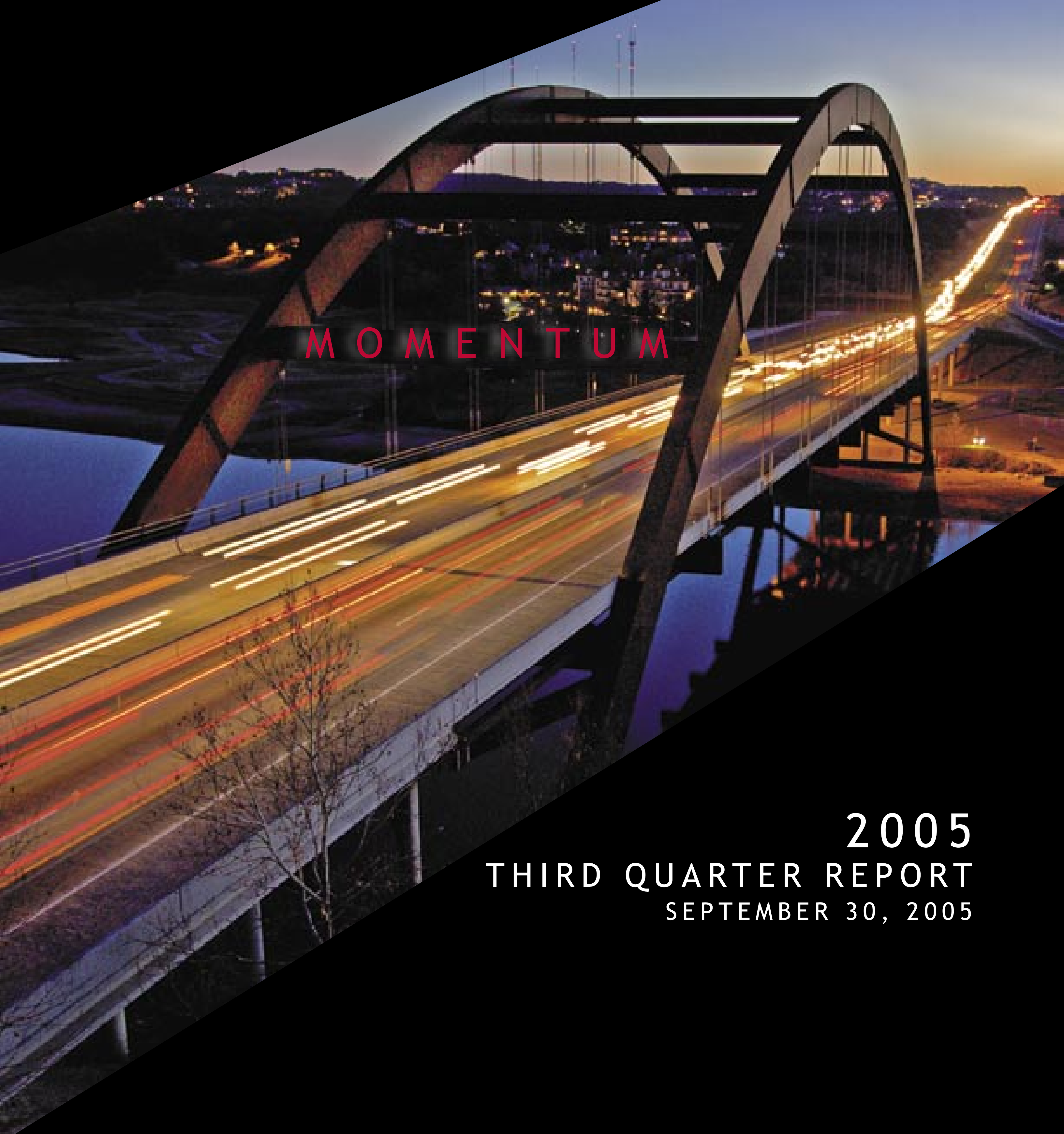

2005
THIRD QUARTER REPORT
SEPTEMBER 30, 2005

FARM CREDIT BANK OF TEXAS

THIRD QUARTER 2005

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October 27, 2005

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 nine months ended September 30, 2005. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2004 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 September 30, 2005, the bank served 21 district associations and certain other financing institutions.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended September 30, 2005, was $14,214, an increase of $1,605, or 12.7 percent, from the three months ended September 30, 2004. Net income for the nine months ended September 30, 2005 was $41,816, an increase of $9,748, or 30.4 percent, over the same period of 2004. The increases for the three and nine months ended September 30, 2005, compared to the same periods in 2004 are primarily the results 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 September 30, 2005, was $18,516, an increase of $2,355, or 14.6 percent, from the three months ended September 30, 2004. Net interest income for the nine months ended September 30, 2005 was $55,814, an increase of $7,643, or 15.9 percent, over the same period of 2004. The increases for the three and nine months ended September 30, 2005, are primarily the result of increases in interest-earning assets, partially offset by decreases in the net interest rate spreads for the three and nine months ended September 30, 2005, from the same periods of 2004. The growth in interest-earning assets for the three and nine 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 and nine months were primarily due to increases in the bank's average cost of debt, which outpaced increases in average yields on interest-earning assets. Also, for the three and nine months ended September 30, 2005, a greater percentage of the district's earning assets have been allocated to investments in order to meet higher liquidity standards. The investment portfolio has a lower average rate of return than the bank's loan portfolio.

Provision for Loan Losses

The bank recorded a negative provision for loan losses of $344 for the nine months ended September 30, 2005, while no provision for loan loss was recorded in the first nine months of 2004. The decrease reflects the effects of refinements in the bank's allowance for loan loss methodology implemented during 2004.

Noninterest Income

Noninterest income for the three and nine months ended September 30, 2005, was $4,676 and $12,753, respectively, reflecting an increase of $1,214 and $2,490 over the same periods of 2004. The increase for the third quarter of 2005 was primarily attributable to a $765 increase in loan-related fee income, a $325 increase in patronage income from another System bank, and a $197 increase in other gains, net, partially offset by a $73 decrease in fees for services to district associations.

