



Stockholders' Report

For the Quarter Ended

March 31, 2008

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 three-month period ended March 31, 2008. These comments should be read in conjunction with the December 31, 2007 Annual Report to Stockholders.

During 2007, the Association's board of directors signed a Letter of Intent agreeing to a merger with Capital Farm Credit, ACA. During the first quarter of 2008, the Association's board voted to seek approval of the merger by vote of the stockholders of the Association after approval is granted by the Farm Credit Bank of Texas ("Bank") and the Farm Credit Administration.

Loan Portfolio

During the three-month period ended March 31, 2008, the Association experienced a \$9.6 million or .6 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>March 31, 2008</u> | <u>December 31, 2007</u> |
|-----------------|-----------------------|--------------------------|
| Acceptable | 93.1% | 92.8% |
| Special mention | 5.1% | 5.4% |
| Substandard | 1.8% | 1.8% |
| Total | <u>100.0%</u> | <u>100.0%</u> |

The Association's impaired loans are presented in the following table:

| | <u>March 31, 2008</u> | <u>December 31, 2007</u> |
|--------------------------------------|-----------------------|--------------------------|
| Nonaccrual loans: | | |
| Current as to principal and interest | \$7,925 | \$11,111 |
| Past due | 8,561 | 3,525 |
| Total nonaccrual loans | <u>16,486</u> | <u>14,636</u> |
| Accrual loans: | | |
| Restructured | 5,189 | 5,123 |
| 90 days or more past due | 4,655 | 205 |
| Total impaired loans | <u>\$26,330</u> | <u>\$19,964</u> |

Total impaired loans increased during the first quarter. The increase in total nonaccrual loans was due to classification of one large participation purchased loan as nonaccrual. Also, some of the loans classified as nonaccrual were delinquent as of March 31, 2008 and migrated from the “current” classification to “past due”. The majority of the first quarter overall increase in impaired loans and specifically in impaired accrual loans occurred in the category of “90 days or more past due”. A significant portion of loans made to borrowers in the shrimp industry were delinquent during the quarter but all of these loans have an agreed upon action plan for collection.

High-risk assets consist of impaired loans and other property owned, net. The Association did not have any assets classified as other property owned as of March 31, 2008 or December 31, 2007.

The Association participates in loans with other entities within the Farm Credit System, with commercial banks, and with mortgage companies. At March 31, 2008, the Association had participation loans purchased in the amount of \$249.1 million or 14.8 percent of total loans compared to \$238.6 million or 14.3 percent of total loans at December 31, 2007. To diversify risk, the Association’s participation sold volume was \$64.1 and \$69.5 million at March 31, 2008 and December 31, 2007, respectively.

Allowance for Losses

The Association had a loan loss reserve of \$7.6 million or 0.5 percent of total loan volume at March 31, 2008 and \$7.8 million or 0.5 percent of total loan volume at December 31, 2007, respectively.

Results of Operations

The Association had net income of \$8.3 million for the three-month period ended March 31, 2008 compared to net income of \$7.1 million for the same period 2007. The increase in net income for the three-month periods ended March 31 is reflected in the following table.

| | 2008 | 2007 | Increase (Decrease) |
|---|-----------------------|----------------|------------------------|
| Interest income | \$29,364 | \$29,408 | (\$44) |
| Interest expense | 17,254 | 18,194 | (940) |
| Provision for loan losses | (82) | 135 | (217) |
| Net interest income after provision for loan losses | 12,192 | 11,079 | 1,113 |
| Noninterest income | 2,924 | 2,435 | 489 |
| Noninterest expense | | | |
| Salaries & employee benefits | 4,280 | 3,863 | 416 |
| Bank purchased services and allocations | 1,093 | 986 | 107 |
| Other | 1,403 | 1,609 | (206) |
| Total noninterest expense | 6,776 | 6,458 | 317 |
| Net income | <u>\$8,340</u> | <u>\$7,056</u> | <u>\$1,285</u> |

Net interest income before provision for losses was \$12.1 million for the three-month period ended March 31, 2008 compared to \$11.2 million for the same period 2007. Interest income remained consistent from the first quarter of 2007 to the first quarter of 2008. Average accrual loans outstanding for the three-month period ended March 31, 2008 was \$1,652.0 million compared to \$1,483.7 million for the same period 2007. This is an increase of \$168.3 million (11.3%) in average loan volume. However, the interest generated by this loan growth was offset by falling interest rates in the first quarter of 2008. This decline in interest rates also contributed to the drop in interest expense as charged by the Bank.

