
AgSouth Farm Credit, ACA

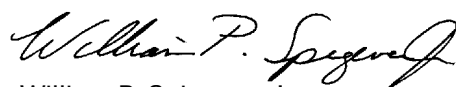
FIRST QUARTER 2010

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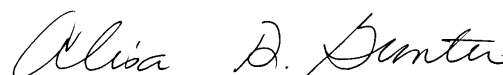
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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2010 quarterly report of AgSouth 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.



William P. Spigener, Jr.
Chief Executive Officer



Alisa D. Gunter
Chief Financial Officer



A. Harvey Lemmon
Chairman of the Board

May 7, 2010

AgSouth Farm Credit, ACA

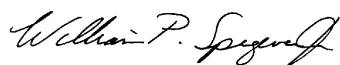
Report on Internal Control Over Financial Reporting

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. This process provides 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.

Internal control over financial reporting 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, 2010. 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, 2010, 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, 2010



William P. Spigener
Chief Executive Officer



Alisa D. Gunter
Chief Financial Officer

May 7, 2010

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 AgSouth Farm Credit, ACA (Association) for the period ended March 31, 2010. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2009 Annual Report of AgSouth Farm Credit. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and

intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a wide range of agricultural commodities produced in our region, including poultry (broilers, turkeys and eggs), timber, field crops and grains, cotton, horses, and beef cattle. Loans to producers of these commodities total \$1,166,230 or 77.91 percent of the Association's portfolio. Farm size varies, and many of the Association customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

During the first quarter of 2010 the Association originated \$22,446 in loans for the secondary market. Originations at the same period 2009 were \$39,105. The 42.60 percent decrease is the result of the lack of buyers in the real estate market and economic pessimism. Rates continue to remain low but no one is buying and almost all eligible to refinance have already done so. As of March 31, 2010, the Association held \$841 in qualifying loans for sale.

Georgia Region

The general economy in Georgia continues to suffer as unemployment, which fell at the end of 2009, has risen each of the first three months of 2010. The construction and manufacturing industries continue to be hardest hit with some gains in education and health services along with leisure and hospitality. Despite the dismal economic numbers, overall business activity has improved over most of the Georgia region during the first quarter 2010 as compared to first quarter 2009.

The number of land sale transactions is increasing slightly although the per acre values in most areas remain below that of previous highs. Loan demand is also being fueled by a significant decrease in lending activity by most commercial banks in Georgia. Many banks are referring their customers to AgSouth as they are unable to meet the customer's needs due to capital, earnings, regulatory restrictions, or other issues.

While new loan demand has been good during the first quarter, the region also continues to see a deterioration in credit quality in the existing portfolio. The deterioration is primarily in loans where repayment sources were tied to poultry, housing, construction, and related industries. The poultry processing facility (previously owned by Pilgrim's

Pride) in Douglas, Georgia remains closed at this time resulting in the adverse classification of a significant amount of that portfolio of grower loans. There is hope that the plant will reopen but no concrete decision has been made public at this time. Other poultry operations around the Georgia region are actually doing very well with significant increased profits at the integrator level.

The timber industry has seen recent improvements as stumpage, lumber, and paper prices have increased. Overall commodity prices are not averaging as high as a year ago, however, there has been improvement in cotton prices and more acres appear to be shifting from corn to cotton in 2010. Plantings of most crops are on schedule, with corn substantially under way at this time. The Vidalia onion crop looks very good as it approaches harvest later in April and the price outlook for the sweet onion appears to be very good. The blueberry crop also appears to be good at this point and is also nearing harvest in April with better prices expected in that market as well.

Overall the agriculture sector in Georgia is performing fairly well at the end of the first quarter with a positive outlook for the remainder of 2010.

South Carolina Region

The new operating year for AgSouth has brought some unique challenges to the South Carolina staff of AgSouth. Nonearning assets in the state consisting of nonaccrual loans and other property owned increased significantly during late 2009 and early 2010 but now appears to be stabilizing. A strong effort with tenured staff is in place to reduce the nonaccrual assets during the current fiscal year either through loan restructures or implementation of voluntary and involuntary liquidations.

Most assets encountering difficulty with performance are related to timberland and part-time farming where non-farm discretionary income has been reduced. To date, traditional agricultural loans are performing reasonably well as both crops and animal agriculture continue to generate adequate revenue to repay operating expenses and meet debt service. Despite the growth in nonearning assets within the region, the credit quality for the region remains at a reasonable level given the current economic conditions. Additionally, the delinquency rate for the accruing loan base within the region over the past two quarters has been managed well by the staff as delinquency rates have decreased from the fourth quarter 2009 to the first quarter of 2010.