The increase in noninterest income for the nine months ended September 30, 2005, from the same period of 2004 was due mainly to $2,112 increase in loan-related fee income and a $940 increase in patronage from Farm Credit System institutions, offset by a $241 decrease in other gains, net, a $187 decrease in patronage from the Federal Farm Credit Banks Funding Corporation (Funding Corporation), and a $99 decrease in fees for services to district associations.

Noninterest Expense

Noninterest expense for the three and nine months ended September 30, 2005, was $8,978 and $27,095, respectively, reflecting an increase of $1,964 and $729 over the same periods of 2004. The increase for the quarter ended September 30, 2005 from the same period of 2004 was due primarily to an $898 increase in professional and contract services, a $470 increase in intra-system financial assistance expenses, a $346 increase in salaries and employee benefits, a $156 increase in the cost of space, a $105 increase in Insurance Fund premiums, and a $63 increase in computer expenses, partially offset by a $137 decrease in assessments from the Funding Corporation. The increase in professional and contract services included services related to the implementation of internal control initiatives, payroll services and loan accounting services. All existing debt issuances of intra-system financial assistance have matured and have been extinguished. There are no more foreseeable expenses for intra-system financial assistance.

The increase in noninterest expense for the first nine months of 2005 from the same period of 2004 was mainly the result of a $1,880 increase in professional and service fees, a $905 increase in salaries and benefits, and a $491 increase in intra-system financial assistance expenses, substantially offset by a $384 decrease in assessments from the Funding Corporation, a $524 decrease in the cost of space, and a $1,949 decrease in other operating expenses due to nonrecurring costs in 2004 related to the sale of the bank's headquarters building and the relocation of bank operations.

Key results of operations comparisons:

	Annualized for the Nine Months Ended 9/30/2005	Annualized for the Nine Months Ended 9/30/2004
Return on average assets	**0.60%**	0.56%
Return on average shareholders' equity	**10.85%**	8.68%
Net interest income as a percentage of average earning assets	**0.81%**	0.84%
Charge-offs, net of recoveries, to average loans	**0.00%**	0.09%

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at September 30, 2005, was $8,023,404, reflecting an increase of $1,105,168, or 16.0 percent, compared to $6,918,236 at December 31, 2004, and an increase of $1,389,443, or 20.9 percent, compared to $6,633,961 at September 30, 2004. The increases are net of the effect of the February 2005 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. Credit quality remained strong, with overall acceptable credit quality for the bank at 99.66 percent, compared to the 99.59 percent and 99.55 percent at December 31, 2004, and September 30, 2004, respectively.

