

FIRST QUARTER 2007

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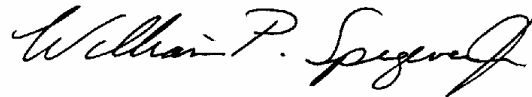
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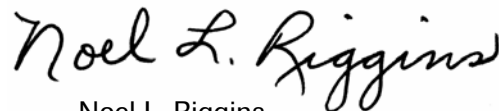
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William P. Spigener, Jr.
Chief Executive Officer



Noel L. Riggins
Chairman of the Board

April 24, 2007

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgSouth Farm Credit, ACA (Association) for the period ended March 31, 2007. Effective January 1, 2004, pursuant to a consolidation plan approved by the Farm Credit Administration (FCA) and the Association stockholders, AgSouth Farm Credit, headquartered in Statesboro, Georgia and Palmetto Farm Credit, headquartered in Orangeburg, South Carolina merged. The surviving entity assumed the name, AgSouth Farm Credit.

This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2006 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.

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, and beef cattle. Loans to producers of these commodities total \$912,163 or 71.79 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 2007 the Association originated \$23,732 in loans for the secondary market. As of March 31, 2007, the Association held \$147 in qualifying loans for sale. These loans are classified as Other Assets on the Association's balance sheet.

Georgia Region

During the first quarter most of the state saw dry conditions and AgSouth's Georgia Region was no exception. Year to date, much of the region is in a rainfall deficit position. This situation impacted the timing of planting decisions by many of the area's row crop producers. It is noted that heavy rains across the region during the second week of April have improved this condition; however, most of the state is considered to be under a mild drought at this time.

The region saw unusually cold temperatures during the first week of April and the region will, as a result, see some crop damage. While the full extent of the damage is not known at this time, we can expect damage to peaches, blueberries,

pecans, wheat and early planted corn. The region does not have significant concentration levels in these crops except in blueberries. The region has approximately \$11 million in blueberry dependent loans, chiefly located in the southeast corner of the territory. Most of these farmers carry crop insurance with the majority being written by the ACA. The late variety of "rabbit eye" berries is expected to have the most significant loss. Most high density growers had frost protection and should see little disruption to their crop production.

Poultry prices are strong in the region. Integrators have returned to profitability but continue to be strained by high corn prices. Growers will see some stress on their current flocks due to the cold weather and atypical propane expenses for this time of year. The forest products industry is currently experiencing low stumpage and dimension lumber prices, in part attributable to increased inventories and decreased demand due to the housing slowdown.

Loan activity was strong through the end of the first quarter. Seasonal operating loan renewals and land sales within our territory contributed to the strong loan demand and volume closed.

South Carolina Region

During the first quarter of 2007, the South Carolina agricultural loan portfolio of AgSouth Farm Credit was in very good condition with minimal delinquencies, strong credit quality, and very few reported losses. During the quarter, early crop plantings progressed as expected and peach farmers thinned their crop and expected a good harvest. The 2007 wheat crop also appeared to be in good condition through the end of the first quarter. Moisture levels were somewhat lower than preferred during the quarter, but no major impact on crops has been noted.

Despite a positive first quarter, the first week of April brought unseasonably cold weather to much of the Southeast, and the early corn plantings, some tomato acreage, most peaches, and the early varieties of wheat were damaged by the dramatic change in weather. The lending staff has been working with local farmers to assess the level of damage and the strategies being implemented to deal with this setback. The extent of the damage is not likely to be known for several weeks. South Carolina farmers will replant some corn and tomatoes where conditions will allow. In addition, some crop acreage will be diverted to other crops such as peanuts, cotton, and soybeans. The only strategies for peaches and wheat are to pursue crop insurance collection to the extent available. AgSouth's South Carolina portfolio consists of a relatively small commodity concentration of the crops, with a relatively high percentage of these crops having appropriate levels of crop insurance. Accordingly, at this early stage of assessment, neither major losses nor financial regression for

this farmer group is expected due to the damage from adverse weather.