While the national unemployment rate is 9.7 percent as of February 2010, South Carolina's unemployment fell from a high of 12.7 percent to 12.2 percent at March 31, 2010. This high rate of unemployment can explain why South Carolina's part-time farmers are encountering performance challenges. Much lower housing starts than periods eighteen to twenty

four months earlier provide insight as to the lower returns from forestry products and further evidence the slow down in timberland sales within the state.

Studies completed by the appraisal staff at AgSouth indicate regression in real estate values in some areas over the past year as would be expected in a weakened economic period. But the most significant change has been the reduction in the overall number of real estate sales compared to previous fiscal periods. To date, real estate valuations continue to vary depending upon size of tracts, use of tracts, and specific location within the state. With the reduction in the number of real estate sales in some areas, it becomes more difficult to determine exactly where values are at the present time.

As noted earlier in this narrative, most full-time farmers have enjoyed reasonable profits from their crop production and livestock sales. Poultry remains one of the largest commodity concentrations within the South Carolina portfolio. The poultry loans in the state have continued to perform as feed costs have decreased and most integrators have noted improved returns. The emergence from bankruptcy of a large integrator further supports the improvement in the poultry sector financed by the South Carolina region. The South Carolina region utilizes government guarantees on most poultry loans to minimize risk, and this practice has served the region well in managing this segment of the portfolio.

Crop plans for early 2010 continue to be considered, to some degree, as wet conditions delayed some corn plantings in March; but, as the quarter ended, drier conditions allowed plantings to advance at a rapid pace. Winter wheat is now rated 94 percent fair to excellent by the USDA Weekly Weather and Crop Progress Report. With improvement in the cotton prices observed over the past couple of quarters, cotton becomes a viable commodity for some who diverted to other crops in recent years. Both commodity prices and planting conditions will be weighed closely over the next quarter to determine the exact crop mix for many farmers in 2010.

Wet weather experienced in virtually all the South Carolina region during the first quarter has allowed some landowners a unique opportunity to market pulpwood located on higher land that could be logged without complications. Pulpwood prices increased significantly due to this occurrence with prices substantially above levels seen in recent years. Again, this improvement is primarily a function of weather, but pulpwood prices will continue to be monitored closely as it relates to timber thinning by landowners who retain marketable pulpwood. Financing of timberland continues to represent the largest concentration within the region. Given the large concentration of forestry related financing, the South Carolina Region will continue to monitor the financing

of timber and timberland over the coming quarters until improved economic conditions are observed.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of March 31, 2010, was \$1,496,925, a decrease of \$6,869 or less than one-half of one percent as compared to \$1,503,794 at December 31, 2009. Net loans outstanding at March 31, 2010 were \$1,487,603 as compared to \$1,494,297 at December 31, 2009. Net loans accounted for 94.22 percent of total assets at March 31, 2010, as compared to 93.74 percent of total assets at December 31, 2009.

The decrease in gross and net loan volume during the reporting period is attributed to a slow down in loan demand within the Association's chartered territory. Payoffs and payments are outpacing draws on lines of credit during the growing season. The Association continues to be challenged to seek and find new, high quality volume that will not add significant risk to the portfolio.

At December 31, 2009, the Association held Investment securities totaling \$4,583. These investments are Rural America bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration. At March 31, 2010, Investment securities totaled \$12,032, an increase of \$ 7,449. During the first quarter of 2010, the Association made a significant investment in a bond for the construction of the Range Fuels plant in Soperton, Georgia.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan 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 \$35,606 at December 31, 2009, to \$38,345 at March 31, 2010. This increase is the result of transfers to nonaccrual status exceeding payments and payoffs on existing nonaccrual accounts and includes several accounts in excess of \$1,000. The increase in nonaccrual loans can, in some instances, be tied to the general economy. Association staff is working diligently to work out this and all other nonaccrual debt situations.

Other property owned decreased to \$2,567 at March 31, 2010 from \$3,489 at December 31, 2009. The decrease in other property owned is the result of sales of several pieces of property taken during the collection process. The Association is actively marketing all properties for sale. For details, please visit our website at www.agsouthfc.com/classifieds.

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, 2010, was \$9,322 compared to \$9,497 at December 31, 2009, and was considered by management to be adequate to cover possible losses. The decrease in the allowance account came from loan losses which exceeded the addition to the provision and recoveries during the reporting period. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of senior management, corporate lenders, and staff assigned to special assets management, met in March to review the allowance account. The ALCO determined that an addition to the allowance account was needed. The Association has funded the allowance through the provision for loan loss in the amount of \$1,482.

