First South Farm Credit, ACA

SECOND QUARTER 2005

Stephen L. Rochelle
Chief Executive Officer

Paul Clark
Chairman of the Board

July 29, 2005

First South Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of *First South Farm Credit, ACA* (Association) for the period ended June 30, 2005. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2004 Annual Report of the Association.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans. The Association's loan portfolio is diversified over a range of agricultural commodities including poultry, cotton, livestock, and forestry. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of June 30, 2005, was $1,014,250, an increase of $125,174, as compared to $889,076 at December 31, 2004. Net loans outstanding at June 30, 2005, were $1,008,961 as compared to $883,887 at December 31, 2004. Net loans accounted for 91.64 percent of total assets at June 30, 2005, as compared to 89.68 percent of total assets at December 31, 2004. The increase in gross and net loan volume during the reporting period is primarily attributable to seasonal lending. The short-term portfolio is heavily influenced by operating-type loans that normally peak in September and rapidly decline in the fall and winter months when farm commodities are marketed.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from $3,311 at December 31, 2004, to $3,065 at June 30, 2005. This decrease is primarily the result of liquidation, normal payouts, and upgrading to performing status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2005, was $5,289 compared to $5,189 at December 31, 2004, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2005

Net income for the three months ended June 30, 2005, totaled $4,643, as compared to $3,187 for the same period in 2004. Net interest income increased $1,062 for the three months ended June 30, 2005, as compared to the same period in 2004. The increase in net interest income was primarily the result of an increase in average accruing loans outstanding of 10.99 percent for the three months ending June 30, 2005, compared to the same period of 2004.

Noninterest income for the three months ended June 30, 2005, totaled $2,256, as compared to $1,973 for the same period of 2004, an increase of $283. The increase is primarily the result of an increase in loan fees of $46, an increase in equity in earnings of AgFirst Farm Credit Bank (the Bank) of $159, and an increase in gains on other property owned of $105, partially offset by a decrease in fees for financially related services of $25 and a decrease in other noninterest income of $2. Noninterest expense for the three months ended June 30, 2005, increased $46 compared to the same period of 2004. The primary reason for the increase in noninterest expense was an increase in other operating expenses of $194, partially offset by a decrease in salaries and benefits expense of $24, a decrease in occupancy and equipment expense of $13, and a decrease in the Insurance Fund premium of $111.

For the six months ended June 30, 2005

Net income for the six months ended June 30, 2005, totaled $8,641, as compared to $5,848 for the same period in 2004. At June 30, 2005, net interest income increased by $1,908 or 15.92 percent compared to June 30, 2004. Interest income on loans increased by $5,727 and interest expense increased by $3,819. This change in net interest income is primarily the result of an increase in average accruing loans outstanding of 11.11 percent for the six months ending June 30, 2005, compared to the same period of 2004.

Nonaccrual income was $65 for the six months ended June 30, 2005, as compared to $95 for the same period in 2004. The Association did not record a provision for loan loss for the six months ended June 30, 2005, or for the same period in 2004. As discussed in the 2004 Annual Report, the Association recorded a loan loss reversal of $14,809 in the fourth quarter of 2004 that resulted in a significant decrease in the allowance for loan losses. Please refer to the 2004 Annual Report of the Association for a more detailed explanation of this change in accounting estimate.

Noninterest income for the six months ended June 30, 2005, totaled $4,461, as compared to $3,923 for the same period of 2004, an increase of $538. The increase is primarily the result of an increase in loan fees of $122, an increase in equity in earnings of the Bank of $301, an increase in gains on other property owned of $139, and an increase in other noninterest income of $12, partially offset by a decrease in fees for financially related services of $36. Noninterest expense for the six months ended June 30, 2005, decreased $108 compared to the same period of 2004. The primary reasons for the decrease in noninterest expense were a decrease in salaries and benefits expense of $29, a decrease in occupancy and equipment expense of $37, and a decrease in the Insurance Fund premium of $223, partially offset by an increase in other operating expenses of $181.

Provision for income taxes for the six months ended June 30, 2005, was $12 compared to $251 for the same period in 2004.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2005, was $876,022 as compared to $759,497 at December 31, 2004.

CAPITAL RESOURCES

Total members' equity at June 30, 2005, increased to $205,115 from the December 31, 2004, total of $202,663. The increase is primarily attributed to net income of $8,641 and an increase in capital stock and participation certificates of $414, partially offset by the retirement of allocated earnings of $6,536.

Total capital stock and participation certificates were $63,916 on June 30, 2005, compared to $63,502 on December 31, 2004. This increase is attributed to the issuance of member stock associated with the increase in gross loan volume at June 30, 2005, compared to December 31, 2004.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2005, the Association's total surplus ratio and core surplus ratio were 12.87 percent and 10.50 percent, respectively, and the permanent capital ratio was 14.21 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

STOCKHOLDER INVESTMENT

Stockholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Jay Wise, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-955-1722, writing Bryan Applewhite, Chief Financial Officer, First South Farm Credit, ACA, P. O. Box 6008, Ridgeland, MS 39158-6008, or accessing the website, *www.firstsouthfarmcredit.com*. The Association prepares a quarterly report within 45 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