The allowance for loan loss was reduced during the first quarter of 2008 based on the continual evaluation of our loan portfolio which reflected significant payments in our PCA portfolio including payments on a portion of our loans for shrimp boats. Also, additional collateral was obtained on some of the impaired loans reducing the need for the allowance.

Noninterest income increased for the three-month period ended March 31, 2008 compared to the same three-month period in 2007 due mainly to the increase in the estimated accrual of 30 basis points of patronage from the Bank on the average note payable balance and fees generated from an increase in loan volume. In addition, total operating expenses increased for the three-month period ended March 2008 compared to the same period in 2007. This increase is due to an increase in salaries and employee benefits, which consists 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 \$1.3 million for the three-month period ended March 31, 2008 compared to the same period in 2007.

Key financial ratios were:

| | <u>FYTD</u> <u>Mar. 31, 2008</u> <u>(Unaudited)</u> | <u>FYE</u> <u>Dec. 31, 2007</u> |
|---|---|------------------------------------|
| Return on average assets (annualized) | 1.9% | 1.8% |
| Return on average members' equity (annualized) | 14.4% | 13.4% |
| Member equity as % of total assets | 13.5% | 13.0% |
| Debt as % of members' equity | 624.2% | 649.5% |
| Net interest income as % of average earning assets (annualized) | 2.9% | 3.0% |
| Allowance for loan losses as % of loans | .5% | .5% |
| Permanent capital ratio | 11.6% | 12.4% |
| Core surplus ratio | 11.1% | 11.8% |
| Total surplus ratio | 11.1% | 11.8% |

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 first quarter report for 2008. 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 2007 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> | <u>March 31,</u> <u>2008</u> <u>(Unaudited)</u> | <u>December 31,</u> <u>2007</u> |
|--|---|------------------------------------|
| <u>Assets</u> | | |
| Loans | \$1,681,621 | \$1,671,983 |
| Less: allowance for loan losses | (7,608) | (7,774) |
| Net loans | 1,674,013 | 1,664,209 |
| Cash | 5,102 | 13,044 |
| Accrued interest receivable | 33,503 | 39,699 |
| Investment in the Farm Credit Bank | 27,253 | 27,253 |
| Premises and equipment, net | 8,256 | 8,186 |
| Other assets | 4,188 | 2,246 |
| Total assets | \$1,752,315 | \$1,754,637 |
| <u>Liabilities</u> | | |
| Drafts outstanding | \$5,131 | \$6,095 |
| Note payable to the Farm Credit Bank | 1,471,783 | 1,476,222 |
| Accrued interest payable to the Farm Credit Bank | 5,389 | 6,529 |
| Advance conditional payments | 19,289 | 12,783 |
| Patronage payable | - | 12,600 |
| Postretirement and other liabilities | 14,076 | 12,120 |
| Total liabilities | 1,515,668 | 1,526,349 |
| <u>Members' Equity</u> | | |
| At-risk equity: | | |
| Capital stock and participation certificates | 9,282 | 9,346 |
| Unallocated retained earnings | 225,100 | 216,640 |
| Accumulated other comprehensive income | 2,265 | 2,302 |
| Total members' equity | 236,647 | 228,288 |
| Total liabilities and members equity | \$1,752,315 | \$1,754,637 |

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 the Three-Month Period Ended March 31, | |
|--|---|----------|
| | 2008 | 2007 |
| <u>Interest Income</u> | | |
| Loans | \$29,364 | \$29,408 |
| <u>Interest Expense</u> | | |
| Notes payable –Farm Credit Bank and others | 17,254 | 18,194 |
| Net interest income | 12,110 | 11,214 |
| <u>Provision for loan losses</u> | | |
| Provision for loan losses | (82) | 135 |
| Net interest income after provision for loan losses | 12,192 | 11,079 |
| <u>Noninterest Income</u> | | |
| Loan fees | 1,043 | 810 |
| Patronage income from Farm Credit Bank | 1,416 | 1,298 |
| Fees for financially related services | 188 | 66 |
| Other noninterest income | 277 | 261 |
| Total noninterest income | 2,924 | 2,435 |
| <u>Noninterest Expense</u> | | |
| Salaries and employee benefits | 4,280 | 3,863 |
| Directors' expense | 211 | 200 |
| Bank purchased services and allocations | 1,093 | 986 |
| Travel | 224 | 211 |
| Occupancy and equipment | 248 | 261 |
| Communications | 91 | 105 |
| Advertising | 139 | 219 |
| Public and member relations | 243 | 249 |
| Training | 11 | 45 |
| Supervisory and exam expense | 116 | 109 |
| Provision for acquired property losses | - | (3) |
| Other noninterest expense | 120 | 213 |
| Total noninterest expense | 6,776 | 6,458 |
| Net income | \$8,340 | \$7,056 |

