2004

SECOND QUARTER - JUNE 30, 2004

POSITIONED FOR SUCCESS

FARM CREDIT BANK OF TEXAS

SECOND QUARTER 2004

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June 30, 2004

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 and six months ended June 30, 2004. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2003 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 June 30, 2004, the bank served 21 district associations and certain other financing institutions.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended June 30, 2004, was $16,684, an increase of $4,002, or 31.6 percent, over the $12,682 for the three months ended June 30, 2003. Net interest income for the six months ended June 30, 2004 was $32,010, an increase of $7,083, or 28.4 percent, over the $24,587 for the same period of 2003. The increases for the three and six months ended June 30, 2004, compared to the same periods in the prior year are primarily the result of increases in the effective yield on the bank's investment portfolio, the bank's ability to issue and replace debt to achieve favorable effective rates, and to volume increases, especially in the investment portfolio, partially offset by lower earnings on the loan portfolio.

Provision for Loan Losses

The bank recorded no provision for loan losses for the quarter ended June 30, 2004, which represented no change compared to the second quarter of 2003. This reflects management's assessment that the existing allowance for loan losses is adequate to absorb estimated losses inherent in the current loan portfolio. Provisions are no longer recorded on the basis of loan growth alone, as was the practice prior to March 31, 2003.

Noninterest Income

Noninterest income for the three and six months ended June 30, 2004, was $3,583 and $6,802, respectively, reflecting decreases of $1,933 and $3,641 over the same periods of 2003. The three-month decrease is primarily attributable to a $1,567 decrease in income from mineral properties, a $819 decrease in fees from services to associations, and a $219 decrease in surplus received from the System's captive insurance provider, partially offset by a $504 increase in other gains and a $178 increase in loan-related fees. The six-month decrease is primarily attributable to a $2,580 decrease in income from mineral properties, a $1,455 decrease in fees for services to associations, a $302 decrease in loan-related fees and a $23 decrease in surplus received from the System's captive insurance provider, partially offset by a $492 increase in other gains and a $227 increase in patronage income received. In November 2003, the bank sold all of its rights in its mineral properties and subsequently no longer receives income from this source. In June 2004, the bank recognized $228 in gain on the sale of two properties adjacent to its old headquarters building.

Noninterest Expense

Noninterest expense for the three and six months ended June 30, 2004, was $10,101 and $19,353, respectively, reflecting an increase of $980 and $536 over the same periods of 2003. For the three-month period ended June 30, 2004, the increase was mainly attributable to a $2,385 increase in other operating expenses and a $523 increase in occupancy and equipment expense, partially offset by a decrease of $1,604 in intra-system financial assistance and a $236 decrease in salaries and employee benefits. For the six-month period ended June 30, 2004, the increase is primarily due to a $2,657 increase in other operating expenses and an $869 increase in occupancy and equipment expense, offset by a $2,665 decrease in intra-system financial assistance and a $201 decrease in salaries and employee benefits. Other operating expenses increased due to $1,949 of nonrecurring costs incurred during June 2004 related to the sale of the bank's old headquarters building no longer in use and relocation of bank operations, including an expense of $804 for future lease payments on the headquarters building no longer utilized by the bank. Occupancy and equipment expenses increased as a result of the cost of leasing new corporate office space in addition to the lease expense incurred through June 2004 on the old headquarters facility. Intra-system financial assistance decreased due to the maturity in July 2003 of most of the remaining outstanding debt issuances. Salaries and employee benefits decreased due mainly to a reduction in the number of employees at the bank.

Key results of operations comparisons:

	Annualized for the Six Months Ended 06/30/2004	Annualized for the Six Months Ended 06/30/2003
Return on average assets	**0.52%**	0.48%
Return on average shareholders' equity	**7.97%**	8.69%
Net interest income as a percentage of average earning assets	**0.86%**	0.74%
Charge-offs, net of recoveries, to average loans	**0.14%**	0.01%

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at June 30, 2004, was $6,213,642, reflecting an increase of $378,713, or 6.5 percent, compared to $5,834,929 at December 31, 2003, and an increase of $269,435, or 4.5 percent, compared to $5,944,207 at June 30, 2003. The increases are mainly attributable to retail loan growth at district associations, which are primarily funded through direct notes payable to the bank. The $269,435 increase from June 30, 2003, is net of the effect of the bank's November 2003 sale of $300 million in participations in its direct notes receivable from associations to another System bank.

