

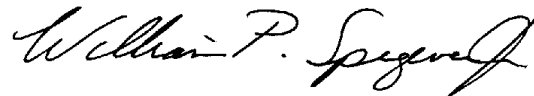
FIRST QUARTER 2009

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CERTIFICATION

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



Thomas H. Coward
Chairman of the Board

April 21, 2009

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, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

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

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



William P. Spigener
Chief Executive Officer



Alisa D. Gunter
Chief Financial Officer

April 21, 2009

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgSouth Farm Credit, ACA (Association) for the period ended March 31, 2009. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2008 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 \$1,038,129 or 71.38 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 2009 the Association originated \$39,105 in loans for the secondary market. Originations at the same period 2008 were \$18,575. The 210.5 percent increase is due to the lower interest rate environment and the significant number of refinances. As of March 31, 2009, the Association held \$2,278 in qualifying loans for sale.

Georgia Region

Agriculture and agribusiness remain Georgia's largest industry on a combined basis and they continue to be one of the more positive sectors of our state's economy. The overall unemployment rate in Georgia continued to climb during the first quarter of 2009 reaching 9.3 percent in February. The economic slowdown continues to create significant numbers of layoffs in manufacturing, construction, and trade industries. Regionally the Savannah, Brunswick, and Athens metropolitan areas within the AgSouth territory have been less adversely impacted with average unemployment rates of approximately 8 percent as opposed to the 9.3 percent seen in the Atlanta area and state as a whole. The housing industry continues to suffer throughout the state. There is currently a 60 to 81 month supply of developed lots available in many metro Atlanta counties as opposed to a normal 24 month supply. The housing market problems continue to put pressure on profit margins in our timber and forest products industries as low lumber prices are resulting in break-even to slightly negative margins for most milling operations. Low stumpage prices help the saw mill margins but reduces returns to landowners.

Fruit and vegetable production is increasing within AgSouth's territory and has grown as a percentage the portfolio with blueberries and onions leading the increase. Blueberries represent approximately 2 percent of the total portfolio and will see a seasonal volume peak during the second quarter. Outstanding volume to onion growers will also peak in April just prior to harvest. Both crops appear

fairly good at this time although production, particularly in blueberries, may have been slightly hurt by February freezes.

Prices of most major commodities have decreased significantly from 2008 highs and margins have tightened making 2009 planting selection more difficult. There is expected to be a substantial decrease, up to 25 percent, in peanut acreage in 2009. Record production in 2008 along with recent contamination issues have contributed to lack of favorable pricing contracts for 2009. This acreage is expected to be diverted to soybean and cotton production. Corn acreage will remain stable and plantings are well underway. Recent rains have created very wet conditions for much of our row crop region; however the water was needed to make up rainfall deficits.

The poultry industry has seen some improvement in prices resulting in improved margins for integrators. Most of the industry in Georgia appears to be healthy at this time with improving conditions. The Pilgrim's Pride bankruptcy is the exception and it continues to present potential problems for Georgia's growers contracted to grow for Pilgrim's Pride. AgSouth's most significant exposure is in the Douglas area where Pilgrim's has announced the closing of a processing plant. The bankruptcy court has ordered it be kept open through May 2009 and potential buyers are being sought at this time. The continuation of this plant will hinge on locating interested buyers and Pilgrim's desire to sell the plant versus mothball it.

Land values remained stable with some areas seeing decreases. Land that had a higher and better use associated with development saw the greatest decline. Sales activity has decreased significantly as the number of sales have dropped more than 50 percent in many counties from 2006 levels, however the per acre value of the sales occurring have remained stable in most cases particularly in areas with less urban influence.

South Carolina Region

South Carolina agriculture and forestry, commonly referred to as "agribusiness", remains the number one industry in the state with an economic impact of approximately \$34 billion dollars per year. Using public and private sector funding, the state has made great strides over the past three years promoting agribusiness in the state through its South Carolina Certified Grown campaign. During the coming years, emphasis placed upon agribusiness through marketing and promotional programs should only enhance the awareness of the products grown and produced by the agribusiness sector and ultimately increase demand.

Farmers in the state are coming off a generally positive year in 2008 when historically high prices were achieved for most commodities and production for most crops was at least average. Moisture received during the first quarter has positioned most crop farmers to get a good start to the next growing cycle as spring crops are planted. Operating costs

remain fairly high but have come down some as a result of the economy and overall reduced demand during these difficult economic times. Input costs such as gasoline, diesel fuel, fertilizers, and other necessary expenses have been reduced as the general economy has weakened over the past year.

