



## Stockholders' Report

For the Quarter Ended

**June 30, 2007**

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

(All Dollar Amounts in Thousands)

The following commentary is a review and explanation of the principal aspects of the combined financial condition and the results of operations of First Ag Credit, FCS (the "Association") including its wholly-owned subsidiaries, First Ag Credit, FLCA (mortgage loans) and First Ag Credit, PCA (commercial loans), for the six-month period ended June 30, 2007. These comments should be read in conjunction with the December 31, 2006 Annual Report to Stockholders.

### Loan Portfolio

During the six-month period ended June 30, 2007, the Association experienced a \$67.4 million or 4.5 percent increase in loan volume. This increase is attributable to loan volume growth primarily in the mortgage sector. The following table reflects the Association's stable loan portfolio credit quality:

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Acceptable	94.4%	94.3%
Special mention	3.7%	3.8%
Substandard	1.9%	1.9%
Total	<u>100.0%</u>	<u>100.0%</u>

High-risk assets have increased during the six-month period ended June 30, 2007. The following table illustrates the Association's components and trends of high-risk assets serviced:

	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
Nonaccrual loans	\$14,087	64.3%	\$13,182	66.6%
90 days past due & still accruing interest	1,522	7.0%	225	1.1%
Formally restructured	5,399	24.6%	5,539	28.0%
Other property owned, net	906	4.1%	851	4.3%
Total	<u>\$21,914</u>	<u>100.0%</u>	<u>\$19,797</u>	<u>100.0%</u>

Impaired loans consist of all high-risk assets except other property owned, net and totaled \$21.0 million or 1.4 percent of total loan volume and \$18.9 million or 1.3 percent of total loan volume at June 30, 2007 and December 31, 2006, respectively.

The Association participates in loans with other entities within the Farm Credit System, with commercial banks, and with mortgage companies. At

June 30, 2007, the Association had participation loans purchased in the amount of \$187.2 million or 12.0 percent of total loans compared to \$158.2 million or 10.6 percent of total loans at December 31, 2006. To diversify risk, the Association's participation sold volume was \$69.9 and \$77.0 million at June 30, 2007 and December 31, 2006, respectively.

### Allowance for Losses

The Association had a loan loss reserve of \$7.3 million or 0.5 percent of total loan volume at June 30, 2007 and \$6.8 million or 0.5 percent of total loan volume at December 31, 2006, respectively.

### Results of Operations

The Association had net income of \$14.3 million for the six-month period ended June 30, 2007 compared to net income of \$11.3 million for the same period 2006. The increase in net income for the six-month periods ended June 30 is reflected in the following table.

	2007	2006	Increase (Decrease)
Interest income	<b>\$60,164</b>	\$47,570	\$12,594
Interest expense	<b>37,222</b>	27,048	10,174
Provision for loan losses	<b>573</b>	1,182	(609)
Net interest income after provision for loan losses	<b>22,369</b>	19,340	3,029
Noninterest income	<b>4,718</b>	4,059	659
Noninterest expense			
Salaries & employee benefits	<b>7,610</b>	7,324	286
Bank purchased services and allocations	<b>2,081</b>	1,749	332
Other	<b>3,068</b>	3,000	68
Total noninterest expense	<b>12,759</b>	12,073	686
Net income	<b>\$14,328</b>	\$11,326	\$3,002

Net interest income before provision for losses was \$22.9 million for the six-month period ended June 30, 2007 compared to \$20.5 million for the same period in 2006. Average accrual loans outstanding for the six-month period ended June 30, 2007 was \$1,509.4 million compared to \$1,240.9 million for the same period 2006. This increase of \$268.5 million (21.6%) in average loan volume primarily contributed to the increase in net interest income. The provision for loan losses was significantly less for the six-month period ended June 30, 2007 compared to the same six month period in 2006. This was due to a \$1.1 million provision taken in the first quarter of 2006 due primarily to one large loan being moved to nonaccrual. Noninterest income

increased for the six-month period ended June 30, 2007 compared to the same six-month period in 2006 by \$0.7 million due to an increase in fees generated from loan volume and patronage income from the Farm Credit Bank. In addition, total operating expenses increased for the six-month period ended June 2007 compared to the same period in 2006. This increase is due to an increase in salaries and employee benefits, which consist of salary increases, new hires and postretirement health and welfare plan costs, and an increase in our loan balances on which the Farm Credit Insurance Corporation premiums are calculated. Most other expense categories remained consistent between the two periods. Overall net income increased \$3.0 million for the six-month period ended June 30, 2007 compared to the same period in 2006.