Premises and equipment, net decreased \$14 from \$15,108 at December 31, 2009 to \$15,094 at March 31, 2010. The building projects the Association had in progress in 2009 are complete and no new initiatives have begun at this point.

RESULTS OF OPERATIONS

For the three months ended March 31, 2010

Net income for the three months ended March 31, 2010, totaled \$9,756 as compared to \$7,902 for the same period in 2009. Net interest income before the provision for loan loss increased \$1,131 for the three months ended March 31, 2010, as compared to the same period in 2009 due primarily to the increase in margin on new and existing loan volume. Net interest income after the provision for loan losses increased \$292 in the quarter ending March 31, 2010.

The provision for loan loss was \$643 in the quarter ending March 31, 2009 as compared to \$1,482 for the quarter ending March 31, 2010. The Association's ALCO made the decision that a provision entry was needed after analyzing the risk in the current portfolio. The ALCO authorized a provision entry of \$1,482 in March. The analysis included reviewing historical trends, loan size, loan performance and credit quality reports.

At March 31, 2010, interest income on loans increased \$302 compared to the same period in 2009. The increase was primarily due to the increase in nonaccrual income between the two reporting periods. Nonaccrual income, which is included in interest income, was \$257 for the three months ended March 31, 2010, as compared to \$24 for the same period in 2009.

Interest expense decreased \$829 for the three months ended March 31, 2010. The decrease is attributable to the lower interest rate environment and the ability to fix a portion of the Association's lendable equity at favorable rates which resulted in lower interest expense.

Noninterest income increased \$1,747 over the same period last year. Loan fees increased \$65 or 5.88 percent. The

increase in loan fees is due to late charges, servicing fees on loans sold to AgFirst Farm Credit Bank and other associations, and servicing fees on loans sold in the secondary mortgage market. Fees for financially related services decreased \$25 from \$203 at March 31, 2009 compared to \$178 at March 31, 2010. The equity in earnings from other Farm Credit institutions decreased \$51 from \$2,925 at December 31, 2009 to \$2,874 at March 31, 2010. The slight decrease is not considered significant but is due to the lower balance of Notes Payable to AgFirst.

Gains on the sale of rural home loans decreased \$26 from \$297 at March 31, 2009 compared to \$271 at March 31, 2010. The decrease in gains is the result of the slow down in activity in the housing market. Other noninterest income increased \$67 from \$102 at March 31, 2009 compared to \$169 at March 31, 2010. Other noninterest income includes gains recorded on the Association's investment in a long-term deferred compensation account maintained for certain key employees and previous retirees and other miscellaneous income.

During the first quarter of 2010, the Association recorded \$1,712 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The amount is reflected in Noninterest Income on the Consolidated Statements of Income. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest expense for the three months ended March 31, 2010, increased \$267 compared to the same period of 2009. Salaries and employee benefit expense increased \$602 between the two reporting periods. The 11.93 percent increase in salaries and employee benefits is tied to a decrease in deferred costs for loans made during the reporting periods. Some direct costs associated with making loans are deferred under guidelines of ASC 310-20 (previously FAS 91). Deferred costs reduce salary and employee benefit expenses. The deferred amount decreased in the 2010 reporting period when compared to the 2009 reporting period.

Occupancy and equipment expense at March 31, 2010 was \$550 compared to \$518 for the same period in 2009. The Insurance Fund premium decreased \$257 from \$565 at March 31, 2009 to \$308 at March 31, 2010. The decrease in the premium expense is tied to a decrease in the rate charged by the Farm Credit Insurance Corporation. Other operating expenses decreased \$110 from March 31, 2009, \$1,412 compared to \$1,302 at March 31, 2010. Other operating expenses includes communications, advertising, public and member relations, training and all other expenses necessary to run the business.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (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 the 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, 2010 was \$1,304,761 as compared to \$1,323,237 at December 31, 2009. The decrease is related to the decrease in loan volume between the two reporting periods.

As of March 31, 2010, the Association had invested \$138,900 of its lendable equity in fixed rate notes. These fixed rate notes will mature in 2010 through January 2013.

CAPITAL RESOURCES

Total members' equity at March 31, 2010 increased to \$244,877 from the December 31, 2009 total of \$234,833. The increase is primarily attributed to the earnings of the Association offset by revolvment of allocated equities and the retirement of capital stock and participation certificates during the reporting period. At December 31, 2009, allocated retained earnings totaled \$111,658. At March 31, 2010, the allocated retained earnings had decreased to \$111,441.