The largest commodity concentration in South Carolina continues to be the timber sector consisting of mostly timberland. This sector represents over 40 percent of the region's financing as of the end of the first quarter 2009 and excludes timber processing, which is only about 2 percent. With demand for timber products down, the timber industry has been a concern; but only about 17 percent of timber loans in South Carolina, or \$52 million dollars, are actually dependent upon the sale of timber as most regional timberland loans are repaid from non-farm salary and non-farm corporate income.

Broilers make up the second largest commodity group financed within the Association's South Carolina region at approximately \$130 million dollars or 17.7 percent of the region's volume. The broiler volume retained by the ACA within the region consists of grower debt only as no integrator debt is provided. This commodity grouping struggled during 2008 as significant increases in feed costs reduced integrator earnings and grower margins tightened. As grain prices have come down and feed expense has become less burdensome, profit margins have improved for the state's integrators and consequently the growers. The Pilgrim's Pride bankruptcy has remained a concern, but thus far the South Carolina processing plant remains operational and no abnormal changes have been noted as to the performance of the Pilgrim's growers financed by the ACA. Of the poultry debt in state, a substantial portion is guaranteed with FSA 90 percent guarantees.

Loans with horse farms have grown over the past several years, and this commodity now represents over 8 percent of the region's loan volume. Virtually all these loans are paid from non-farm income. Traditional crop farms consisting of feed grains, soybeans, and hay make up slightly less than 8 percent of the region volume, while beef cattle operations represent about 7 percent of the dollars financed within the region. Many of the beef cattle operations financed in South Carolina are operated on a part-time basis, and only about \$10 million dollars of the beef cattle financing is dependent upon cattle sales for repayment. No other regional commodities exceed 3 percent of the state's loan portfolio within AgSouth.

South Carolina's general economy has remained weak as unemployment is at the highest rate in 26 years at 11 percent. Unemployment rates have increased in all areas of the state but remain lower in the urban areas of the state serviced by AgSouth such as Lexington, Charleston, Richland and Greenville. Rural areas of the state have really been hit hard by unemployment with rates substantially in

excess of 11 percent in some areas. Bankruptcies have increased about 54% in the state over the past year, and expectations are that the number of bankruptcies will remain elevated well into 2010. Month to month foreclosures in South Carolina actually stabilized in February.

Despite the negative factors in the state's general economy, delinquency rates have remained at reasonable levels thus far in 2009. There has been an increase in South Carolina nonearning assets, and the association now has taken several properties into inventory through adverse legal actions. Land values continue to appear stable, but admittedly the number of land sales have slowed compared to the past few years. Agricultural land values have held up reasonably well supported by the overall stable agricultural economy to date. Real estate located in closer proximity to urban areas and with potential for long term development has not been as fortunate and has shown some decline in value. Again, the main concern relating to real estate in the region is the reduction in the number of sales of property compared to the recent past.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of March 31, 2009, was \$1,431,621, a decrease of \$13,580 or less than 1 percent as compared to \$1,445,201 at December 31, 2008. Net loans outstanding at March 31, 2009 were \$1,426,610 as compared to \$1,440,734 at December 31, 2008. Net loans accounted for 94.92 percent of total assets at March 31, 2009, as compared to 94.36 percent of total assets at December 31, 2008.

The decrease in gross and net loan volume during the reporting period is attributed to payoffs and pay downs 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 is seeing increased demand for some credit needs as commercial banks back away from agricultural lending in the current economic environment.

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 \$4,419 at December 31, 2008, to \$10,964 at March 31, 2009. This increase is the result of transfers to nonaccrual status exceeding payments and payoffs on existing nonaccrual accounts. 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 increased to \$1,148 at March 31, 2009 from \$216 at December 31, 2008. The increase in other property owned is the result of workout situations with troubled debts. The Association is actively marketing all properties for sale.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2009, was \$5,011 compared to \$4,467 at December 31, 2008, and was considered by management to be adequate to cover possible losses. The slight increase in the allowance account came from an addition to the provision for loan losses and recoveries which exceeded charge-offs 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 funded the allowance through the provision for loan loss by \$643.

Premises and equipment, net increased \$109 from \$13,342 at December 31, 2008 to \$13,451 at March 31, 2009. The Association recently started construction on new office facilities in Douglas, Georgia and Rock Hill, South Carolina. The Association also has an extensive remodeling project going on in Summerville, South Carolina. These new buildings and improvements will help the Association better meet the needs of the customer base.