Comparative balances of high-risk assets follow:

			Increase (Decrease)	
	September 30, 2005	December 31, 2004	$	%
Nonaccrual loans	**$ 4,466**	$ 2,325	$ 2,141	92.09 %
Formally restructured loans	**499**	618	(119)	(19.26)
Loans 90 days past due and still accruing interest	**468**	206	262	127.18
Total high-risk assets	**$ 5,433**	$ 3,149	$ 2,284	72.53 %

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 September 30, 2005, and at December 31, 2004. Individual evaluation of the bank's nonaccrual loans did not indicate a need for any additions to the allowance for loan losses at September 30, 2005.

At September 30, 2005, 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 September 30, 2005, the bank exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under Farm Credit Administration regulations. At September 30, 2005, the bank's permanent capital ratio was 16.02 percent, core surplus was 9.34 percent, total surplus was 13.35 percent and the net collateral ratio was 106.47 percent. Cash and investment securities totaled $2,196,043, or 21.4 percent of total assets, at September 30, 2005, compared to $1,838,820, or 20.9 percent, at December 31, 2004, reflecting an increase of $357,223. Interest-bearing liabilities, consisting of bonds and notes, increased by $1,317,603, or 16.0 percent, in order to fund the increases in loan volume and investments previously discussed.

Capital Resources

On September 26, 2005, the bank issued an additional $100 million of cumulative perpetual preferred stock. The bank's preferred stock has a stated and par value of $1 thousand per share, is nonconvertible, and takes preference over all other classes and series of the bank's equity securities as to dividends and other distributions. Net proceeds from the sale of the stock will be used to enhance the composition of the bank's capital and liquidity, support the bank's loan growth, provide a base for further growth and service opportunities to our members and to rural America, and for general corporate purposes. The net proceeds on the sale were $106.8 million, after expenses associated with the offering.

Total shareholders' equity at September 30, 2005, totaled $629,553, an increase of $128,122 from December 31, 2004. This increase is primarily the result of net income of $41,816, a $39 increase in unrealized gains on cash flow derivatives, an increase in capital stock of $528, and an increase in preferred stock of $106,792, partially offset by an increase in unrealized losses on investment securities of $13,920, preferred stock dividend payments of $3,780, and patronage distributions of $3,353.

Other

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. The bank holds a limited amount of purchased participation volume supported by assets in this area. The hurricane impact on credit quality of this volume is considered minimal.

Key financial condition comparisons:

	September 30, 2005	December 31, 2004
Total shareholders' equity to total assets	**6.13%**	5.70%
Total liabilities to shareholders' equity	**15.32:1**	16.55:1
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)	September 30, 2005 (Unaudited)	December 31, 2004
Assets		
Cash	**$ 2,684**	$ 3,614
Federal funds sold and securities purchased under resale agreements	**73,891**	47,500
Investment securities	**2,119,468**	1,787,706
Loans	**8,023,404**	6,918,236
Less allowance for loan losses	**142**	239
Net loans	**8,023,262**	6,917,997
Accrued interest receivable	**38,083**	26,032
Premises and equipment, net	**2,547**	2,416
Other assets	**12,139**	15,940
Total assets	**$ 10,272,074**	$ 8,801,205
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 9,550,136**	$ 8,232,533
Accrued interest payable	**55,960**	36,850
Other liabilities	**36,425**	30,391
Total liabilities	**9,642,521**	8,299,774
Commitments and contingent liabilities (Note 3)		
Shareholders' equity		
Preferred stock, net	**200,000**	100,000
Capital stock	**118,851**	118,323
Allocated retained earnings	**9,980**	9,980
Unallocated retained earnings	**322,161**	280,686
Accumulated other comprehensive loss	**(21,439)**	(7,558)
Total shareholders' equity	**629,553**	501,431
Total liabilities and shareholders' equity	**$ 10,272,074**	$ 8,801,205