Total capital stock and participation certificates were \$6,511 on March 31, 2010, compared to \$6,485 on December 31, 2009. The increase is attributed to the purchase of stock in excess of retirement of protected stock and participation certificates on loans liquidated in the normal course of business, and the retirement of excess stock.

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, 2010, the Association's total surplus ratio and core surplus ratio were 14.50 percent and 10.76 percent, respectively, and the permanent capital ratio was 14.94 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.

The Association has a portion of the portfolio in an in-portfolio guarantee program with Farmer Mac. At March 31, 2010, the Association had loans totaling \$9,847 in this

program. No additional placement of loans is scheduled at this time. The cost of the guarantees year to date was \$12. The use of the Farmer Mac in-portfolio guarantee has a positive effect on the Association's capital ratios.

At December 31, 2009, the Association's permanent capital ratio was 14.78 percent. The increase to 14.94 percent permanent capital at March 31, 2010 is the result of additions to retained earnings outpacing the Association's growth. Association management continues to discuss several options available to the Association to strengthen the capital position. These options include selling additional loans to AgFirst and others, placing pools of loans with Farmer Mac in the in-portfolio guarantee program, and participating with AgFirst in a capitalized participation pool. All options are being studied should management and the Board determine that steps are necessary to maintain the Association's strong capital position.

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-310-4805, ext 237, writing Alisa D. Gunter, CFO, AgSouth Farm Credit, ACA, PO Box 4966, Spartanburg, SC 29305, or accessing the website www.agsouthfc.com. 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.

AgSouth Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2010	December 31, 2009
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Cash	\$ 1,272	\$ 4,119
Investment securities:		
Held to maturity (fair value of \$12,662 and \$4,768 respectively)	12,032	4,583
Loans	1,496,925	1,503,794
Less: allowance for loan losses	9,322	9,497
Net loans	1,487,603	1,494,297
Loans held for sale	841	2,209
Accrued interest receivable	15,227	15,599
Investment in other Farm Credit institutions	24,658	24,658
Premises and equipment, net	15,094	15,108
Other property owned	2,567	3,489
Due from AgFirst Farm Credit Bank	2,755	11,507
Other assets	16,785	18,579
Total assets	<u>\$ 1,578,834</u>	<u>\$ 1,594,148</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,304,761	\$ 1,323,237
Accrued interest payable	3,910	3,922
Patronage refund payable	818	7,505
Other liabilities	24,468	24,651
Total liabilities	<u>1,333,957</u>	<u>1,359,315</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	165	208
Capital stock and participation certificates	6,346	6,277
Retained earnings		
Allocated	111,441	111,658
Unallocated	127,203	116,982
Accumulated other comprehensive income (loss)	(278)	(292)
Total members' equity	<u>244,877</u>	<u>234,833</u>
Total liabilities and members' equity	<u>\$ 1,578,834</u>	<u>\$ 1,594,148</u>

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

AgSouth Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

**For the three months
ended March 31,**

(dollars in thousands)

	2010	2009
Interest Income		
Investment securities	\$ 140	\$ —
Loans	24,068	23,906
	<hr/>	<hr/>
Total interest income	24,208	23,906
	<hr/>	<hr/>
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	11,527	12,359
Other	6	3
	<hr/>	<hr/>
Total interest expense	11,533	12,362
	<hr/>	<hr/>
Net interest income	12,675	11,544
Provision for (reversal of allowance for) loan losses	1,482	643
	<hr/>	<hr/>
Net interest income after provision for (reversal of allowance for) loan losses	11,193	10,901
	<hr/>	<hr/>
Noninterest Income		
Loan fees	1,170	1,105
Fees for financially related services	178	203
Equity in earnings of other Farm Credit institutions	2,874	2,925
Gains (losses) on other property owned, net	1	(4)
Gains (losses) on sale of rural home loans, net	271	297
Insurance Fund refund	1,712	—
Other noninterest income	169	102
	<hr/>	<hr/>
Total noninterest income	6,375	4,628
	<hr/>	<hr/>
Noninterest Expense		
Salaries and employee benefits	5,648	5,046
Occupancy and equipment	550	518
Insurance Fund premium	308	565
Other operating expenses	1,302	1,412
	<hr/>	<hr/>
Total noninterest expense	7,808	7,541
	<hr/>	<hr/>
Income before income taxes	9,760	7,988
Provision (benefit) for income taxes	4	86
	<hr/>	<hr/>
Net income	\$ 9,756	\$ 7,902
	<hr/>	<hr/>

