First South Farm Credit, ACA

THIRD QUARTER 2008

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2008 quarterly report of First South Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Stephen L. Rochelle
Chief Executive Officer

Bryan Applewhite
Chief Financial Officer

Shepherd Morris
Chairman of the Board

October, 2008

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, 2008. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2007 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, 2008, was $1,223,284, a decrease of $16,794, as compared to $1,240,078 at December 31, 2007. Net loans outstanding at September 30, 2008, were $1,215,142 as compared to $1,233,117 at December 31, 2007. Net loans accounted for 90.81 percent of total assets at September 30, 2008, as compared to 91.77 percent of total assets at December 31, 2007. The decrease in loan volume during the reporting period is primarily attributable to increased loan participations sold to AgFirst Farm Credit Bank (the Bank). Loans are sold to the Bank as a risk management tool. Loan volume before loan participations sold to the Bank increased for the nine months ended September 30, 2008. This growth is primarily attributable to seasonal lending associated with the short-term part of the portfolio.

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 $3,520 at December 31, 2007, to $12,077 at September 30, 2008, an increase of $8,557. This increase is primarily the result of the Association's participation interest in a real estate loan that is located in an area where real estate values are declining.

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, 2008, was $8,142 compared to $6,961 at December 31, 2007, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2008

Net income for the three months ended September 30, 2008, totaled $5,085, as compared to $5,900 for the same period in 2007. Net interest income decreased $1,205 for the three months ended September 30, 2008, as compared to the same period in 2007. The decrease in net interest income was primarily the result of the decrease in loan volume associated with the increased loan participations sold to the Bank.

Noninterest income for the three months ended September 30, 2008, totaled $4,315, as compared to $2,899 for the same period of 2007, an increase of $1,416. The increase is primarily the result of an increase in equity in earnings of the Bank of $1,400.

Noninterest expense for the three months ended September 30, 2008, increased $122 compared to the same period of 2007. The primary reasons for the increase in noninterest expense were an increase in salaries and employee benefits of $150, an increase in occupancy and equipment expense of $3, and an increase in other operating expenses of $50, partially offset by a decrease in the Insurance Fund premium of $81.

The Association recorded a provision for loan loss of $1,315 for the three months ended September 30, 2008, compared to a provision of $400 for the same period in 2007. The Association recorded a benefit for income taxes of $11 for the three months ended September 30, 2008, compared to no provision or benefit for the same period in 2007.

For the nine months ended September 30, 2008

Net income for the nine months ended September 30, 2008, totaled $16,098, as compared to $16,163 for the same period in 2007. Net interest income decreased $2,987 or 11.68 percent, as compared to the same period in 2007. The decrease in net interest income was primarily the result of a decrease in loan volume associated with the increased loan participations sold to the Bank.

Noninterest income for the nine months ended September 30, 2008, totaled $11,973, as compared to $8,206 for the same period of 2007, an increase of $3,767. The increase is primarily the result of an increase in loan fees of $483, an increase in fees for financially related services of $4, an increase in equity in earnings of the Bank of $3,265, and an increase in gains on other property owned of $15. The increase in equity in the Bank's earnings is primarily the result of the increase in loan participations sold to the Bank compared to the same period in 2007.

Noninterest expense for the nine months ended September 30, 2008, increased $525 compared to the same period of 2007. The primary reasons for the increase in noninterest expense were an increase in salaries and employee benefits of $467, an increase in occupancy and equipment expense of $52, and an increase in other operating expenses of $124, partially offset by a decrease in the Insurance Fund premium of $118.

The Association recorded a provision for loan loss of $1,360 for the nine months ended September 30, 2008, compared to a provision of $1,050 for the same period in 2007. The Association recorded a provision for income taxes of $10 compared to no provision in 2007.

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, 2008, was $1,080,807 as compared to $1,088,297 at December 31, 2007, a decrease of $7,490 or 0.69 percent. The decrease in notes payable is primarily related to the decrease in loan volume associated with the increased loan participations sold to the Bank.

CAPITAL RESOURCES

Total members' equity at September 30, 2008, increased to $236,887 from the December 31, 2007, total of $225,996. The increase is primarily attributed to net income of $16,098 and an increase in capital stock of $276, partially offset by the retirement of allocated earnings of $5,509. Total capital stock and participation certificates were $64,734 on September 30, 2008, compared to $64,458 on December 31, 2007.

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, 2008, the Association's total surplus ratio and core surplus ratio were 10.69 percent and 9.60 percent, respectively, and the permanent capital ratio was 11.82 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 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 Stephen Gilbert, 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'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 40 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, 2008	December 31, 2007
	(unaudited)	*(audited)*
Assets		
Cash	$ 2,867	$ 8,356
Loans	1,223,284	1,240,078
Less: allowance for loan losses	8,142	6,961
Net loans	1,215,142	1,233,117
Accrued interest receivable	16,881	17,313
Investment in other Farm Credit institutions	86,056	68,575
Premises and equipment, net	6,415	5,294
Other property owned	5	5
Due from AgFirst Farm Credit Bank	9,279	9,611
Other assets	1,411	1,388
Total assets	$ 1,338,056	$ 1,343,659
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,080,807	$ 1,088,297
Accrued interest payable	3,888	5,100
Patronage refund payable	5	3,843
Other liabilities	16,469	20,423
Total liabilities	1,101,169	1,117,663
Commitments and contingencies		
Members' Equity		
Protected borrower equity	97	111
Capital stock and participation certificates	64,637	64,347
Retained earnings		
Allocated	78,856	84,707
Unallocated	99,412	83,048
Accumulated other comprehensive income (loss)	(6,115)	(6,217)
Total members' equity	236,887	225,996
Total liabilities and members' equity	$ 1,338,056	$ 1,343,659

