

FIRST QUARTER 2009

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2009 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



Dan West
Chairman of the Board

May 4, 2009

First South Farm Credit, ACA

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2009. In making the assessment, management used the framework in *Internal Control—Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of March 31, 2009 the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2009.



Stephen L. Rochelle
Chief Executive Officer



Bryan Applewhite
Chief Financial Officer

May 4, 2009

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, 2009. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2008 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 March 31, 2009, was \$1,074,313, an increase of \$18,802, as compared to \$1,055,511 at December 31, 2008. Net loans outstanding at March 31, 2009, were \$1,066,528 as compared to \$1,047,570 at December 31, 2008. Net loans accounted for 90.17 percent of total assets at March 31, 2009, as compared to 88.67 percent of total assets at December 31, 2008. The increase in loan 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 decreased from \$29,993 at December 31, 2008, to \$28,121 at March 31, 2009, a decrease of \$1,872. This decrease is primarily the result of the Association's charge off activity on relatively large loan participation.

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, 2009, was \$7,785 compared to \$7,941 at December 31, 2008, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2009

Net income for the three months ended March 31, 2009, totaled \$3,357, as compared to \$5,482 for the same period in 2008. Net interest income decreased \$1,269 for the three months ended March 31, 2009, as compared to the same period in 2008. The decrease in net interest income was primarily the result increased loan participations sold to the Bank.

Noninterest income for the three months ended March 31, 2009 totaled \$5,134, as compared to \$3,155 for the same period of 2008, an increase of \$1,979. The increase is primarily the result of an increase in equity in earnings of the Bank of \$1,968.

Noninterest expense for the three months ended March 31, 2009 increased \$896 compared to the same period of 2008. The primary reasons for the increase in noninterest expense were an increase in salaries and employee benefits of \$939, an increase in the Insurance Fund premium of \$37, partially offset by a decrease in other operating expenses of \$85.

The Association recorded a provision for loan loss of \$1,466 for the three months ended March 31, 2009, compared to a reversal of \$463 for the same period in 2008. The Association recorded a benefit for income taxes of \$4 for the three months ended March 31, 2009, compared to a benefit of \$14 for the same period in 2008.

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, 2009 was \$919,302 as compared to \$909,718 at December 31, 2008, an increase of \$9,584. The increase in notes payable is primarily related to seasonal lending associated with the short term side of the portfolio.

CAPITAL RESOURCES

Total members' equity at March 31, 2009 increased to \$219,744 from the December 31, 2008, total of \$219,728. The increase is primarily attributed to an increase of capital stock and participation certificates of \$167. Total capital stock and participation certificates were \$64,757 on March 31, 2009, compared to \$64,590 on December 31, 2008.

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, 2009, the Association's total surplus ratio and core surplus ratio were 12.85 percent and 11.52 percent, respectively, and the permanent capital ratio was 14.16 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'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 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

<i>(dollars in thousands)</i>	March 31, 2009 <i>(unaudited)</i>	December 31, 2008 <i>(audited)</i>
Assets		
Cash	\$ 2,357	\$ 7,223
Loans	1,074,313	1,055,511
Less: allowance for loan losses	7,785	7,941
Net loans	1,066,528	1,047,570
Accrued interest receivable	10,741	13,545
Investment in other Farm Credit institutions	91,047	92,165
Premises and equipment, net	6,358	6,338
Other property owned	95	5
Due from AgFirst Farm Credit Bank	4,019	12,994
Other assets	1,648	1,554
Total assets	\$ 1,182,793	\$ 1,181,394
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 919,302	\$ 909,718
Accrued interest payable	2,678	3,060
Patronage refund payable	57	3,724
Other liabilities	41,012	45,164
Total liabilities	963,049	961,666
Commitments and contingencies		
Members' Equity		
Protected borrower equity	92	97
Capital stock and participation certificates	64,757	64,590
Retained earnings		
Allocated	89,175	93,412
Unallocated	88,927	85,259
Accumulated other comprehensive income (loss)	(23,207)	(23,630)
Total members' equity	219,744	219,728
Total liabilities and members' equity	\$ 1,182,793	\$ 1,181,394

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

First South Farm Credit, ACA
Consolidated Statements of Income

(unaudited)

For the three months
ended March 31,

(dollars in thousands)

	2009	2008
Interest Income		
Loans	\$ 14,253	\$ 19,246
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	7,975	11,699
Net interest income	6,278	7,547
Provision for (reversal of allowance for) loan losses	1,466	(463)
Net interest income after provision for (reversal of allowance for) loan losses	4,812	8,010
Noninterest Income		
Loan fees	1,012	1,007
Equity in earnings of other Farm Credit institutions	3,996	2,028
Gains (losses) on other property owned, net	1	2
Other noninterest income	125	118
Total noninterest income	5,134	3,155
Noninterest Expense		
Salaries and employee benefits	4,508	3,569
Occupancy and equipment	318	313
Insurance Fund premium	411	374
Other operating expenses	1,356	1,441
Total noninterest expense	6,593	5,697
Income before income taxes	3,353	5,468
Provision (benefit) for income taxes	(4)	(14)
Net income	\$ 3,357	\$ 5,482

