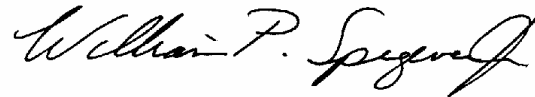


# SECOND QUARTER 2008

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William P. Spigener, Jr.  
Chief Executive Officer



Alisa D. Gunter  
Chief Financial Officer



Thomas H. Coward  
Chairman of the Board

July 24, 2008

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgSouth Farm Credit, ACA (Association) for the period ended June 30, 2008. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2007 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, and beef cattle. Loans to producers of these commodities total \$1,028,655 or 71.70 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 second quarter of 2008 the Association originated \$22,168 in loans for the secondary market. Originations at the same period 2007 were \$25,181. The 11.97 percent decline is due to the overall decline in housing activity. Some areas of the Association's territory have been affected by the problems in the mortgage industry. As of June 30, 2008, the Association held \$165 in qualifying loans for sale.

## Georgia Region

The second quarter throughout most of the Georgia region was dominated by dry hot conditions. Scattered rains in the last two weeks of June did bring some relief to those growing conditions. The corn crop is 90 percent silked and is rated by the Department of Agriculture as 24 percent poor and 76 percent fair to good. Corn acreage is down in Georgia about 25 percent from 2007. Peanut acreage is up this year 120,000 acres over 2007 and most of the crop is rated fair to very good. Cotton acreage is down 130,000 acres in the state compared to 2007 with estimated 900,000 acres planted this year, second largest in the nation behind Texas. The cotton crop, like peanuts, got off to a slow start due to dry conditions but has caught up with June rains. This year's cotton crop is also rated 85 percent good to excellent at this time. Soybeans saw a substantial increase in acreage this year up by 135,000 acres over 2007 with the majority of this year's crop rated fair to good. The winter wheat crop is complete and produced above average yields. Although there was a substantial basis margin in the price of wheat, cash prices were well above historical averages. The Vidalia onion crop is producing fairly good results this year with average to good yields and prices which are expected to average higher than normal. Blueberries, which have seen a substantial increase in acres over the past two years within the Association's territory, are finishing a banner year with above average prices and yields. Grass and hay crops have been hurt by the drought raising input costs to beef and dairy producers. Milk production is















## AgSouth Farm Credit, ACA

# Notes to the Consolidated Financial Statements

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

### NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of 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, 2007, are contained in the 2007 Annual Report to Shareholders. These unaudited second quarter 2008 consolidated financial statements should be read in conjunction with the 2007 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the six months ended June 30, 2008, are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

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

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2008, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In December 2007, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141R, "Business Combinations" (SFAS 141R). SFAS 141R requires business combinations to be accounted for under the acquisition method of accounting (previously called the purchase method). The acquisition method requires (a) identifying the acquirer, (b) determining the acquisition date, (c) recognizing and measuring the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, at their acquisition date fair values, and (d) recognizing and measuring goodwill or a gain from a bargain purchase. SFAS 141R should be applied prospectively to business combinations for which the

acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Association is still evaluating the provisions of SFAS 141R, but believes that its adoption will significantly impact its accounting for combinations/acquisitions that may occur in 2009 and beyond.

### NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the six months ended June 30,	
	2008	2007
Balance at beginning of period	\$ 3,970	\$ 3,806
Provision for (reversal of) loan losses	–	–
Loans (charged off), net of recoveries	(129)	136
Balance at end of period	<u>\$ 3,841</u>	<u>\$ 3,942</u>

### NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	2008	2007
Pension	\$ 537	\$ 838
401(k)	230	212
Other postretirement benefits	415	471
Total	<u>\$ 1,182</u>	<u>\$ 1,521</u>

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

	Actual YTD Through 6/30/08	Projected Contributions For Remainder of 2008	Projected Total Contributions 2008
Pension	\$ 43	\$ 43	\$ 86
Other postretirement benefits	292	298	590
Total	<u>\$ 335</u>	<u>\$ 341</u>	<u>\$ 676</u>

Market conditions could impact discount rates and return on plan assets which could change the above contribution projections by making additional contributions necessary before the next plan measurement date.

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

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

Upon adoption, SFAS 158 further required the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income (AOCI). These amounts are subsequently recognized as components of net periodic benefit costs. For the first six months of 2008, \$11 thousand has been recognized as a credit to accumulated other comprehensive income and a debit to pension expense to reflect the amortization of the components previously recognized in AOCI.

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