,177**	96,550
Other liabilities	**30,239**	34,206
Total liabilities	**12,644,801**	12,251,539
Commitments and contingent liabilities (Note 3)		
Shareholders' equity		
Preferred stock, net	**200,000**	200,000
Capital stock	**161,421**	161,421
Allocated retained earnings	**6,197**	6,194
Unallocated retained earnings	**333,569**	318,076
Accumulated other comprehensive loss	**(14,965)**	(21,470)
Total shareholders' equity	**686,222**	664,221
Total liabilities and shareholders' equity	**$ 13,331,023**	$ 12,915,760

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

Statements of Income

(unaudited)

(dollars in thousands)	Quarter Ended March 31, 2007	2006
Interest Income		
Investment securities	**$ 34,726**	$ 30,424
Loans	**149,213**	107,369
Total interest income	**183,939**	137,793
Interest Expense		
Bonds and notes	**158,926**	115,409
Notes payable and other	**4**	4
Total interest expense	**158,930**	115,413
Net interest income	**25,009**	22,380
Provision for loan losses	**-**	-
Net interest income after provision for loan losses	**25,009**	22,380
Noninterest Income		
Fees for services to associations	**2,148**	2,150
Loan-related fees	**1,303**	1,068
Gain from sale of investment securities	**543**	-
Miscellaneous income, net	**1,976**	798
Total noninterest income	**5,970**	4,016
Noninterest Expense		
Salaries and employee benefits	**7,654**	6,634
Occupancy and equipment	**1,180**	927
Insurance Fund premiums	**957**	554
Gains on other property owned, net	**-**	(14)
Other operating expenses	**3,665**	2,583
Total noninterest expense	**13,456**	10,684
Net Income	**$ 17,523**	$ 15,712

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, 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)
Net change in unrealized net gains 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
Balance at December 31, 2006	$ 200,000	$ 161,421	$ 6,194	$ 318,076	$ (21,470)	$ 664,221
Comprehensive income						
Net income	-	-	-	17,523	-	17,523
Net change in unrealized net losses on investment securities	-	-	-	-	6,505	6,505
Total comprehensive income	-	-	-	17,523	6,505	24,028
Patronage distributions						
Cash	-	-	-	(2,027)	-	(2,027)
Shareholders' equity	-	-	3	(3)	-	-
Balance at March 31, 2007	**$ 200,000**	**$ 161,421**	**$ 6,197**	**$ 333,569**	**$ (14,965)**	**$ 686,222**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	Three Months Ended March 31, 2007	2006
Operating activities		
Net income	**$ 17,523**	$ 15,712
Reconciliation of net income to net cash provided by operating activities		
Depreciation and amortization on premises and equipment	**221**	160
Accretion of net discount on loans	**(22)**	(128)
Amortization and accretion on debt instruments	**1,140**	2,370
Amortization of net (premium) discount on investment securities	**(71)**	878
Gain on sale of investments	**(543)**	-
Losses from sales of other property owned, net	**-**	14
Losses from sales of premises and equipment	**2**	4
Increase in accrued interest receivable	**(4,433)**	(1,813)
Increase in other assets	**(2,280)**	(2,377)
Increase in accrued interest payable	**15,627**	10,640
Increase in other liabilities	**2,669**	10,252
Net cash provided by operating activities	**29,833**	35,712
Investing activities		
Net increase in federal funds sold and securities purchased under resale agreements	**(3,452)**	(37,509)
Investment securities		
Purchases	**(952,723)**	(1,347,119)
Proceeds from maturities, calls and prepayments	**1,024,027**	1,273,260
Proceeds from sales	**83,163**	-
Increase in loans, net	**(557,079)**	(87,801)
Proceeds from sales of loans	**-**	100,000
Proceeds from sales of premises and equipment	**108**	41
Expenditures for premises and equipment	**(664)**	(350)
Net cash used in investing activities	**(406,620)**	(99,478)
Financing activities		
Bonds and notes issued	**6,716,769**	5,114,945
Bonds and notes retired	**(6,338,056)**	(5,047,313)
Capital stock retired and allocated retained earnings distributed	**-**	(1,225)
Cash patronage distributions paid	**(7,578)**	(4,970)
Net cash provided by financing activities	**371,135**	61,437
Net (decrease) increase in cash	**(5,652)**	(2,329)
Cash at beginning of year	**14,165**	4,392
Cash at end of quarter	**$ 8,513**	$ 2,063
Supplemental schedule of noncash investing and financing activities		
Unrealized net gains (losses) on investment securities	**$ 6,505**	$ (9,910)
Supplemental schedule of noncash changes in fair value related to hedging activities		
Increase (decrease) in bonds and notes	**$ 1,749**	$ (728)
Supplemental information		
Interest paid	**$ 143,303**	$ 113,179

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, 2006, are contained in the 2006 Annual Report to shareholders (Annual Report). These unaudited first quarter 2007 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 requires 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. Certain amounts in prior years' financial statements have been reclassified to conform with the current year's presentation.

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, 2007, the bank served 20 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,	
	2007	2006
Balance at beginning of period	**$ 142**	$ 142
Provision for loan losses	**-**	-
Loans charged off	**-**	-
Recoveries	**-**	-
Balance at end of period	**$ 142**	$ 142

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, 2007, were approximately $137.6 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 summarizes the components of net periodic benefit cost for nonpension postretirement benefit cost for the quarter ended:

	March 31, 2007	March 31, 2006
Service cost	**$ 48**	55
Interest cost	**96**	95
Amortization of prior service costs	**(85)**	(85)
Amortization of net loss	**(1)**	(1)
Net periodic benefit cost	**$ 58**	$ 64

The structure of the district's defined benefit plan 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, 2007**	December 31, 2006
Cash	**$ 25,524**	46,005
Loans	**11,072,046**	10,665,377
Less allowance for loan losses	**14,948**	13,827
Net loans	**11,057,098**	10,651,550
Accrued interest receivable	**183,018**	176,583
Other property owned, net	**2,396**	2,020
Other assets	**223,448**	211,927
Total assets	**$ 11,491,484**	$ 11,088,085
Bonds and notes	**$ 9,599,696**	$ 9,214,287
Other liabilities	**208,203**	235,617
Total liabilities	**9,807,899**	9,449,904
Capital stock and participation certificates	**61,197**	60,771
Retained earnings	**1,622,388**	1,577,410
Total members' equity	**1,683,585**	1,638,181
Total liabilities and members' equity	**$ 11,491,484**	$ 11,088,085

	Three Months Ended March 31,	
Statement of income data	**2007**	2006
Interest income	**$ 210,231**	$ 159,760
Interest expense	**129,461**	89,296
Net interest income	**80,770**	70,464
Provision for loan losses	**1,242**	973
Net interest income after provision for loan losses	**79,528**	69,491
Noninterest income	**15,169**	8,985
Other expense	**37,806**	35,158
Provision for income taxes	**112**	122
Net income	**$ 56,779**	$ 43,196