Credit quality remained strong, with overall acceptable credit quality for the bank at 99.73 percent, compared to the 99.68 percent and 99.56 percent at December 31, 2003, and June 30, 2003, respectively.

Comparative balances of high-risk assets follow:

		Decrease		
	June 30, 2004	$	%	December 31, 2003
Nonaccrual loans	**$ 3,319**	$ (7,003)	(67.85) %	$ 10,322
Formally restructured loans	**628**	(5)	(0.79)	633
Total impaired loans	**3,947**	(7,008)	(63.97)	10,955
Other property owned, net	**210**	(319)	(60.30)	529
Total high-risk assets	**$ 4,157**	$ (7,327)	(63.80) %	$ 11,484

Impaired loans consisting of nonaccrual loans and formally restructured loans constituted 0.1 percent of gross loans both at June 30, 2004, and at December 31, 2003. The decrease in nonaccrual loans was primarily due to the charge-off of $4,006 on loans to one customer in June 2004.

At June 30, 2004, the allowance for loan losses was $5,821, equating to 0.09 percent of total loans outstanding, and 1.13 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. The $4,013 decrease in the allowance for loan losses from December 31, 2003, is mainly attributable to the $4,006 charge-off referred to above.

The bank plans to conduct a study to further refine its methodology for calculating the allowance for loan losses, taking into account generally accepted accounting principles and applicable Farm Credit Administration requirements, as well as the Securities and Exchange Commission and Federal Financial Institutions Examination Council guidelines. The study is likely to be completed by the fourth quarter of 2004 with any appropriate reduction, which may be significant, to the allowance for loan losses implemented at that time.

Liquidity and Funding Sources

As of June 30, 2004, the bank exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under Farm Credit Administration regulations. At June 30, 2004, the bank's permanent capital ratio was 23.72 percent, core surplus was 13.39 percent, total surplus was 19.67 percent and the net collateral ratio was 106.26 percent. Cash and investment securities totaled $1,544,898, or 19.8 percent of total assets at June 30, 2004, compared to $1,546,367, or 20.9 percent, at December 31, 2003, reflecting a decrease of $1,469. Interest-bearing liabilities, consisting of bonds and notes, increased by $354,537, or 5.1 percent, in order to fund the increase in loan volume previously discussed.

Capital Resources

Total shareholders' equity at June 30, 2004, totaled $487,154, an increase of $9,525 from the $477,629 at December 31, 2003. This increase is primarily the result of net income of $19,459, partially offset by patronage payments of $5,103 and an increase in accumulated other comprehensive loss of $4,831. The increase in accumulated other comprehensive loss was due to a $6,443 increase in unrecognized losses on the bank's investment portfolio net of a $1,612 increase in the fair value of cash flow derivatives.

Key financial condition comparisons:

	June 30, 2004	December 31, 2003
Total shareholders' equity to total assets	**6.26%**	6.45%
Total liabilities to shareholders' equity	**14.99:1**	14.52:1
Allowance for loan losses to total loans	**0.09%**	0.17%

Larry R. Doyle
Chief Executive Officer

Ralph W. Cortese
Chairman of the Board

Balance Sheets

(dollars in thousands)	**June 30, 2004 (Unaudited)**	December 31, 2003
Assets		
Cash	**$ 2,581**	$ 6,465
Federal funds sold and securities purchased under resale agreements	**30,900**	21,800
Investment securities	**1,511,417**	1,518,102
Loans	**6,213,642**	5,834,929
Less allowance for loan losses	**5,821**	9,834
Net loans	**6,207,821**	5,825,095
Accrued interest receivable	**19,711**	19,194
Other property owned, net	**210**	529
Premises and equipment, net	**2,508**	957
Other assets	**12,116**	18,682
Total assets	**$ 7,787,264**	$ 7,410,824
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 7,241,275**	$ 6,886,738
Accrued interest payable	**27,356**	32,700
Intra-system financial assistance payable	**850**	280
Other liabilities	**30,629**	13,477
Total liabilities	**7,300,110**	6,933,195
Commitments and contingent liabilities (Note 3)		
Shareholders' equity		
Preferred stock, net	**98,644**	98,644
Capital stock	**109,787**	109,787
Allocated retained earnings	**14,237**	14,237
Unallocated retained earnings	**273,766**	259,410
Accumulated other comprehensive loss	**(9,280)**	(4,449)
Total shareholders' equity	**487,154**	477,629
Total liabilities and shareholders' equity	**$ 7,787,264**	$ 7,410,824