### Key financial ratios were:

	<u>FYTD</u> <u>June 30, 2007</u> <u>(Unaudited)</u>	<u>FYE</u> <u>Dec. 31, 2006</u>
Return on average assets (annualized)	<b>1.8%</b>	1.7%
Return on average members' equity (annualized)	<b>13.3%</b>	11.6%
Member equity as % of total assets	<b>13.7%</b>	13.4%
Debt as % of members' equity	<b>617.3%</b>	627.1%
Net interest income as % of average earning assets (annualized)	<b>3.0%</b>	3.2%
Allowance for loan losses as % of loans	<b>.5%</b>	.5%
Permanent capital ratio	<b>12.2%</b>	12.7%
Core surplus ratio	<b>11.6%</b>	12.1%
Total surplus ratio	<b>11.6%</b>	12.1%

## Quarterly Financial Reports

The Association is required to distribute quarterly financial reports to all stockholders during periods in which a significant event occurs which materially affects the Association. There were no significant events for First Ag Credit, FCS, which would materially affect the second quarter report for 2007. As a result, this report is not being mailed to First Ag Credit, FCS's stockholders. A copy of this report or the report of the Tenth Farm Credit District ("District") may be obtained by request from First Ag Credit, FCS, Attention: Jeff Norris, P. O. Box 6520, Lubbock, Texas 79493-6520, calling 806-281-1789 or by e-mail to jnorris@agmoney.com. The Association makes its 2006 annual and quarterly stockholder reports available on its web site at www.agmoney.com, and the District reports are available on its web site at www.farmcreditbank.com.

## First Ag Credit, FCS Consolidated Balance Sheet

<i>(Dollars in Thousands)</i>	<b>June 30, 2007 <i>(Unaudited)</i></b>	December 31, 2006
<b><u>Assets</u></b>		
Loans	<b>\$1,554,461</b>	\$1,487,047
Less: allowance for loan losses	<b>(7,335)</b>	(6,844)
Net loans	<b>1,547,126</b>	1,480,203
Cash	<b>7,443</b>	8,711
Accrued interest receivable	<b>37,443</b>	38,317
Investment in the Farm Credit Bank	<b>22,748</b>	22,683
Premises and equipment, net	<b>8,331</b>	8,353
Other property owned, net	<b>906</b>	851
Other assets	<b>3,470</b>	1,362
<b>Total assets</b>	<b>\$1,627,467</b>	<b>\$1,560,480</b>
<b><u>Liabilities</u></b>		
Drafts outstanding	<b>\$4,605</b>	\$10,486
Note payable to the Farm Credit Bank	<b>1,369,644</b>	1,300,593
Accrued interest payable to the Farm Credit Bank	<b>6,346</b>	5,975
Advance conditional payments	<b>12,090</b>	13,360
Patronage payable	<b>-</b>	8,185
Postretirement and other liabilities	<b>11,883</b>	13,538
<b>Total liabilities</b>	<b>1,404,568</b>	<b>1,352,137</b>
<b><u>Members' Equity</u></b>		
At-risk equity:		
Capital stock and participation certificates	<b>9,219</b>	9,007
Unallocated retained earnings	<b>213,680</b>	199,336
<b>Total members' equity</b>	<b>222,899</b>	<b>208,343</b>
<b>Total liabilities and members' equity</b>	<b>\$1,627,467</b>	<b>\$1,560,480</b>

The accompanying notes are an integral part of these statements.

**First Ag Credit, FCS**  
**Consolidated Statement of Income**

<i>Unaudited</i> <i>(Dollars in Thousands)</i>	For Quarter Ended June 30,		For the Six-Months Ended June 30,	
	2007	2006	2007	2006
<b>Interest Income</b>				
Loans	\$30,756	\$24,606	\$60,164	\$47,570
<b>Interest Expense</b>				
Notes payable –Farm Credit Bank and others	19,027	14,406	37,222	27,048
<b>Net interest income</b>	<b>11,729</b>	<b>10,200</b>	<b>22,942</b>	<b>20,522</b>
<b>Provision for loan losses</b>				
Provision for loan losses	439	100	573	1,182
<b>Net interest income after provision for loan losses</b>	<b>11,290</b>	<b>10,100</b>	<b>22,369</b>	<b>19,340</b>
<b>Noninterest Income</b>				
Loan fees	794	844	1,604	1,497
Patronage income from Farm Credit Bank	1,319	1,866	2,616	2,099
Fees for financially related services	84	112	150	175
Other income	86	65	348	288
<b>Total noninterest income</b>	<b>2,283</b>	<b>2,887</b>	<b>4,718</b>	<b>4,059</b>
<b>Noninterest Expense</b>				
Salaries and employee benefits	3,747	3,517	7,610	7,324
Directors' expense	124	134	324	339
Bank purchased services and allocations	1,095	827	2,081	1,749
Travel	239	220	450	424
Occupancy and equipment	230	250	491	498
Communications	92	77	196	165
Advertising	263	347	482	629
Public and member relations	172	166	421	432
Training	107	83	152	130
Supervisory and exam expense	109	106	219	211
Other expense	123	57	333	172
<b>Total noninterest expense</b>	<b>6,301</b>	<b>5,784</b>	<b>12,759</b>	<b>12,073</b>
<b>Net income</b>	<b>\$7,272</b>	<b>\$7,203</b>	<b>\$14,328</b>	<b>\$11,326</b>

The accompanying notes are an integral part of these statements.