Both the poultry and timber industries remain mostly unchanged since the end of 2006. The only impact from weather on poultry would be the use of propane to heat houses. With the lower temperatures, the poultry growers were forced to heat houses when normal weather patterns would have allowed for a reduction in heating costs. Timber prices have been relatively flat over the past quarter, and no material changes are noted regarding this industry.

Land sales continue to take place within the South Carolina region of AgSouth and financing opportunities continue to surface in this regard. The sale of agriculture properties, especially timber tracts, are continuing at a pace comparable to 2006 but with prices stabilizing. The financing of real estate acquisitions and lifestyle farmers remains a significant portion of new loans through the first quarter of 2007.

The gross loan volume of the Association as of March 31, 2007, was \$1,266,638, a decrease of \$14,760 or 1.15 percent as compared to \$1,281,398 at December 31, 2006. Net loans outstanding at March 31, 2007 were \$1,262,692 as compared to \$1,277,592 at December 31, 2006. Net loans accounted for 94.76 percent of total assets at March 31, 2007, as compared to 94.26 percent of total assets at December 31, 2006.

The slight decrease in gross and net loan volume during the reporting period is primarily attributed to paydowns exceeding new loans and draws on annual operating credits to farmer/borrowers during the planting season. The Association continues to actively make large loans, some of which are participated with AgFirst Farm Credit bank and others.

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 slightly from \$2,275 at December 31, 2006, to \$2,566 at March 31, 2007. This increase is the result of transfers to nonaccrual status exceeding payments and payoffs on existing nonaccrual accounts and transfers to other property owned during the reporting period. Other property owned decreased to \$535 from \$536 during the comparative reporting periods. There was no significant other property owned activity during the quarter.

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, 2007, was \$3,946 compared to \$3,806 at December 31, 2006, and was considered by management to be adequate to cover possible losses. The increase in the allowance account came from recoveries of previously charged-off amounts.

Premises and equipment, net increased \$479 from \$10,802 at December 31, 2006 to \$11,281 at March 31, 2007. The increase is primarily the result of replacement automobile purchases made in the first quarter of 2007.

RESULTS OF OPERATIONS

For the three months ended March 31, 2007

Net income for the three months ended March 31, 2007, totaled \$8,333 as compared to \$6,855 for the same period in 2006. Net interest income before the provision for loan loss increased \$910 for the three months ended March 31, 2007, as compared to the same period in 2006 due primarily to the increase in loan volume, and focused repricing activities. Net interest income after the provision for loan losses increased \$910 as no provision expense was recorded in the quarter ending March 31, 2007. The Association's Asset/Liability Committee made the decision that no provision was needed after analyzing the risk in the current portfolio. The analysis includes reviewing historical trends, loan size, loan performance and credit quality reports.

At March 31, 2007, interest income on accruing loans increased \$4,033 compared to the same period in 2006. The majority of this increase was due to a higher loan volume base and higher interest rates. The majority of this increase was due to a higher loan volume base and higher interest rates compared to the same period 2006. Nonaccrual income was \$153 for the three months ended March 31, 2007, as compared to \$168 for the same period in 2006.

Interest expense increased \$3,123 for the three months ended March 31, 2007. The increase is linked to the higher interest rate environment and the increase in the Notes Payable balance. The Notes Payable balance increases with the increase in loan volume.

Noninterest income increased \$721 over the same period last year primarily due to, higher equity in earnings from other Farm Credit institutions, loan fees, and gains on the sale of rural home loans. Fees for financially related services increased \$10 from \$124 at March 31, 2006 compared to \$134 at March 31, 2007. The equity in earnings from other Farm Credit institutions increased \$468 from \$2,320 at March 31, 2006 to \$2,788 at March 31, 2007. The increase is the result of the higher average Notes Payable note balance and participations sold to other Associations. The Association's activity in the secondary market generated gains on the sale of rural home loans of \$256, compared to \$162 at the same period last year.