First South Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2005	December 31, 2004
	(unaudited)	*(audited)*
Assets		
Cash	$ 4,736	$ 10,375
Loans	1,014,250	889,076
Less: allowance for loan losses	5,289	5,189
Net loans	1,008,961	883,887
Accrued interest receivable	12,270	9,504
Investment in other Farm Credit institutions	61,513	61,513
Premises and equipment, net	3,660	3,897
Other property owned	5	739
Other assets	9,845	15,641
Total assets	$ 1,100,990	$ 985,556
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 876,022	$ 759,497
Accrued interest payable	2,801	2,253
Patronage refund payable	4	3,105
Postretirement benefits other than pensions	11,335	11,204
Other liabilities	5,713	6,834
Total liabilities	895,875	782,893
Commitments and contingencies		
Members' Equity		
Protected borrower equity	142	142
Capital stock and participation certificates	63,774	63,360
Retained earnings		
Allocated	51,682	58,064
Unallocated	89,517	81,097
Total members' equity	205,115	202,663
Total liabilities and members' equity	$ 1,100,990	$ 985,556

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

First South Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2005	For the three months ended June 30, 2004	For the six months ended June 30, 2005	For the six months ended June 30, 2004
Interest Income				
Loans	$ 15,106	$ 11,702	$ 28,330	$ 22,603
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	7,824	5,481	14,437	10,615
Other	—	1	—	3
Total interest expense	7,824	5,482	14,437	10,618
Net interest income	7,282	6,220	13,893	11,985
Provision for (reversal of) loan losses	—	—	—	—
Net interest income after provision for (reversal of) loan losses	7,282	6,220	13,893	11,985
Noninterest Income				
Loan fees	575	529	1,222	1,100
Fees for financially related services	135	160	141	177
Equity in earnings of other Farm Credit institutions	1,540	1,381	2,955	2,654
Gains (losses) on other property owned, net	6	(99)	37	(102)
Other noninterest income	—	2	106	94
Total noninterest income	2,256	1,973	4,461	3,923
Noninterest Expense				
Salaries and employee benefits	3,402	3,426	6,834	6,863
Occupancy and equipment	255	268	497	534
Insurance Fund premium	91	202	171	394
Other operating expenses	1,214	1,020	2,199	2,018
Total noninterest expense	4,962	4,916	9,701	9,809
Income before income taxes	4,576	3,277	8,653	6,099
Provision (benefit) for income taxes	(67)	90	12	251
Net income	$ 4,643	$ 3,187	$ 8,641	$ 5,848

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

First South Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2003	$ 147	$ 62,952	$ 52,081	$ 66,805	$ 181,985
Net income				5,848	5,848
Protected borrower equity retired	(5)				(5)
Capital stock/participation certificates issued		894			894
Capital stock/participation certificates retired		(756)			(756)
Retained earnings retired			(6,927)		(6,927)
Distribution adjustment			(161)	214	53
Balance at June 30, 2004	$ 142	$ 63,090	$ 44,993	$ 72,867	$ 181,092
Balance at December 31, 2004	$ 142	$ 63,360	$ 58,064	$ 81,097	$ 202,663
Net income				8,641	8,641
Capital stock/participation certificates issued		962			962
Capital stock/participation certificates retired		(548)			(548)
Retained earnings retired			(6,536)		(6,536)
Distribution adjustment			154	(221)	(67)
Balance at June 30, 2005	$ 142	$ 63,774	$ 51,682	$ 89,517	$ 205,115

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

First South Farm Credit, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of First South Farm Credit, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2004, are contained in the 2004 Annual Report to Shareholders. These unaudited second quarter 2005 consolidated financial statements should be read in conjunction with the 2004 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles. The results for the six months ended June 30, 2005, are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

Certain amounts in prior period consolidated financial statements have been reclassified to conform to current consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with generally accepted accounting principles. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2005, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

Balance at 12-31-03	$ 20,630
(Reversal of) provision for loan losses	–
Loans (charged off), net of recoveries	(416)
Balance at 6-30-04	$ 20,214
Balance at 12-31-04	$ 5,189
(Reversal of) provision for loan losses	–
Recoveries, net of loans charged off	100
Balance at 6-30-05	$ 5,289

As discussed in the 2004 Annual Report, the Association recorded a loan loss reversal of $14,809 in the fourth quarter of 2004 that resulted in a decrease in the allowance for loan losses.

NOTE 3 – EMPLOYEE BENEFIT PLANS

The Association's employees participate in a defined benefit retirement plan. This plan is noncontributory and covers substantially all employees of the Association.

The following is a table of the components of net periodic benefit (income) cost for the defined benefit retirement plan for the six months ended June 30, 2005:

	For the six months ended June 30,	
	2005	**2004**
Service cost	$ 619	$ 577
Interest cost	1,141	1,116
Expected return on plan assets	(1,261)	(1,171)
Amortization of net (gain) loss	(169)	(169)
Amortization of prior service cost	71	132
Recognized net actuarial (gain) loss	378	443
Net periodic benefit (income) cost	$ 779	$ 928

As of June 30, 2005, no contributions have been made to the pension plan for 2005. The Association anticipates making contributions of $830 during the remainder of 2005.

The Association also participates in Districtwide thrift and other postretirement benefit plans. The other postretirement benefit plan provides certain benefits (primarily health care) to its retirees.

The following is a table of retirement and postretirement benefit expense for the six months ended June 30, 2005:

	For the six months ended June 30,	
	2005	**2004**
Pension	$ 779	$ 928
Thrift/deferred compensation	117	110
Other postretirement benefits	417	580
Total	$1,313	$1,618