First South Farm Credit, ACA

THIRD QUARTER 2007

Stephen L. Rochelle
Chief Executive Officer

James M. Norsworthy, III
Chairman of the Board

October 26, 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 September 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 September 30, 2007, was $1,306,127, an increase of $187,750, as compared to $1,118,377 at December 31, 2006. Net loans outstanding at September 30, 2007, were $1,299,186 as compared to $1,112,501 at December 31, 2006. Net loans accounted for 92.17 percent of total assets at September 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 $3,726 at September 30, 2007, an increase of $762. 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 September 30, 2007, was $6,941 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 September 30, 2007

Net income for the three months ended September 30, 2007, totaled $5,900, as compared to $5,146 for the same period in 2006. Net interest income increased $252 for the three months ended September 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 14.75 percent for the three months ending September 30, 2007, compared to the same period of 2006.

Noninterest income for the three months ended September 30, 2007, totaled $2,899, as compared to $2,540 for the same period of 2006, an increase of $359. The increase is primarily the result of an increase in loan fees of $31, an increase in fees for financially related services of $41, and an increase in equity in earnings of AgFirst Farm Credit Bank (the Bank) of $316, partially offset by a decrease in gains on other property owned of $24 and a decrease in other noninterest income of $5.

Noninterest expense for the three months ended September 30, 2007, decreased $153 compared to the same period of 2006. The primary reasons for the decrease in noninterest expense were a decrease in salaries and employee benefits of $106 and a decrease in other operating expenses of $116, partially offset by an increase in occupancy and equipment expense of $7 and an increase in the Insurance Fund premium of $62.

The Association recorded a provision for loan loss of $400 for the three months ended September 30, 2007, compared to a provision of $400 for the same period in 2006. The Association did not record a provision for income taxes for the three months ended September 30, 2007, compared to a benefit of $10 for the same period in 2006.

For the nine months ended September 30, 2007

Net income for the nine months ended September 30, 2007, totaled $16,163, as compared to $14,121 for the same period in 2006. Net interest income increased $1,383 or 5.72 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 15.35 percent for the nine months ending September 30, 2007, compared to the same period of 2006.

Noninterest income for the nine months ended September 30, 2007, totaled $8,206, as compared to $7,118 for the same period of 2006, an increase of $1,088. The increase is primarily the result of an increase in loan fees of $217 and an increase in equity in earnings of the Bank of $916, partially offset by a decrease in fees for financially related services of $22, a decrease in gains on other property owned of $15 and a decrease in other noninterest income of $8.

Noninterest expense for the nine months ended September 30, 2007, increased $298 compared to the same period of 2006. The primary reasons for the increase in noninterest expense were an increase in occupancy and equipment expense of $5, an increase in the Insurance Fund premium of $172, and an increase in other operating expenses of $372, partially offset by a decrease in salaries and employee benefits expense of $251.

The Association recorded a provision for loan loss of $1,050 for the nine months ended September 30, 2007, compared to a provision of $930 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 September 30, 2007, was $1,155,139 as compared to $978,396 at December 31, 2006.

CAPITAL RESOURCES

Total members' equity at September 30, 2007, increased to $231,209 from the December 31, 2006, total of $223,375. The increase is primarily attributed to net income of $16,163 and an increase in capital stock of $190, partially offset by the retirement of allocated earnings of $8,577.

Total capital stock and participation certificates were $64,518 on September 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 September 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 September 30, 2007, the Association's total surplus ratio and core surplus ratio were 10.88 percent and 9.81 percent, respectively, and the permanent capital ratio was 11.92 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