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

Statements of Income

(unaudited)

(dollars in thousands)	Quarter Ended September 30, 2005	Quarter Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Interest Income				
Investment securities	**$ 19,305**	$ 12,615	**$ 51,841**	$ 33,974
Loans	**83,658**	44,686	**218,165**	122,121
Total interest income	**102,963**	57,301	**270,006**	156,095
Interest Expense				
Bonds and notes	**84,433**	41,125	**214,149**	107,892
Notes payable and other	**14**	15	**43**	32
Total interest expense	**84,447**	41,140	**214,192**	107,924
Net interest income	**18,516**	16,161	**55,814**	48,171
Negative provision for loan losses	**-**	-	**(344)**	-
Net interest income after provision for loan losses	**18,516**	16,161	**56,158**	48,171
Noninterest Income				
Fees for services to associations	**2,181**	2,254	**6,475**	6,574
Loan-related fees	**1,927**	1,162	**4,807**	2,695
Miscellaneous income, net	**568**	46	**1,471**	994
Total noninterest income	**4,676**	3,462	**12,753**	10,263
Noninterest Expense				
Salaries and employee benefits	**4,023**	3,677	**14,117**	13,212
Occupancy and equipment	**1,019**	839	**2,893**	3,436
Insurance Fund premiums	**168**	63	**355**	313
(Gains) losses on other property owned, net	**-**	(11)	**(5)**	1
Intra-system financial assistance expenses	**548**	78	**761**	270
Other operating expenses	**3,220**	2,368	**8,974**	9,134
Total noninterest expense	**8,978**	7,014	**27,095**	26,366
Net Income	**$ 14,214**	$ 12,609	**$ 41,816**	$ 32,068

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, 2003	$ 100,000	$ 109,787	$ 14,237	$ 258,054	$ (4,449)	$ 477,629
Comprehensive income						
Net income	-	-	-	32,068	-	32,068
Unrealized net losses on investment securities	-	-	-	-	(430)	(430)
Unrealized net gains on cash flow derivatives	-	-	-	-	834	834
Total comprehensive income	-	-	-	32,068	404	32,472
Capital stock issued	-	-	-	-	-	-
Preferred stock dividends accrued and paid	-	-	-	(3,780)	-	(3,780)
Patronage distributions						
Cash	-	-	-	(2,047)	-	(2,047)
Balance at September 30, 2004	$ 100,000	$ 109,787	$ 14,237	$ 284,295	$ (4,045)	$ 504,274
Balance at December 31, 2004	$ 100,000	$ 118,323	$ 9,980	$ 280,686	$ (7,558)	$ 501,431
Comprehensive income						
Net income	-	-	-	41,816	-	41,816
Unrealized net losses on investment securities	-	-	-	-	(13,920)	(13,920)
Unrealized net gains on cash flow derivatives	-	-	-	-	39	39
Total comprehensive loss	-	-	-	41,816	(13,881)	27,935
Capital stock issued	-	528	-	-	-	528
Preferred stock issued	100,000	-	-	-	-	100,000
Premium received on preferred stock net of issuance costs	-	-	-	6,792	-	6,792
Preferred stock dividends accrued and paid	-	-	-	(3,780)	-	(3,780)
Patronage distributions						
Cash	-	-	-	(3,353)	-	(3,353)
Balance at September 30, 2005	**$ 200,000**	**$ 118,851**	**$ 9,980**	**$ 322,161**	**$ (21,439)**	**$ 629,553**

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

Statements of Cash Flows

(unaudited)