Noninterest expense for the three months ended March 31, 2007, increase \$141 compared to the same period of 2006. Salaries and employee benefit expense increased \$211 between the two reporting periods. The increase is attributable to merit increases paid to employees based upon 2006 performance evaluations. Other operating expenses are less than last year's amount by \$265. In the quarter ending March 31, 2006, the Association incurred expenses for the Out in the Country marketing campaign. These expenses did not reoccur in the same period in 2007. Occupancy and equipment increased \$151 between the two reporting periods. The Association incurred the majority of all 2006 property tax expense in January, 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 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, 2007 was \$1,085,244 as compared to \$1,114,330 at December 31, 2006. The decrease is related to the decrease in loan volume between the two reporting periods.

As of March 31, 2007, the Association had invested \$60,000 of its lendable equity in fixed rate notes with maturities varying from 1 to 4 years.

CAPITAL RESOURCES

Total members' equity at March 31, 2007, decreased to \$200,150 from the December 31, 2006 total of \$206,313. The decrease is primarily attributed to the revolvement of allocated equities during the reporting period and the retirement of capital stock, and participation certificates, offset by the earnings of the Association during the reporting period. In February 2007, the Association revolved \$14,677 in allocated surplus from the fiscal year 2001 series of equities. The checks and notices were mailed in late February to 12,943 customers. The revolvement is reflected in the change in allocated retained earnings during the two reporting periods. At December 31, 2006, allocated retained earnings totaled \$92,430. At March 31, 2007, the allocated retained earnings had declined to \$79,384.

Total capital stock and participation certificates were \$6,527 on March 31, 2007, compared to \$6,629 on December 31, 2006. The decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business, the retirement of excess stock, and new loans being capitalized at lower regulatory levels.

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, 2007, the Association's total surplus ratio and core surplus ratio were 14.91 percent and 10.86 percent, respectively, and the permanent capital ratio was 15.42 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, 2007, the Association had loans totaling \$22,709 in this program. No additional placement of loans is scheduled at this time. The cost of the guarantees year to date was \$31.

The use of the Farmer Mac In-portfolio guarantee has a positive effect on the Association's capital ratios.

ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

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

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 Wanda Martin, 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 45 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

AgSouth Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2007 <i>(unaudited)</i>	December 31, 2006 <i>(audited)</i>
Assets		
Cash	\$ 1,905	\$ 2,116
Loans	1,266,638	1,281,398
Less: allowance for loan losses	3,946	3,806
Net loans	1,262,692	1,277,592
Accrued interest receivable	16,872	17,113
Investment in other Farm Credit institutions	19,946	19,832
Premises and equipment, net	11,281	10,802
Other property owned	535	536
Prepaid retirement expense	13,401	13,797
Due from AgFirst Farm Credit Bank	2,499	10,433
Other assets	3,373	3,184
Total assets	<u>\$ 1,332,504</u>	<u>\$ 1,355,405</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,085,244	\$ 1,114,330
Accrued interest payable	5,247	5,299
Patronage refund payable	1,037	8,529
Postretirement benefits other than pensions	11,161	11,059
Other liabilities	29,665	9,875
Total liabilities	<u>1,132,354</u>	<u>1,149,092</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	494	608
Capital stock and participation certificates	6,033	6,021
Retained earnings		
Allocated	79,384	92,430
Unallocated	114,239	107,254
Total members' equity	<u>200,150</u>	<u>206,313</u>
Total liabilities and members' equity	<u>\$ 1,332,504</u>	<u>\$ 1,355,405</u>

