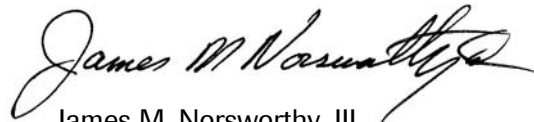


SECOND QUARTER 2007

Management's Discussion and Analysis of	
Financial Condition and Results of Operations.....	2
Consolidated Financial Statements	
Consolidated Balance Sheets.....	4
Consolidated Statements of Income.....	5
Consolidated Statements of Changes in Members' Equity.....	6
Notes to the Consolidated Financial Statements.....	7



Stephen L. Rochelle
Chief Executive Officer



James M. Norsworthy, III
Chairman of the Board

July 27, 2007

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, 2007. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2006 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

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, 2007, was \$1,268,181, an increase of \$149,804, as compared to \$1,118,377 at December 31, 2006. Net loans outstanding at June 30, 2007, were \$1,261,660 as compared to \$1,112,501 at December 31, 2006. Net loans accounted for 91.68 percent of total assets at June 30, 2007, as compared to 90.34 percent of total assets at December 31, 2006. The increase in loan volume during the reporting period is primarily attributable to seasonal lending. The short-term part of the 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 \$2,964 at December 31, 2006, to \$5,186 at June 30, 2007, an increase of \$2,222. This increase is related to isolated adverse production conditions in 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 June 30,

2007, was \$6,521 compared to \$5,876 at December 31, 2006, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2007

Net income for the three months ended June 30, 2007, totaled \$5,250, as compared to \$4,726 for the same period in 2006. Net interest income increased \$540 for the three months ended June 30, 2007, as compared to the same period in 2006. The increase in net interest income was primarily the result of an increase in average accruing loans outstanding of 16.26 percent for the three months ending June 30, 2007, compared to the same period of 2006.

Noninterest income for the three months ended June 30, 2007, totaled \$2,629, as compared to \$2,279 for the same period of 2006, an increase of \$350. The increase is primarily the result of an increase in loan fees of \$87, an increase in equity in earnings of AgFirst Farm Credit Bank (the Bank) of \$323, and an increase in gains on other property owned of \$7, partially offset by a decrease in fees for financially related services of \$61 and a decrease in other noninterest income of \$6. Noninterest expense for the three months ended June 30, 2007, increased \$276 compared to the same period of 2006. The primary reasons for the increase in noninterest expense were an increase in the Insurance Fund premium of \$59 and an increase in other operating expenses of \$267, partially offset by a decrease in salaries and employee benefits expense of \$47 and a decrease in occupancy and equipment expense of \$3.

The Association recorded a provision for loan loss of \$400 for the three months ended June 30, 2007, compared to a provision of \$330 for the same period in 2006. The Association recorded a provision for income taxes of \$4 compared to a benefit of \$16 for the same period in 2006.

For the six months ended June 30, 2007

Net income for the six months ended June 30, 2007, totaled \$10,263, as compared to \$8,975 for the same period in 2006. Net interest income increased \$1,131 or 7.30 percent, as compared to the same period in 2006. The increase in net interest income was primarily the result of an increase in average accruing loans outstanding of 15.70 percent for the six months ending June 30, 2007, compared to the same period of 2006.

Noninterest income for the six months ended June 30, 2007, totaled \$5,307, as compared to \$4,578 for the same period of 2006, an increase of \$729. The increase is primarily the result of an increase in loan fees of \$186, an increase in equity in earnings of the Bank of \$600, and an increase in gains on other property owned of \$9, partially offset by a decrease in fees for financially related services of \$63 and a decrease in other noninterest income of \$3.

Noninterest expense for the six months ended June 30, 2007, increased \$451 compared to the same period of 2006. The primary reasons for the increase in noninterest expense were an increase in the Insurance Fund premium of \$110 and an increase in other operating expenses of \$488, partially offset by a decrease in salaries and employee benefits expense of \$145 and a decrease in occupancy and equipment expense of \$2.

The Association recorded a provision for loan loss of \$650 for the six months ended June 30, 2007, compared to a provision of \$530 for the same period in 2006.

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, 2007, was \$1,126,513 as compared to \$978,396 at December 31, 2006.

CAPITAL RESOURCES

Total members' equity at June 30, 2007, increased to \$225,312 from the December 31, 2006, total of \$223,375. The increase is primarily attributed to net income of \$10,263 and an increase in capital stock of \$197, partially offset by the retirement of allocated earnings of \$8,577.

Total capital stock and participation certificates were \$64,525 on June 30, 2007, compared to \$64,328 on December 31, 2006. This increase is attributed to the issuance of member stock associated with the increase in gross loan volume at June 30, 2007, compared to December 31, 2006.

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, 2007, the Association's total surplus ratio and core surplus ratio were 11.65 percent and 10.47 percent, respectively, and the permanent capital ratio was 12.79 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.

ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

On September 29, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Association will be required to implement the Standard for the year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Association uses a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Association is currently evaluating the impact of implementing this Standard. It is anticipated that the impact from the implementation of this Standard will have no impact on the income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the balance sheet.