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, 2008	2007	For the nine months ended September 30, 2008	2007
Interest Income				
Loans	$ 19,669	$ 25,760	$ 57,034	$ 69,396
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	11,922	16,808	34,445	43,820
Net interest income	7,747	8,952	22,589	25,576
Provision for (reversal of allowance for) loan losses	1,315	400	1,360	1,050
Net interest income after provision for (reversal of allowance for) loan losses	6,432	8,552	21,229	24,526
Noninterest Income				
Loan fees	517	518	2,343	1,860
Fees for financially related services	149	142	191	187
Equity in earnings of other Farm Credit institutions	3,642	2,242	9,276	6,011
Gains (losses) on other property owned, net	4	2	26	11
Other noninterest income	3	(5)	137	137
Total noninterest income	4,315	2,899	11,973	8,206
Noninterest Expense				
Salaries and employee benefits	3,565	3,415	10,727	10,260
Occupancy and equipment	310	307	931	879
Insurance Fund premium	386	467	1,151	1,269
Other operating expenses	1,412	1,362	4,285	4,161
Total noninterest expense	5,673	5,551	17,094	16,569
Income before income taxes	5,074	5,900	16,108	16,163
Provision (benefit) for income taxes	(11)	–	10	–
Net income	$ 5,085	$ 5,900	$ 16,098	$ 16,163

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	Accumulated Other Comprehensive Income	Total Members' Equity
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/(retired), net		190				190
Retained earnings retired			(8,577)			(8,577)
Patronage distribution adjustment			(126)	184		58
Balance at September 30, 2007	$ 92	$ 64,426	$ 68,336	$ 98,355	$ –	$ 231,209
Balance at December 31, 2007	$ 111	$ 64,347	$ 84,707	$ 83,048	$ (6,217)	$ 225,996
Net income				16,098		16,098
Protected borrower equity retired	(14)					(14)
Capital stock/participation certificates issued/(retired), net		290				290
Retained earnings retired			(5,509)			(5,509)
Patronage distribution adjustment			(342)	450		108
Employee benefit plans adjustments				(184)	102	(82)
Balance at September 30, 2008	$ 97	$ 64,637	$ 78,856	$ 99,412	$ (6,115)	$ 236,887

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

The accompanying financial statements include the accounts of First South Farm Credit, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2007, are contained in the 2007 Annual Report to Shareholders. These unaudited third quarter 2008 consolidated financial statements should be read in conjunction with the 2007 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 (GAAP) and prevailing practices within the banking industry. The results for the nine months ended September 30, 2008, are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's 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 GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of September 30, 2008, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In December 2007, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141R, "Business Combinations" (SFAS 141R). SFAS 141R requires business combinations to be accounted for under the acquisition method of accounting (previously called the purchase method). The acquisition method requires (a) identifying the acquirer, (b) determining the acquisition date, (c) recognizing and measuring the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, at their acquisition date fair values, and (d) recognizing and measuring goodwill or a gain from a bargain purchase. SFAS 141R should be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Association is still evaluating the provisions of SFAS 141R, but believes that its adoption will significantly impact its accounting for combinations/acquisitions that may occur in 2009 and beyond.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30, 2008	For the nine months ended September 30, 2007
Balance at beginning of period	$ 6,961	$ 5,876
Provision for (reversal of) loan losses	1,360	1,050
Loans (charged off), net of recoveries	(179)	15
Balance at end of period	$ 8,142	$ 6,941

NOTE 3 — EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the Association:

	For the nine months ended September 30, 2008	For the nine months ended September 30, 2007
Pension	$ 553	$ 754
401(k)	208	194
Other postretirement benefits	322	257
Total	$ 1,083	$1,205

The following is a table of retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 9/30/08	Projected Contributions For Remainder of 2008	Projected Total Contributions 2008
Pension	$ 813	$ -	$ 813
Other postretirement benefits	312	158	470
Total	$1,125	$ 158	$1,283

As of September 30, 2008, contributions of $813 have been made to the pension plan for 2008. Actuarial projections as of the last plan measurement date (September 30, 2007) anticipated total contributions of $790 for 2008. No additional contributions for 2008 are anticipated.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007 by the Association.

SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Association allows for the use of the measurements determined for the prior year end. Under this alternative, pension and other postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 30, 2007 measurement date) is reflected as an adjustment to beginning 2008 unallocated retained earnings. As a result, the Association decreased unallocated retained earnings and increased the pension liability by $184.

Upon adoption, SFAS 158 further required the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income (AOCI). These amounts are subsequently recognized as components of net periodic benefit costs over time. For the first nine months of 2008, $102 has been recognized as a credit to accumulated other comprehensive income and a debit to pension expense to reflect the amortization of the components previously recognized in AOCI.

Further details regarding employee benefit plans and adoption of SFAS 158 are contained in the 2007 Annual Report to Shareholders.