	Nine Months Ended September 30,	
(dollars in thousands)	**2005**	2004
Operating activities		
Net income	**$ 41,816**	$ 32,068
Reconciliation of net income to net cash provided by operating activities		
(Negative provision) provision for loan losses	**(344)**	-
Provision for losses on other property owned	**-**	23
Depreciation and amortization on premises and equipment	**482**	478
Accretion of net discount on loans	**(226)**	(310)
Amortization and accretion on debt instruments	**18,178**	3,266
Amortization of net discount (premium) on investment securities	**3,975**	(4,054)
Losses (gains) from sales of other property owned, net	**13**	(9)
Losses from sales of premises and equipment	**5**	14
Increase in accrued interest receivable	**(12,051)**	(5,004)
Decrease (increase) in other assets	**2,712**	(319)
Increase (decrease) in accrued interest payable	**19,110**	(4,778)
Increase in intra-system financial assistance payable	**-**	1,379
Increase in other liabilities	**4,020**	1,307
Net cash provided by operating activities	**77,690**	24,061
Investing activities		
Net increase in federal funds sold and securities purchased under resale agreements	**(26,391)**	(3,400)
Investment securities		
Purchases	**(2,651,612)**	(2,590,707)
Proceeds from maturities, calls and prepayments	**2,301,955**	2,353,715
Increase in loans, net	**(1,104,708)**	(802,776)
Proceeds from sales of other property owned, net	**-**	342
Proceeds from sales of premises and equipment	**86**	70
Expenditures for premises and equipment	**(704)**	(2,081)
Net cash used in investing activities	**(1,481,374)**	(1,044,837)
Financing activities		
Bonds and notes issued	**18,377,975**	70,432,362
Bonds and notes retired	**(17,075,408)**	(69,410,777)
Preferred stock issued, net of expenses	**106,792**	-
Capital stock issued	**528**	-
Cash dividends on preferred stock	**(3,780)**	(3,780)
Cash patronage distributions paid	**(3,353)**	(2,047)
Net cash provided by financing activities	**1,402,754**	1,015,758
Net decrease in cash	**(930)**	(5,018)
Cash at beginning of year	**3,614**	6,465
Cash at end of quarter	**$ 2,684**	$ 1,447
Supplemental schedule of noncash investing and financing activities		
Unrealized net losses on investment securities	**$ (13,920)**	$ (430)
Supplemental information		
Interest paid	**$ 193,378**	$ 110,925

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, 2004, are contained in the 2004 Annual Report to shareholders (Annual Report). These unaudited third quarter 2005 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 September 30, 2005, the bank served 21 district associations and certain other financing institutions.

Certain amounts in the prior period's financial statements have been reclassified to conform to the current period's financial statement presentation.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	Nine Months Ended September 30,	
	2005	2004
Balance at beginning of period	**$ 239**	$ 9,834
Provision for loan losses	**(344)**	-
Loans charged off	**-**	(4,019)
Recoveries	**247**	2
Balance at end of period	**$ 142**	$ 5,817

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 September 30, 2005, were approximately $108.8 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 nine months ended September 30, 2005:

Service cost	**$ 214**
Interest cost	**433**
Expected return on plan assets	**(1)**
Amortization of transition obligation	**(115)**
Amortization of net loss	**2**
Net periodic benefit cost	**$ 533**

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	**September 30, 2005**	December 31, 2004
Cash	**$ 25,227**	40,555
Loans	**8,522,021**	7,568,736
Less allowance for loan losses	**10,368**	10,378
Net loans	**8,511,653**	7,558,358
Accrued interest receivable	**154,312**	95,747
Other property owned, net	**3,694**	5,184
Other assets	**175,346**	181,656
Total assets	**$ 8,870,232**	$ 7,881,500
Bonds and notes	**$ 7,222,130**	$ 6,336,917
Other liabilities	**142,525**	147,434
Total liabilities	**7,364,655**	6,484,351
Capital stock and participation certificates	**86,529**	92,103
Retained earnings	**1,419,048**	1,305,046
Total members' equity	**1,505,577**	1,397,149
Total liabilities and members' equity	**$ 8,870,232**	$ 7,881,500

	Nine Months Ended September 30,	
Statement of income data	**2005**	2004
Interest income	**$ 379,487**	$ 279,596
Interest expense	**186,307**	106,692
Net interest income	**193,180**	172,904
Provision for loan losses	**695**	354
Net interest income after provision for loan losses	**192,485**	172,550
Noninterest income	**23,150**	19,318
Intra-system financial assistance expense	**1,144**	2,528
Other expense	**87,836**	79,240
Provision for income taxes	**464**	875
Net income	**$ 126,191**	$ 109,225