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		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2007	\$ 111	\$ 64,347	\$ 84,707	\$ 83,048	\$ (6,217)	\$ 225,996
Comprehensive income						
Net income				5,482		5,482
Employee benefit plans adjustments				(184)	34	(150)
Total comprehensive income						5,332
Protected borrower equity retired	(13)					(13)
Capital stock/participation certificates issued/(retired), net		195				195
Retained earnings retired			(5,497)			(5,497)
Patronage distribution adjustment			(342)	448		106
Balance at March 31, 2008	\$ 98	\$ 64,542	\$ 78,868	\$ 88,794	\$ (6,183)	\$ 226,119
Balance at December 31, 2008	\$ 97	\$ 64,590	\$ 93,412	\$ 85,259	\$ (23,630)	\$ 219,728
Comprehensive income						
Net income				3,357		3,357
Employee benefit plans adjustments					423	423
Total comprehensive income						3,780
Protected borrower equity retired	(5)					(5)
Capital stock/participation certificates issued/(retired), net		167				167
Retained earnings retired			(4,061)			(4,061)
Patronage distribution adjustment			(176)	311		135
Balance at March 31, 2009	\$ 92	\$ 64,757	\$ 89,175	\$ 88,927	\$ (23,207)	\$ 219,744

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, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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, 2008, are contained in the 2008 Annual Report to Shareholders. These unaudited first quarter 2009 consolidated financial statements should be read in conjunction with the 2008 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 three months ended March 31, 2009, are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

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 March 31, 2009, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In addition to the recently issued accounting pronouncements discussed in the 2008 Annual Report to Shareholders, effective January 1, 2009, the Association adopted Financial Accounting Standards Board (FASB) Statement of Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. The impact of adoption requires additional fair value disclosures, if applicable, but does not have an impact on the Association's financial condition or results of operations.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the three months ended March 31,	
	2009	2008
Balance at beginning of period	\$ 7,941	\$ 6,961
Provision for (reversal of) loan losses	1,466	(463)
Charge-offs	(1,624)	(204)
Recoveries	2	6
Balance at end of period	<u>\$ 7,785</u>	<u>\$ 6,300</u>

The following table presents information concerning impaired loans as of March 31,

	2009	2008
Impaired loans with related allowance	\$ 10,889	\$ 800
Impaired loans with no related allowance	17,323	1,234
Total impaired loans	<u>\$ 28,212</u>	<u>\$ 2,034</u>
Allowance on impaired loans	<u>\$ 3,316</u>	<u>\$ 184</u>

The following table summarizes impaired loan information for the three months ended March 31,

	2009	2008
Average impaired loans	\$ 29,201	\$ 2,946
Interest income recognized on impaired loans	38	213

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31,	
	2009	2008
Pension	\$ 896	\$ 184
401(k)	67	62
Other postretirement benefits	164	108
Total	<u>\$ 1,127</u>	<u>\$ 354</u>

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

	Actual YTD Through 3/31/09	Projected Contributions For Remainder of 2009	Projected Total Contributions 2009
Pension	\$ -	\$ 845	\$ 845
Other postretirement benefits	106	379	485
Total	\$ 106	\$1,224	\$1,330

Actuarial calculations as of the last plan measurement date (December 31, 2008) projected contributions of \$845 to the pension plan for 2009. However, market conditions could impact discount rates and return on plan assets which could make additional contributions necessary before the next plan measurement date of December 31, 2009.

Further details regarding employee benefit plans are contained in the 2008 Annual Report to Shareholders.

NOTE 4 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities primarily consist of standby letters of credit, impaired loans and other property owned.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

SFAS No. 157 establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the Association's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association has no Level 1 assets or liabilities measured at fair value on a recurring basis at March 31, 2009.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at March 31, 2009.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing. Level 3 assets at March 31, 2009 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under SFAS No. 114. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Other property owned is classified as a level 3 asset at March 31, 2009. The fair value for other property owned is based upon the collateral less estimated costs to sell. Level 3 liabilities at March 31, 2009 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at March 31, 2009 for each of the fair value hierarchy levels:

	March 31, 2009			Total Fair Value
	Level 1	Level 2	Level 3	
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 456	\$ 456
Total Liabilities	\$ -	\$ -	\$ 456	\$ 456

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 454
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	2
Transfers in and/or out of level 3	-
Balance at March 31, 2009	<u>\$ 456</u>

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2009 for each of the fair value hierarchy values are summarized below:

	March 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 7,573	\$ 7,573	\$ (1,305)
Other property owned	\$ -	\$ -	\$ 95	\$ 95	\$ -