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

AgSouth Farm Credit, ACA
Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2007	2006
Interest Income		
Loans	\$ 26,380	\$ 22,347
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	15,511	12,417
Other	45	16
	15,556	12,433
Total interest expense		
Net interest income	10,824	9,914
Provision for (reversal of allowance for) loan losses	—	—
	10,824	9,914
Net interest income after provision for (reversal of allowance for) loan losses		
Noninterest Income		
Loan fees	825	674
Fees for financially related services	134	124
Equity in earnings of other Farm Credit institutions	2,788	2,320
Gains (losses) on sale of rural home loans	256	162
Other noninterest income	55	57
	4,058	3,337
Total noninterest income		
Noninterest Expense		
Salaries and employee benefits	4,214	4,003
Occupancy and equipment	630	479
Insurance Fund premium	435	400
Other operating expenses	1,230	1,495
Losses on other property owned, net	20	11
	6,529	6,388
Total noninterest expense		
Income before income taxes	8,353	6,863
Provision (benefit) for income taxes	20	8
	8,333	6,855
Net income	\$ 8,333	\$ 6,855

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		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2005	\$ 910	\$ 5,923	\$ 86,063	\$ 105,468	\$ 198,364
Net income				6,855	6,855
Protected borrower equity retired	(215)				(215)
Capital stock/participation certificates issued		214			214
Capital stock/participation certificates retired		(230)			(230)
Retained earnings retired			(12,049)		(12,049)
Distribution adjustment			1,248	(1,781)	(533)
Balance at March 31, 2006	\$ 695	\$ 5,907	\$ 75,262	\$ 110,542	\$ 192,406
Balance at December 31, 2006	\$ 608	\$ 6,021	\$ 92,430	\$ 107,254	\$ 206,313
Net income				8,333	8,333
Protected borrower equity retired	(114)				(114)
Capital stock/participation certificates issued		209			209
Capital stock/participation certificates retired		(197)			(197)
Retained earnings retired			(13,991)		(13,991)
Distribution adjustment			945	(1,348)	(403)
Balance at March 31, 2007	\$ 494	\$ 6,033	\$ 79,384	\$ 114,239	\$ 200,150

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of AgSouth Farm Credit, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2006, are contained in the 2006 Annual Report to Shareholders. These unaudited first quarter 2007 consolidated financial statements should be read in conjunction with the 2006 Annual Report to Shareholders.

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

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles. The results for the three months ended March 31, 2007, are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

Certain amounts in prior period consolidated financial statements may have been reclassified to conform to current consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with generally accepted accounting principles. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2007,

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

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the three months ended March 31,	
	2007	2006
Balance at beginning of period	\$ 3,806	\$ 3,808
Provision for (reversal of) loan losses	—	—
Recoveries, net of loans charged off	140	44
Balance at end of period	<u>\$ 3,946</u>	<u>\$ 3,852</u>

NOTE 3 – EMPLOYEE BENEFIT PLANS

The Association participates in a Districtwide defined benefit retirement plan. The costs of the plan are not segregated by participating entities but are allocated among the participating entities. Pension costs are allocated by multiplying the District's net pension expense times each institution's salary expense as a percentage of the District's salary expense. The Association also participates in Districtwide Thrift and other postretirement benefit plans.

The following is a table of retirement and postretirement benefit expense for the three months ended March 31, 2007:

	For the three months ended March 31,	
	2007	2006
Pension	\$ 419	\$ 494
Thrift/deferred compensation	94	82
Other postretirement benefits	236	247
Total	<u>\$ 749</u>	<u>\$ 823</u>

As of March 31, 2007, no contributions have been made to the pension plan for 2007. Actuarial projections as of the last plan measurement date (September 30, 2006) did not anticipate any contributions for 2007; however, market conditions could impact discount rates and return on plan assets which could change this expectation, making contributions necessary before the next plan measurement date.

The Association also sponsors supplemental retirement and deferred compensation plans for certain key employees. The expenses of these plans are included in the pension and deferred compensation costs above. The Association contributed \$22 to these plans during the first three months of 2007. The Association anticipates making additional contributions of \$64 to these supplemental retirement and deferred compensation plans during the remainder of 2007.