First South Farm Credit, ACA

FIRST QUARTER 2006

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Chief Executive Officer

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April 28, 2006

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 March 31, 2006. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2005 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 March 31, 2006, was $965,415, a decrease of $20,071, as compared to $985,486 at December 31, 2005. Net loans outstanding at March 31, 2006, were $959,981, as compared to $980,061 at December 31, 2005. Net loans accounted for 91.04 percent of total assets at March 31, 2006, as compared to 89.31 percent of total assets at December 31, 2005. The decrease 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 increased from $2,484 at December 31, 2005, to $3,112 at March 31, 2006.

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 March 31, 2006, was $5,434 compared to $5,425 at December 31, 2005, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2006

Net income for the three months ended March 31, 2006, totaled $4,249, as compared to $3,998 for the same period in 2005. Net interest income increased $868 for the three months ended March 31, 2006, as compared to the same period in 2005. The increase in net interest income was primarily the result of an increase in average accruing loans outstanding of 9.69 percent for the three months ending March 31, 2006, compared to the same period of 2005.

Noninterest income for the three months ended March 31, 2006, totaled $2,299, as compared to $2,205 for the same period of 2005, an increase of $94. The increase is primarily the result of an increase in equity in earnings of AgFirst Farm Credit Bank (the Bank) of $107, an increase in fees for financially related services of $7, and an increase in other noninterest income of $21, partially offset by a decrease in loan fees of $9 and a decrease in gains on other property owned of $32. Noninterest expense for the three months ended March 31, 2006, increased $575 compared to the same period of 2005. The primary reasons for the increase in noninterest expense were an increase in salaries and benefits expense of $88, an increase in occupancy and equipment expense of $49, an increase in the Insurance Fund premium of $254, and an increase in other operating expenses of $184.

The Association recorded a provision for loan loss of $200 for the three months ended March 31, 2006, compared to no provision for the same period in 2005. This addition is the result of continued loan growth and the assessment of the related risk in the loan portfolio. Provision for income taxes was $15 for the three months ended March 31, 2006, compared to $79 for the same period in 2005.

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 March 31, 2006, was $812,339, as compared to $856,986 at December 31, 2005.

CAPITAL RESOURCES

Total members' equity at March 31, 2006, decreased to $210,973 from the December 31, 2005, total of $213,834. The decrease is primarily attributed to the retirement of allocated retained earnings of $7,147, partially offset by net income of $4,249 and an increase in capital stock and participation certificates of $106. Total capital stock and participation certificates were $64,173 on March 31, 2006, compared to $64,067 on December 31, 2005.

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 March 31, 2006, the Association's total surplus ratio and core surplus ratio were 14.03 percent and 11.66 percent, respectively, and the permanent capital ratio was 15.39 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 the AgFirst Farm Credit Bank's Quarterly and Annual Reports are on the AgFirst website, *www.agfirst.com*, or may be obtained at no charge by calling 1-800-845-1745, extension 378, or writing Jay Wise, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Copies of the Association's Annual and Quarterly reports are also on the Association's website, *www.firstsouthfarmcredit.com*, or may be obtained upon request free of charge by calling 1-800-955-1722 or writing Bryan Applewhite, First South Farm Credit, ACA, P. O. Box 6008, Ridgeland, MS 39158-6008. 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)	March 31, 2006 *(unaudited)*	December 31, 2005 *(audited)*
Assets		
Cash	$ 6,350	$ 20,207
Loans	965,415	985,486
Less: allowance for loan losses	5,434	5,425
Net loans	959,981	980,061
Accrued interest receivable	12,011	12,621
Investment in other Farm Credit institutions	61,849	61,849
Premises and equipment, net	4,299	4,351
Other property owned	584	479
Prepaid retirement expense	7,045	7,523
Due from AgFirst Farm Credit Bank	2	9,311
Other assets	2,340	991
Total assets	$ 1,054,461	$ 1,097,393
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 812,339	$ 856,986
Accrued interest payable	3,258	3,334
Patronage refund payable	4	3,199
Postretirement benefits other than pensions	18,665	11,560
Other liabilities	9,222	8,480
Total liabilities	843,488	883,559
Commitments and contingencies		
Members' Equity		
Protected borrower equity	140	140
Capital stock and participation certificates	64,033	63,927
Retained earnings		
Allocated	61,103	68,020
Unallocated	85,697	81,747
Total members' equity	210,973	213,834
Total liabilities and members' equity	$ 1,054,461	$ 1,097,393

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 March 31, 2006	2005
Interest Income		
Loans	$ 16,787	$ 13,224
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	9,308	6,613
Net interest income	7,479	6,611
Provision for (reversal of allowance for) loan losses	200	—
Net interest income after provision for (reversal of allowance for) loan losses	7,279	6,611
Noninterest Income		
Loan fees	638	647
Fees for financially related services	13	6
Equity in earnings of other Farm Credit institutions	1,522	1,415
Gains (losses) on other property owned, net	(1)	31
Other noninterest income	127	106
Total noninterest income	2,299	2,205
Noninterest Expense		
Salaries and employee benefits	3,520	3,432
Occupancy and equipment	291	242
Insurance Fund premium	334	80
Other operating expenses	1,169	985
Total noninterest expense	5,314	4,739
Income before income taxes	4,264	4,077
Provision (benefit) for income taxes	15	79
Net income	$ 4,249	$ 3,998

The accompanying notes are an integral 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, 2004	$ 142	$ 63,360	$ 58,064	$ 81,097	$ 202,663
Net income				3,998	3,998
Capital stock/participation certificates issued		442			442
Capital stock/participation certificates retired		(240)			(240)
Retained earnings retired			(6,534)		(6,534)
Distribution adjustment			154	(222)	(68)
Balance at March 31, 2005	$ 142	$ 63,562	$ 51,684	$ 84,873	$ 200,261
Balance at December 31, 2005	$ 140	$ 63,927	$ 68,020	$ 81,747	$ 213,834
Net income				4,249	4,249
Capital stock/participation certificates issued		455			455
Capital stock/participation certificates retired		(349)			(349)
Retained earnings retired			(7,147)		(7,147)
Distribution adjustment			230	(299)	(69)
Balance at March 31, 2006	$ 140	$ 64,033	$ 61,103	$ 85,697	$ 210,973

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

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, 2005, are contained in the 2005 Annual Report to Shareholders. These unaudited first quarter 2006 consolidated financial statements should be read in conjunction with the 2005 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 three months ended March 31, 2006, are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

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 March 31, 2006, 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 12-31-04	$ 5,189
(Reversal of) provision for loan losses	–
Recoveries, net of loans charged off	38
Balance at 3-31-05	$ 5,227
Balance at 12-31-05	$ 5,425
(Reversal of) provision for loan losses	200
Loans (charged off), net of recoveries	(191)
Balance at 3-31-06	$ 5,434

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 three months ended March 31, 2006:

	For the three months ended March 31,	
	2006	**2005**
Service cost	$ 377	$ 310
Interest cost	587	570
Expected return on plan assets	(718)	(631)
Amortization of net (gain) loss	(84)	(85)
Amortization of prior service cost	36	36
Recognized net actuarial (gain) loss	280	189
Net periodic benefit (income) cost	$ 478	$ 389

As of March 31, 2006, no contributions have been made to the pension plan for 2006. The total employer contribution expected for 2006 is $1,250.

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 three months ended March 31, 2006:

	For the three months ended March 31,	
	2006	**2005**
Pension	$ 478	$ 389
Thrift/deferred compensation	60	56
Other postretirement benefits	100	209
Total	$ 638	$ 654