RESULTS OF OPERATIONS

For the three months ended March 31, 2009

Net income for the three months ended March 31, 2009, totaled \$7,902 as compared to \$9,901 for the same period in 2008. Net interest income before the provision for loan loss increased \$273 for the three months ended March 31, 2009, as compared to the same period in 2008 due primarily to the increase in margin on the existing loan volume through focused repricing efforts. Net interest income after the provision for loan losses decreased \$370 in the quarter ending March 31, 2009. 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 \$643 in March. The analysis included reviewing historical trends, loan size, loan performance and credit quality reports. The Board affirmed the action of the ALCO at the March board meeting.

At March 31, 2009, interest income on loans decreased \$2,543 compared to the same period in 2008. The decrease was due to the lower interest rate environment. At March 31, 2008, the weighted average rate of the accruing loan portfolio was 7.561 percent compared to 6.661 percent at

March 31, 2009. Nonaccrual income, which is included in interest income, was \$47 for the three months ended March 31, 2009, as compared to \$92 for the same period in 2008.

Interest expense decreased \$2,816 for the three months ended March 31, 2009. 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 \$444 over the same period last year. Loan fees increased \$211 or 23.60 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 increased \$19 from \$184 at March 31, 2008 compared to \$203 at March 31, 2009. The 10.33 percent increase in Fees for financially related services is the result of increased income earned on sales of multi-peril insurance and fee appraisal services. The Equity in earnings from other Farm Credit institutions increased \$82 from \$2,843 at March 31, 2008 to \$2,925 at March 31, 2009. The increase is the result of the higher average Notes Payable note balance and participations sold to other Associations.

Gains on the sale of rural homes loans increased \$143 from \$154 at March 31, 2008 compared to \$297 at March 31, 2009. The increase in gains is the result of the activity in the housing market. Other noninterest income increased \$12 from \$90 at March 31, 2008 compared to \$102 at March 31, 2009.

Noninterest expense for the three months ended March 31, 2009, increased \$1,939 compared to the same period of 2008. Salaries and employee benefit expense increased \$1,767 between the two reporting periods. The 53.89 percent increase in Salaries and employee benefits is tied to an increase in expense related to the Association's retirement plan. It also increased due to the slight increase in the number of full-time employees as the Association prepares for some upcoming retirements as well as normal annual salary adjustments. Occupancy and equipment expense at March 31, 2009 was \$518 compared to \$519 for the same period in 2008. The Insurance Fund premium increased \$109 from \$456 at March 31, 2008 to \$565 at March 31, 2009. The increase in the premium expense is tied to change in the calculation of the expense by the insurance corporation. Other operating expenses increased \$64 from March 31, 2008, \$1,348 compared to \$1,412 at March 31, 2009. The increase is the result of higher expense related to public and member relations, training and corporate insurance policies. Some of the increase may be timing related when compared to the prior year period.

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, 2009 was \$1,234,132 as compared to \$1,262,811 at December 31, 2008. The decrease is related to the decline in loan volume between the two reporting periods.

As of March 31, 2009, 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, 2009 increased to \$237,291 from the December 31, 2008 total of \$228,389. 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, 2008, allocated retained earnings totaled \$109,795. At March 31, 2009, the allocated retained earnings had increased to \$110,325.

Total capital stock and participation certificates were \$6,452 on March 31, 2009, compared to \$6,605 on December 31, 2008. 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, 2009, the Association's total surplus ratio and core surplus ratio were 14.76 percent and 11.34 percent, respectively, and the permanent capital ratio was 15.22 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, 2009, the Association had loans totaling \$11,358 in this program. No additional placement of loans is scheduled at this time. The cost of the guarantees year to date was \$17. The use of the Farmer Mac In-portfolio guarantee has a positive effect on the Association's capital ratios.

At December 31, 2008, the Association's permanent capital ratio was 14.78 percent. The increase to the 15.22 percent permanent capital at March 31, 2009 is the result of the Association's retaining more capital at fiscal year-end to offset the growth in the loan portfolio. 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, 2009 <i>(unaudited)</i>	December 31, 2008 <i>(audited)</i>
Assets		
Cash	\$ 1,713	\$ 2,772
Loans	1,431,621	1,445,201
Less: allowance for loan losses	5,011	4,467
Net loans	1,426,610	1,440,734
Loans held for sale	2,278	977
Accrued interest receivable	15,530	17,145
Investment in other Farm Credit institutions	23,381	23,316
Premises and equipment, net	13,451	13,342
Other property owned	1,148	216
Due from AgFirst Farm Credit Bank	2,820	11,225
Other assets	16,015	17,063
Total assets	<u>\$ 1,502,946</u>	<u>\$ 1,526,790</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,234,132	\$ 1,262,811
Accrued interest payable	3,947	4,754
Patronage refund payable	1,144	9,952
Other liabilities	26,432	20,884
Total liabilities	<u>1,265,655</u>	<u>1,298,401</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	262	335
Capital stock and participation certificates	6,190	6,270
Retained earnings		
Allocated	110,325	109,795
Unallocated	120,729	112,202
Accumulated other comprehensive income (loss)	(215)	(213)
Total members' equity	<u>237,291</u>	<u>228,389</u>
Total liabilities and members' equity	<u>\$ 1,502,946</u>	<u>\$ 1,526,790</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)