**First Ag Credit, FCS**  
**Consolidated Statement of Changes in Members' Equity-At Risk**

<i>(Dollars in Thousands)</i>	Capital Stock & Participation Certificates	Retained Earnings Unallocated	Total Members' Equity
	Balance at December 31, 2005	\$8,705	\$183,626
Net income	-	11,326	11,326
Capital stock/participation certificates issued	895	-	895
Capital stock/participation certificates retired	(790)	-	(790)
Patronage distributions Cash	-	-	-
Change in patronage declared and paid	-	183	183
<b>Balance at June 30, 2006</b> <i>(Unaudited)</i>	<b>\$8,810</b>	<b>\$195,135</b>	<b>\$203,945</b>
Balance at December 31, 2006	\$9,007	\$199,336	\$208,343
Net income	-	14,328	14,328
Capital stock/participation certificates issued	920	-	920
Capital stock/participation certificates retired	(708)	-	(708)
Patronage distributions: Cash	-	-	-
Change in patronage declared and paid	-	16	16
<b>Balance at June 30, 2007</b> <i>(Unaudited)</i>	<b>\$9,219</b>	<b>\$213,680</b>	<b>\$222,899</b>

The accompanying notes are an integral part of these statements.

**NOTES TO CONSOLIDATED FINANCIAL  
STATEMENTS**

*Unaudited*

(All Dollar Amounts in Thousands)

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Organization

A description of the organization and operations of First Ag Credit, FCS (the "Association"), the significant accounting policies followed, and the financial condition and results of operations as of December 31, 2006 are contained in the 2006 Annual Report to Stockholders. These unaudited second quarter, 2007 consolidated financial statements should be read in conjunction with the 2006 Annual Report to Stockholders.

The Association's financial condition may be affected by factors that affect the Farm Credit Bank of Texas ("Bank"). The financial condition and results of operations of the Bank may materially affect stockholders' investment in the Association.

B. Financial Presentation

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to generally accepted accounting principles, except for the inclusion of a consolidated statement of cash flows. Generally accepted accounting principles require this type of business enterprise to provide a statement of cash flows for each period for which results of operations are provided. However, the Farm Credit Administration (FCA) allows associations the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a consolidated statement of cash flows in these consolidated financial statements.

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

**NOTE 2-LOANS**

The Association's loan portfolio has certain credit risks identified by industry. The following table illustrates the industry concentrations in the loan portfolio:

Industry	June 30, 2007	June 30, 2006
Production agricultural:		
Real estate mortgage	\$945,604	\$828,936
Production and intermediate term	308,706	269,828
Agribusiness:		
Processing and marketing	252,075	177,436
Loans to cooperatives	9,553	18,300
Farm-related business	12,190	9,647
Rural residential real estate	19,239	19,018
Communication	5,176	4,946
Energy	1,918	341
Total	<b>\$1,554,461</b>	<b>\$1,328,452</b>

The Association's impaired loans are presented in the following table reporting the recorded investment outstanding plus accrued interest:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Nonaccrual loans:		
Current as to principal and interest	\$9,292	\$10,658
Past due	4,795	4,575
Total nonaccrual loans	<b>14,087</b>	15,233
Accrual loans:		
Restructured	5,399	4,712
90 days or more past due	1,522	535
Total impaired loans	<b>\$21,008</b>	<b>\$20,480</b>

The following table summarizes impaired loan information for the six-month periods ended:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Average impaired loans	\$18,766	\$16,635
Interest income recognized on impaired loans	\$501	\$176

**NOTE 3-ALLOWANCE FOR LOAN LOSSES**

An analysis of the allowance for loan losses for the six-month periods ended:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Balance at beginning of period	\$6,844	\$4,882
Provision for loan losses	574	1,182
Recoveries	18	14
Charge-offs net of adjustments	(101)	8
Balance at end of period	<b>\$7,335</b>	<b>\$6,086</b>

## Report of Management

The following table presents information concerning the allowance on impaired loans as of:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Impaired loans with related allowance	\$7,446	\$8,739
Impaired loans with no related allowance	<u>13,562</u>	<u>11,741</u>
Total impaired loans	<u><u>\$21,008</u></u>	<u><u>\$20,480</u></u>

The specific allowances on impaired loans were \$3.6 and \$2.4 million at June 30, 2007 and 2006, respectively.

### NOTE 4-NOTE PAYABLE TO THE BANK

The interest rate risk in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the Association has outstanding to its borrowers.

The Association is obligated to borrow only from the Bank unless the Bank approves borrowings from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. The Association's note payable meets those standards as of June 30, 2007.

The consolidated financial statements of First Ag Credit, FCS (the Association) are prepared by management, who are responsible for their integrity and objectivity, including amounts that are based on necessary judgments and estimates. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements.

The audit committee of the board of directors has oversight responsibility for the Association's systems of internal control and financial reporting. The audit committee consults regularly with management and meets periodically with the independent auditors. The vice president of risk management oversees the internal audit function, reports compliance issues quarterly and has direct access to the audit committee.

The undersigned certify that, to the best of our knowledge and belief, the consolidated financial statements and other financial information included in this quarterly report have been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete.



Terry D. Dane  
Chief Executive Officer

August 2, 2007



Keith Vandivere  
Chairman, Board of Directors

August 2, 2007

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