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

Statements of Income
(unaudited)

(dollars in thousands)	Quarter Ended June 30, 2004	Quarter Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Interest Income				
Investment securities	**$ 10,922**	$ 5,167	**$ 21,359**	$ 9,702
Loans	**38,688**	41,612	**77,435**	85,258
Total interest income	**49,610**	46,779	**98,794**	94,960
Interest Expense				
Bonds and notes	**32,917**	34,088	**66,767**	70,016
Notes payable and other	**9**	9	**17**	17
Total interest expense	**32,926**	34,097	**66,784**	70,033
Net interest income	**16,684**	12,682	**32,010**	24,927
Provision for loan losses	**-**	-	**-**	340
Net interest income after provision for loan losses	**16,684**	12,682	**32,010**	24,587
Noninterest Income				
Fees for services to associations	**2,162**	2,981	**4,321**	5,776
Loan-related fees	**949**	771	**1,533**	1,835
Miscellaneous income, net	**472**	1,764	**948**	2,832
Total noninterest income	**3,583**	5,516	**6,802**	10,443
Noninterest Expense				
Salaries and employee benefits	**4,011**	4,247	**9,535**	9,736
Occupancy and equipment	**1,382**	859	**2,597**	1,728
Insurance Fund premiums	**124**	127	**250**	255
Gains (losses) on other property owned, net	**(4)**	81	**12**	131
Intra-system financial assistance expenses	**91**	1,695	**192**	2,857
Other operating expenses	**4,497**	2,112	**6,767**	4,110
Total noninterest expense	**10,101**	9,121	**19,353**	18,817
Net Income	**$ 10,166**	$ 9,077	**$ 19,459**	$ 16,213

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, 2002	$ -	$ 109,896	$ 11,711	$ 246,173	$ 1,198	$ 368,978
Comprehensive income						
Net income	-	-	-	16,213	-	16,213
Unrealized net gains on investment securities	-	-	-	-	3,738	3,738
Total comprehensive income	-	-	-	16,213	3,738	19,951
Capital stock issued	-	3,328	953	-	-	4,281
Capital stock retired	-	(1,759)	-	-	-	(1,759)
Patronage distributions						
Cash	-	-	-	(6,616)	-	(6,616)
Shareholders' equity	-	(366)	2,011	(1,645)	-	-
Balance at June 30, 2003	$ -	$ 111,099	$ 14,675	$ 254,125	$ 4,936	$ 384,835
Balance at December 31, 2003	$ 98,644	$ 109,787	$ 14,237	$ 259,410	$ (4,449)	$ 477,629
Comprehensive income						
Net income	-	-	-	19,459	-	19,459
Unrealized net losses on investment securities	-	-	-	-	(6,443)	(6,443)
Unrealized net gains on cash flow derivatives	-	-	-	-	1,612	1,612
Total comprehensive income	-	-	-	19,459	(4,831)	14,628
Capital stock issued	-	-	-	-	-	-
Capital stock retired	-	-	-	-	-	-
Preferred stock dividends accrued	3,781	-	-	(3,781)	-	-
Preferred stock dividends paid	(3,781)	-	-	-	-	(3,781)
Patronage distributions						
Cash	-	-	-	(1,322)	-	(1,322)
Balance at June 30, 2004	**$ 98,644**	**$ 109,787**	**$ 14,237**	**$ 273,766**	**$ (9,280)**	**$ 487,154**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	Six Months Ended June 30, 2004	2003
Operating activities		
Net income	**$ 19,459**	$ 16,213
Reconciliation of net income to net cash provided by operating activities		
Provision for loan losses	**-**	340
Provision for losses on other property owned	**23**	(8)
Depreciation and amortization on premises and equipment	**302**	222
Amortization and accretion on debt instruments	**1,204**	(3,806)
Amortization of net (premium) on investment securities	**(1,418)**	(529)
Losses (gains) from sales of other property owned, net	**2**	(30)
Losses from sales of premises and equipment	**9**	19
(Increase) decrease in accrued interest receivable	**(517)**	1,032
Decrease (increase) in other assets	**102**	(1,178)
Decrease in accrued interest payable	**(5,344)**	(10,345)
Increase in intra-system financial assistance payable	**570**	2,139
Increase in other liabilities	**3,249**	355
Net cash provided by operating activities	**17,641**	4,424
Investing activities		
Net (increase) decrease in federal funds sold and securities purchased under resale agreements	**(9,100)**	31,669
Investment securities		
Purchases	**(2,104,742)**	(3,524,470)
Proceeds from maturities, calls and prepayments	**2,106,402**	3,203,759
Increase in loans, net	**(382,774)**	(117,424)
Proceeds from sales of other property owned, net	**342**	83
Proceeds from sales of premises and equipment	**54**	-
Expenditures for premises and equipment	**(1,916)**	(331)
Net cash used in investing activities	**(391,734)**	(406,714)
Financing activities		
Bonds and notes issued	**42,395,168**	13,553,173
Bonds and notes retired	**(42,019,856)**	(13,145,635)
Capital stock issued	**-**	4,281
Capital stock retired and allocated retained earnings distributed	**-**	(1,759)
Cash patronage distributions paid	**(5,103)**	(6,616)
Net cash provided by financing activities	**370,209**	403,444
Net (decrease) increase in cash	**(3,884)**	1,154
Cash at beginning of year	**6,465**	7,890
Cash at end of quarter	**$ 2,581**	$ 9,044
Supplemental schedule of noncash investing and financing activities		
Financed sales of other property owned	**$ 2**	$ 32
Unrealized net (losses) gains on investment securities	**(6,443)**	3,738
Supplemental information		
Interest paid	**70,695**	80,707