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

AgSouth 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 (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2008	\$ 335	\$ 6,270	\$ 109,795	\$ 112,202	\$ (213)	\$ 228,389
Comprehensive income						
Net income				7,902		7,902
Employee benefit plans adjustment					(2)	(2)
Total comprehensive income						7,900
Protected borrower equity retired	(73)					(73)
Capital stock/participation certificates issued/(retired), net		(80)				(80)
Retained earnings retired			(2)			(2)
Patronage distribution adjustment			532	625		1,157
Balance at March 31, 2009	\$ 262	\$ 6,190	\$ 110,325	\$ 120,729	\$ (215)	\$ 237,291
Balance at December 31, 2009	\$ 208	\$ 6,277	\$ 111,658	\$ 116,982	\$ (292)	\$ 234,833
Comprehensive income						
Net income				9,756		9,756
Employee benefit plans adjustments					14	14
Total comprehensive income						9,770
Protected borrower equity retired	(43)					(43)
Capital stock/participation certificates issued/(retired), net		69				69
Retained earnings retired			(11)			(11)
Patronage distribution adjustment			(206)	465		259
Balance at March 31, 2010	\$ 165	\$ 6,346	\$ 111,441	\$ 127,203	\$ (278)	\$ 244,877

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, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The accompanying financial statements include the accounts of AgSouth 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, 2009, are contained in the 2009 Annual Report to Shareholders. These unaudited first quarter 2010 consolidated financial statements should be read in conjunction with the 2009 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, 2010, are not necessarily indicative of the results to be expected for the year ending December 31, 2010.

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, 2010, 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 2009 Annual Report to Shareholders, in June 2009, the Financial Accounting Standards Board (FASB) issued guidance "Accounting for Transfers of Financial Assets," which amended previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. This guidance must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting guidance) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance that requires consolidation. The Association evaluated the impact of adoption on its loan participation agreements to ensure that participations would meet the requirements for sales treatment. The impact of adoption on January 1, 2010 was immaterial to the Association's financial condition and results of operations.

In June 2009, the FASB also issued guidance, to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity.

Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. The Association does not have any variable interest or controlling interest in a variable entity. Therefore, there was no impact of adoption of the guidance for the Association.

In January 2010, the FASB issued guidance "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide

a greater level of disaggregated information and more detail disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 5).

NOTE 2 – INVESTMENT SECURITIES

A summary of the amortized cost and fair value of investment securities held-to-maturity at March 31, 2010 and December 31, 2009 follows:

	March 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission related investments	\$ 12,032	\$ 630	\$ -	\$ 12,662	5.43%

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission related investments	\$ 4,583	\$ 185	\$ -	\$ 4,768	7.46%

A summary of the expected maturity, amortized cost and estimated fair value of investment securities held-to-maturity at March 31, 2010 follows:

	March 31, 2010		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	- %
After one year through five years	-	-	-
After five years through ten years	-	-	-
After ten years	12,032	12,662	5.43
Total	\$ 12,032	\$ 12,662	5.43 %

The Association's mission related investments consist of private placement securities purchased under the Rural America Bond Program approved by the FCA.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The Association had no investments that have been in a continuous unrealized loss position at March 31, 2010.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes.

Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment in connection with its investment securities. The Association has the ability and intent to hold these investments until maturity and at this time expects to collect the full principal amount and interest due on these securities. The Association does not intend to sell these investments and it is not more likely than not that the Association would be required to sell these investments before recovering its costs. All securities continue to perform and are in an unrealized gain position at March 31, 2010.

NOTE 3 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the three months ended March 31,	
	2010	2009
Balance at beginning of period	\$ 9,497	\$ 4,467
Provision for (reversal of) loan losses	1,482	643
Charge-offs	(1,658)	(115)
Recoveries	1	16
Balance at end of period	\$ 9,322	\$ 5,011

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

	2010	2009
Impaired loans with related allowance	\$15,430	\$ 259
Impaired loans with no related allowance	23,076	10,855
Total impaired loans	38,506	11,114
Allowance on impaired loans	\$ 1,119	\$ 156

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

	<u>2010</u>	<u>2009</u>
Average impaired loans	\$ 37,538	\$ 7,754
Interest income recognized on impaired loans	258	26

NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	<u>For the three months ended March 31,</u>	
	<u>2010</u>	<u>2009</u>
Pension	\$ 1,421	\$1,505
401(k)	114	111
Other postretirement benefits	223	237
Total	<u>\$ 1,758</u>	<u>\$1,853</u>

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

	<u>Actual YTD Through 3/31/10</u>	<u>Projected Contributions For Remainder of 2010</u>	<u>Projected Total Contributions 2010</u>
Pension	\$ 21	\$ 4,757	\$4,778
Other postretirement benefits	154	511	665
Total	<u>\$ 175</u>	<u>\$ 5,268</u>	<u>\$5,443</u>

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2010.