(dollars in thousands)	September 30, 2007	December 31, 2006
	(unaudited)	*(audited)*
Assets		
Cash	$ 3,043	$ 15,743
Loans	1,306,127	1,118,377
Less: allowance for loan losses	6,941	5,876
Net loans	1,299,186	1,112,501
Accrued interest receivable	22,700	16,601
Investment in other Farm Credit institutions	66,260	66,260
Premises and equipment, net	5,031	4,624
Other property owned	5	83
Prepaid retirement expense	6,343	6,338
Due from AgFirst Farm Credit Bank	6,013	8,437
Other assets	943	885
Total assets	$ 1,409,524	$ 1,231,472
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,155,139	$ 978,396
Accrued interest payable	5,516	4,471
Patronage refund payable	5	2,779
Postretirement benefits other than pensions	11,483	11,545
Other liabilities	6,172	10,906
Total liabilities	1,178,315	1,008,097
Commitments and contingencies		
Members' Equity		
Protected borrower equity	92	92
Capital stock and participation certificates	64,426	64,236
Retained earnings		
Allocated	68,336	77,039
Unallocated	98,355	82,008
Total members' equity	231,209	223,375
Total liabilities and members' equity	$ 1,409,524	$ 1,231,472

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 September 30, 2007	2006	For the nine months ended September 30, 2007	2006
Interest Income				
Loans	$ 25,760	$ 22,156	$ 69,396	$ 57,775
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	16,808	13,456	43,820	33,582
Net interest income	8,952	8,700	25,576	24,193
Provision for (reversal of allowance for) loan losses	400	400	1,050	930
Net interest income after provision for (reversal of allowance for) loan losses	8,552	8,300	24,526	23,263
Noninterest Income				
Loan fees	518	487	1,860	1,643
Fees for financially related services	142	101	187	209
Equity in earnings of other Farm Credit institutions	2,242	1,926	6,011	5,095
Gains (losses) on other property owned, net	2	26	11	26
Other noninterest income	(5)	—	137	145
Total noninterest income	2,899	2,540	8,206	7,118
Noninterest Expense				
Salaries and employee benefits	3,415	3,521	10,260	10,511
Occupancy and equipment	307	300	879	874
Insurance Fund premium	467	405	1,269	1,097
Other operating expenses	1,362	1,478	4,161	3,789
Total noninterest expense	5,551	5,704	16,569	16,271
Income before income taxes	5,900	5,136	16,163	14,110
Provision (benefit) for income taxes	—	(10)	—	(11)
Net income	$ 5,900	$ 5,146	$ 16,163	$ 14,121

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, 2005	$ 140	$ 63,927	$ 68,020	$ 81,747	$ 213,834
Net income				14,121	14,121
Protected borrower equity retired	(30)				(30)
Capital stock/participation certificates issued		1,237			1,237
Capital stock/participation certificates retired		(970)			(970)
Retained earnings retired			(7,182)		(7,182)
Distribution adjustment			230	(292)	(62)
Balance at September 30, 2006	$ 110	$ 64,194	$ 61,068	$ 95,576	$ 220,948
Balance at December 31, 2006	$ 92	$ 64,236	$ 77,039	$ 82,008	$ 223,375
Net income				16,163	16,163
Capital stock/participation certificates issued		1,352			1,352
Capital stock/participation certificates retired		(1,162)			(1,162)
Retained earnings retired			(8,577)		(8,577)
Distribution adjustment			(126)	184	58
Balance at September 30, 2007	$ 92	$ 64,426	$ 68,336	$ 98,355	$ 231,209

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 third 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 nine months ended September 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 September 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 nine months ended September 30, 2007	2006
Balance at beginning of period	$ 5,876	$ 5,425
Provision for (reversal of) loan losses	1,050	930
Loans (charged off), net of recoveries	15	(467)
Balance at end of period	$ 6,941	$ 5,888

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 nine months ended September 30, 2007	2006
Service cost	$ 948	$ 1,132
Interest cost	1,891	1,762
Expected return on plan assets	(2,263)	(2,153)
Amortization of net (gain) loss	(253)	(253)
Amortization of prior service cost	(43)	107
Recognized net actuarial (gain) loss	474	839
Net periodic benefit (income) cost	$ 754	$ 1,434

As of September 30, 2007, the Association had contributed $759 to the pension plan. The Association does not anticipate making any additional contributions in 2007.

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 nine months ended September 30,	
	2007	**2006**
Pension	$ 754	$ 1,434
Thrift/deferred compensation	194	187
Other postretirement benefits	257	300
Total	$ 1,205	$ 1,921