	2009	2008
Interest Income		
Loans	\$ 23,906	\$ 26,449
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	12,359	15,135
Other	3	43
Total interest expense	12,362	15,178
Net interest income	11,544	11,271
Provision for (reversal of allowance for) loan losses	643	—
Total interest expense	12,362	15,178
Net interest income after provision for (reversal of allowance for) loan losses	10,901	11,271
Noninterest Income		
Loan fees	1,105	894
Fees for financially related services	203	184
Equity in earnings of other Farm Credit institutions	2,925	2,843
Gains (losses) on other property owned, net	(4)	19
Gains (losses) on sale of rural home loans, net	297	154
Other noninterest income	102	90
Total noninterest income	4,628	4,184
Noninterest Expense		
Salaries and employee benefits	5,046	3,279
Occupancy and equipment	518	519
Insurance Fund premium	565	456
Other operating expenses	1,412	1,348
Total noninterest expense	7,541	5,602
Income before income taxes	7,988	9,853
Provision (benefit) for income taxes	86	(48)
Total noninterest expense	7,541	5,602
Net income	\$ 7,902	\$ 9,901

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	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2007	\$ 457	\$ 6,176	\$ 102,123	\$ 107,688	\$ (197)	\$ 216,247
Comprehensive income						
Net income				9,901		9,901
Employee benefit plans adjustments				(30)	6	(24)
Total comprehensive income						9,877
Protected borrower equity retired	(101)					(101)
Capital stock/participation certificates issued/(retired), net		28				28
Retained earnings retired			(11,839)			(11,839)
Patronage distribution adjustment			155	(221)		(66)
Balance at March 31, 2008	\$ 356	\$ 6,204	\$ 90,439	\$ 117,338	\$ (191)	\$ 214,146
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 adjustments					(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

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

AgSouth Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

NOTE 1 – ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The accompanying financial statements include the accounts of 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, 2008, are contained in the 2008 Annual Report to Shareholders. These unaudited first quarter 2009 consolidated financial statements should be read in conjunction with the 2008 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the three months ended March 31, 2009, are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

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

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2009, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

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

NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the three months ended March 31,	
	2009	2008
Balance at beginning of period	\$ 4,467	\$ 3,970
Provision for (reversal of) loan losses	643	-
Charge-offs	(115)	(22)
Recoveries	16	3
Balance at end of period	\$ 5,011	\$ 3,951

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

	2009	2008
Impaired loans with related allowance	\$ 259	\$ 134
Impaired loans with no related allowance	10,855	3,688
Total impaired loans	\$ 11,114	\$ 3,822
Allowance on impaired loans	\$ 156	\$ 53

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

	2009	2008
Average impaired loans	\$ 7,754	\$ 3,248
Interest income recognized on impaired loans	26	50

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31,	
	2009	2008
Pension	\$ 1,505	\$ 268
401(k)	111	101
Other postretirement benefits	237	208
Total	\$ 1,853	\$ 577

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

	Actual YTD Through 3/31/09	Projected Contributions For Remainder of 2009	Projected Total Contributions 2009
Pension	\$ 21	\$ 65	\$ 86
Other postretirement benefits	143	539	682
Total	\$ 164	\$ 604	\$ 768

Actuarial calculations as of the last plan measurement date (December 31, 2008) projected contributions of \$86 to the pension plan for 2009. However, market conditions could impact discount rates and return on plan assets which could make additional contributions necessary before the next plan measurement date of December 31, 2009.

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

NOTE 4 – FAIR VALUE MEASUREMENT

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

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

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

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at March 31, 2009 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, 2009.

Level 3

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	March 31, 2009			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in trust funds	\$ 566	\$ -	\$ -	\$ 566
Total Assets	\$ 566	\$ -	\$ -	\$ 566
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 272	\$ 272
Total Liabilities	\$ -	\$ -	\$ 272	\$ 272

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

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 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, 2009 for each of the fair value hierarchy values are summarized below:

	March 31, 2009				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 103	\$ 103	\$ -
Other property owned	-	-	1,148	1,148	1