Further details regarding employee benefit plans are contained in the 2009 Annual Report to Shareholders.

NOTE 5 – FAIR VALUE MEASUREMENT

Effective January 1, 2008 the Association adopted FASB guidance on, fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

This guidance 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.

This guidance 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's Level 1 assets at March 31, 2010 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

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 and liabilities measured at fair value on a recurring basis at March 31, 2010.

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, 2010 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. 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, 2010. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at March 31, 2010 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 tables present the assets and liabilities that are measured at fair value on a recurring basis at March 31, 2010 and December 31, 2009 for each of the fair value hierarchy levels:

	March 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 730	\$ -	\$ -	\$ 730
Total Assets	\$ 730	\$ -	\$ -	\$ 730

	March 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 197	\$ 197
Total Liabilities	\$ -	\$ -	\$ 197	\$ 197

	December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 735	\$ -	\$ -	\$ 735
Total Assets	\$ 735	\$ -	\$ -	\$ 735

	December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 94	\$ 94
Total Liabilities	\$ -	\$ -	\$ 94	\$ 94

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2010 and 2009. The

Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first three months of 2010 and 2009.

	Standby Letters Of Credit
Balance at January 1, 2010	\$ 94
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	103
Transfers in and/or out of level 3	-
Balance at March 31, 2010	\$ 197

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 122
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	150
Transfers in and/or out of level 3	-
Balance at March 31, 2009	\$ 272

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, 2010 and December 31, 2009 for each of the fair value hierarchy values are summarized below:

	March 31, 2010				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 2,634	\$ 2,634	\$ (1,506)
Other property owned	\$ -	\$ -	\$ 1,403	\$ 1,403	\$ 29

	December 31, 2009				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 13,255	\$ 13,255	\$ (1,820)
Other property owned	\$ -	\$ -	\$ 3,935	\$ 3,935	\$ (2,144)

NOTE 6 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present the carrying amounts and fair values of the Association’s financial instruments at March 31, 2010 and December 31, 2009.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association’s financial instruments are as follows:

	March 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	\$ 1,272	\$ 1,272	\$ 4,119	\$ 4,119
Investment securities	\$ 12,032	\$ 12,662	\$ 4,583	\$ 4,768
Loans, net of allowance	\$ 1,487,603	\$ 1,521,237	\$ 1,494,297	\$ 1,537,827
Assets held in trust funds	\$ 730	\$ 730	\$ 735	\$ 735
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 1,304,761	\$ 1,319,654	\$ 1,323,237	\$ 1,338,028

A description of the methods and assumptions used to estimate the fair value of each class of the Association’s financial instruments for which it is practicable to estimate that value follows:

A. Cash:

The carrying value is primarily a reasonable estimate of fair value.

B. Loans:

Because no active market exists for the Association’s loans, fair value is estimated by discounting the expected future cash flows using the Association’s current interest rates at which similar loans would be made to borrowers with similar credit risk. Discount rates are based on the Bank’s loan rates as well as management estimates.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates

reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated to be the carrying amount of the loan less specific reserves.

The carrying value of accrued interest approximates its fair value.

C. Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:

Estimating the fair value of the Association’s investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 5.84 percent of the issued stock of the Bank as of March 31, 2010 net of any reciprocal investment. As of that date, the Bank’s assets totaled \$30.1 billion and shareholders’ equity totaled \$1.7 billion. The Bank’s earnings were \$117 million during the first three months of 2010.

In addition, the Association has an investment of \$2,480 related to other Farm Credit institutions.

D. Notes Payable to AgFirst Farm Credit Bank:

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association’s loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association’s interest margin are used to fund operating expenses and capital expenditures.

E. Commitments to Extend Credit:

The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

F. Assets Held in Trust Funds:

See Note 5 for discussion of estimation of fair value for this instrument.

G. **Investment Securities:** Fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.

NOTE 7 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through May 7, 2010, which is the date the financial statements were issued.