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, 2003, are contained in the 2003 Annual Report to shareholders (Annual Report). These unaudited second quarter 2004 financial statements should be read in conjunction with the Annual Report.

Other operating expense for the quarter and six months ended June 30, 2004, includes $1,949 of accrued costs related to the sale of the bank's former headquarters building, no longer in use, and the relocation of bank operations. This included an expense of $804 for future lease payments on the headquarters building no longer being utilized by the bank. Management does not anticipate any additional material costs associated with the move.

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 June 30, 2004, 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:

	Six Months Ended June 30,	
	2004	2003
Balance at beginning of period	**$ 9,834**	$ 9,695
Provision for loan losses	**-**	340
Loans charged off	**(4,013)**	(200)
Balance at end of period	**$ 5,821**	$ 9,835

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 June 30, 2004, were approximately $96.3 billion.

Certain 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 — 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	**June 30, 2004**	December 31, 2003
Cash	**$ 19,220**	40,952
Loans	**7,088,779**	6,789,215
Less allowance for loan losses	**154,510**	166,652
Net loans	**6,934,269**	6,622,563
Accrued interest receivable	**94,632**	84,323
Other property owned, net	**3,462**	5,528
Other assets	**164,200**	159,623
Total assets	**$ 7,215,783**	$ 6,912,989
Bonds and notes	**$ 5,905,530**	$ 5,641,875
Other liabilities	**82,640**	96,573
Total liabilities	**5,988,170**	5,738,448
Capital stock and participation certificates	**96,080**	104,657
Retained earnings	**1,131,533**	1,069,884
Total members' equity	**1,227,613**	1,174,541
Total liabilities and members' equity	**$ 7,215,783**	$ 6,912,989

	Six Months Ended June 30,	
Statement of income data	**2004**	2003
Interest income	**$ 179,923**	$ 176,471
Interest expense	**67,692**	73,755
Net interest income	**112,231**	102,716
Provision for loan losses	**354**	7,340
Net interest income after provision for loan losses	**111,877**	95,376
Noninterest income	**12,741**	16,575
Intra-system financial assistance expense	**1,649**	1,820
Other expense	**55,268**	52,578
Provision for income taxes	**932**	(231)
Net income	**$ 66,769**	$ 57,784