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 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 316, or writing Wanda Martin, 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

<i>(dollars in thousands)</i>	June 30, 2007 <i>(unaudited)</i>	December 31, 2006 <i>(audited)</i>
Assets		
Cash	\$ 14,968	\$ 15,743
Loans	1,268,181	1,118,377
Less: allowance for loan losses	6,521	5,876
Net loans	1,261,660	1,112,501
Accrued interest receivable	17,981	16,601
Investment in other Farm Credit institutions	66,260	66,260
Premises and equipment, net	4,770	4,624
Other property owned	5	83
Prepaid retirement expense	5,836	6,338
Due from AgFirst Farm Credit Bank	3,777	8,437
Other assets	863	885
Total assets	<u>\$ 1,376,120</u>	<u>\$ 1,231,472</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,126,513	\$ 978,396
Accrued interest payable	5,031	4,471
Patronage refund payable	5	2,779
Postretirement benefits other than pensions	11,502	11,545
Other liabilities	7,757	10,906
Total liabilities	<u>1,150,808</u>	<u>1,008,097</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	91	92
Capital stock and participation certificates	64,434	64,236
Retained earnings		
Allocated	68,335	77,039
Unallocated	92,452	82,008
Total members' equity	<u>225,312</u>	<u>223,375</u>
Total liabilities and members' equity	<u>\$ 1,376,120</u>	<u>\$ 1,231,472</u>

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

First South Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
Interest Income				
Loans	\$ 22,908	\$ 18,832	\$ 43,636	\$ 35,619
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	14,354	10,818	27,012	20,126
Net interest income	8,554	8,014	16,624	15,493
Provision for (reversal of allowance for) loan losses	400	330	650	530
Net interest income after provision for (reversal of allowance for) loan losses	8,154	7,684	15,974	14,963
Noninterest Income				
Loan fees	605	518	1,342	1,156
Fees for financially related services	34	95	45	108
Equity in earnings of other Farm Credit institutions	1,970	1,647	3,769	3,169
Gains (losses) on other property owned, net	8	1	9	—
Other noninterest income	12	18	142	145
Total noninterest income	2,629	2,279	5,307	4,578
Noninterest Expense				
Salaries and employee benefits	3,423	3,470	6,845	6,990
Occupancy and equipment	280	283	572	574
Insurance Fund premium	417	358	802	692
Other operating expenses	1,409	1,142	2,799	2,311
Total noninterest expense	5,529	5,253	11,018	10,567
Income before income taxes	5,254	4,710	10,263	8,974
Provision (benefit) for income taxes	4	(16)	—	(1)
Net income	\$ 5,250	\$ 4,726	\$ 10,263	\$ 8,975

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		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2005	\$ 140	\$ 63,927	\$ 68,020	\$ 81,747	\$ 213,834
Net income				8,975	8,975
Protected borrower equity retired	(1)				(1)
Capital stock/participation certificates issued		869			869
Capital stock/participation certificates retired		(676)			(676)
Retained earnings retired			(7,170)		(7,170)
Distribution adjustment			230	(295)	(65)
Balance at June 30, 2006	\$ 139	\$ 64,120	\$ 61,080	\$ 90,427	\$ 215,766
Balance at December 31, 2006	\$ 92	\$ 64,236	\$ 77,039	\$ 82,008	\$ 223,375
Net income				10,263	10,263
Protected borrower equity retired	(1)				(1)
Capital stock/participation certificates issued		1,003			1,003
Capital stock/participation certificates retired		(805)			(805)
Retained earnings retired			(8,577)		(8,577)
Distribution adjustment			(127)	181	54
Balance at June 30, 2007	\$ 91	\$ 64,434	\$ 68,335	\$ 92,452	\$ 225,312

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, 2006, are contained in the 2006 Annual Report to Shareholders. These unaudited second quarter 2007 consolidated financial statements should be read in conjunction with the 2006 Annual Report to Shareholders.

On September 29, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 – Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Association will be required to implement the Standard for the year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Association uses a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Association is currently evaluating the impact of implementing this Standard. It is anticipated that the impact from the implementation of this Standard will have no impact on the consolidated income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the consolidated balance sheet.

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, 2007, are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

Certain amounts in prior period consolidated financial statements may 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, 2007, 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:

	For the six months ended June 30,	
	2007	2006
Balance at beginning of period	\$ 5,876	\$ 5,425
Provision for (reversal of) loan losses	650	530
Loans (charged off), net of recoveries	(5)	(209)
Balance at end of period	<u>\$ 6,521</u>	<u>\$ 5,746</u>

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,	
	2007	2006
Service cost	\$ 632	\$ 754
Interest cost	1,261	1,175
Expected return on plan assets	(1,509)	(1,435)
Amortization of net (gain) loss	(169)	(169)
Amortization of prior service cost	(29)	71
Recognized net actuarial (gain) loss	316	560
Net periodic benefit (income) cost	<u>\$ 502</u>	<u>\$ 956</u>

As of June 30, 2007, no contributions have been made to the pension plan for 2007. The total employer contribution expected for 2007 is \$760.

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,	
	<u>2007</u>	<u>2006</u>
Pension	\$ 502	\$ 956
Thrift/deferred compensation	127	123
Other postretirement benefits	171	200
Total	<u>\$ 800</u>	<u>\$ 1,279</u>