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

| <i>(Dollars in Thousands)</i> | Capital | Retained | Accumulated | Total |
|--|--|-------------------------|----------------------------------|--------------------|
| | Stock & Participation Certificates | Earnings Unallocated | Other Comprehensive Income | Members' Equity |
| Balance at December 31, 2006 | \$9,007 | \$199,336 | \$ - | \$208,343 |
| Net income | - | 7,056 | - | 7,056 |
| Capital stock/participation certificates issued | 430 | - | - | 430 |
| Capital stock/participation certificates retired | (370) | - | - | (370) |
| Patronage distributions Cash | - | - | - | - |
| Change in patronage declared and paid | - | 8 | - | 8 |
| Balance at March 31, 2007 <i>(Unaudited)</i> | \$9,067 | \$206,400 | \$ - | \$215,467 |
| Balance at December 31, 2007 | \$9,346 | \$216,640 | \$2,302 | \$228,288 |
| Net income | - | 8,340 | - | 8,340 |
| Comprehensive income | - | - | (37) | (37) |
| Effect of accounting change regarding measurement date for FAS 158 | - | (117) | - | (117) |
| Capital stock/participation certificates issued | 1,006 | - | - | 1,006 |
| Capital stock/participation certificates retired | (1,070) | - | - | (1,070) |
| Patronage distributions: Cash | - | - | - | - |
| Change in patronage declared and paid | - | 237 | - | 237 |
| Balance at March 31, 2008 <i>(Unaudited)</i> | \$9,282 | \$225,100 | \$2,265 | \$236,647 |

The accompanying notes are an integral part of these statements.

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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, 2007 are contained in the 2007 Annual Report to Stockholders. These unaudited first quarter 2008 consolidated financial statements should be read in conjunction with the 2007 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 | March 31, 2008 | December 31, 2007 |
|-------------------------------|--------------------|-------------------|
| Production agricultural: | | |
| Real estate mortgage | \$1,039,661 | \$1,014,427 |
| Production and | | |
| Intermediate term | 353,041 | 359,227 |
| Agribusiness: | | |
| Processing and marketing | 250,696 | 258,222 |
| Farm-related business | 7,468 | 8,104 |
| Loans to cooperatives | 2,471 | 3,765 |
| Rural residential real estate | 20,294 | 20,550 |
| Communication | 5,010 | 5,071 |
| Energy | 2,980 | 2,617 |
| Total | \$1,681,621 | \$1,671,983 |

Information regarding the Association's impaired loans is found in the "Loan Portfolio" section at the beginning of this quarterly report. The following table further summarizes impaired loan information for the three-month periods ended:

| | <u>March 31, 2008</u> | <u>March 31, 2007</u> |
|--|-----------------------|-----------------------|
| Average impaired loans | \$20,341 | \$18,152 |
| Interest income recognized on impaired loans | \$172 | \$144 |

NOTE 3 - ALLOWANCE FOR LOAN LOSSES

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

| | <u>March 31, 2008</u> | <u>March 31, 2007</u> |
|--------------------------------|-----------------------|-----------------------|
| Balance at beginning of period | \$7,774 | \$6,844 |
| Provision for loan losses | (82) | 135 |
| Recoveries | 2 | 7 |
| Charge-offs net of adjustments | (86) | (101) |
| Balance at end of period | \$7,608 | \$6,885 |

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

| | <u>March 31, 2008</u> | <u>March 31, 2007</u> |
|--|-----------------------|-----------------------|
| Impaired loans with related allowance | \$10,686 | \$6,915 |
| Impaired loans with no related allowance | <u>15,644</u> | <u>11,446</u> |
| Total impaired loans | <u>\$26,330</u> | <u>\$18,361</u> |

The specific allowances on impaired loans were \$4.1 and \$3.1 million at March 31, 2008 and 2007, 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 borrower 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 March 31, 2008.

NOTE 5 – SUBSEQUENT EVENTS

As discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this quarterly report, the Association is in the process of performing due diligence for a potential merger with Capital Farm Credit, ACA. The proposed merger date is October 1, 2008.

Certification of Management

The undersigned certify that this report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of his knowledge and belief.



Terry D. Dane
Chief Executive Officer

April 30, 2008



Keith Vandivere
Chairman, Board of Directors

April 30, 2008



Chris Boutwell
Chief Financial Officer

April 30, 2008

FIRST AG CREDIT, FCS

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