

SECOND QUARTER 2008

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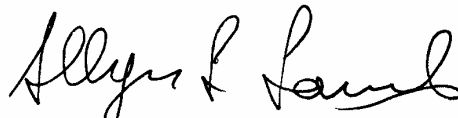
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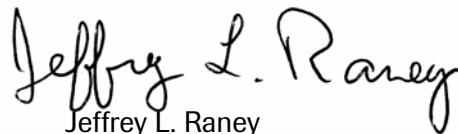
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Allyn L. Lamb
Chief Executive Officer



Darrell L. Curtis
Chief Operating Officer
& Chief Financial Officer



Jeffrey L. Raney
Chairman of the Board

July 22, 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 AgChoice Farm Credit ACA, (Association) for the period ended June 30, 2008. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2007 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. Information in any part of this Quarterly Report may be incorporated by reference in answer or partial answer to any other item of the Quarterly Report.

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 range of agricultural commodities, including dairy, livestock, poultry, and various crops, and also includes part-time farm and rural home loans. Farm size varies, and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, impacts the level of dependency on a given commodity.

The gross loan volume of the Association as of June 30, 2008, was \$1,390,732, an increase of \$92,193 as compared to \$1,298,539 at December 31, 2007. Net loans outstanding at June 30, 2008, were \$1,384,996 as compared to \$1,294,239 at December 31, 2007. Net loans accounted for 96.1 percent of total assets at June 30, 2008, as compared to 95.6 percent of total assets at December 31, 2007.

The 7.1 percent increase in gross and 7.0 percent increase in net loan volume during the reporting period is primarily attributed to increases in loans from the local servicing area as well as loans purchased from other financial institutions (participation loans).

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. A participation loan was reclassified as a nonaccrual loan which contributed to the increase from \$4,412 at December 31, 2007, to \$8,564 at June 30, 2008. The Association continues efforts to work out of nonaccrual accounts or to assist such operations to return to accrual status.

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 was \$5,736 and \$4,300 at June 30, 2008 and December 31, 2007, respectively, and was considered by management to be adequate to cover possible losses. As a further means to reduce credit risk, as of June 30, 2008, the Association had loans amounting to \$78,754 under a long-term standby commitment from Farmer Mac to purchase these loans in the event of loan defaults.

RESULTS OF OPERATIONS

For the three months ended June 30, 2008

Net income for the three months ended June 30, 2008, totaled \$5,978, as compared to \$5,751 for the same period in 2007. Net interest income advanced \$463 for the three months ended June 30, 2008, as compared to the second quarter in 2007.

At June 30, 2008, interest income on accruing loans decreased \$2,023 compared to a year ago. Nonaccrual interest income was \$66 for the three months ended June 30, 2008, as compared to \$46 for the same period in 2007. Interest expense decreased \$2,466 for the three months ended June 30, 2008, as compared to the comparable period of 2007. The decrease in interest income and interest expense is due to the recent decrease in rates seen in the market place.

Increased risk in the portfolio relating to growth in nonaccrual accounts and operating pressure in certain commodities resulted in a \$1,416 provision for loan losses in the second quarter of 2008.

Noninterest income for the three months ended June 30, 2008, totaled \$4,438, as compared to \$3,252 for the same period of 2007 an increase of \$1,186. Loan fees income is up \$295 as compared to the same period in 2007. Fees from participation loans account for \$247 of that increase. Equity in earnings of AgFirst Farm Credit Bank (the Bank) increased \$534 as a result of higher borrowing from the Bank to support the Association's loan growth and earnings from loans sold to the Bank.

Noninterest expense for the three months ended June 30, 2008, increased \$191 or 4.0 percent, compared to the same period of 2007. This increase is due to several items including investments in technology and increased costs related to public/member relations and advertising.

The provision for income taxes was \$22 for the second quarter of 2008 as compared to \$5 in the same period last year.

For the six months ended June 30, 2008

Net income for the six months ended June 30, 2008, totaled \$12,847, as compared to \$11,560 for the same period in 2007.

Net interest income increased \$507 for the six months ended June 30, 2008, as compared to the same period one year ago.

At June 30, 2008, interest income on accruing loans decreased \$3,388 compared to a year ago. Nonaccrual interest income was \$83 for the six months ended June 30, 2008, as compared to \$146 for the same period in 2007.

Interest expense decreased \$3,958 for the six months ended June 30, 2008, as compared to the comparable period of 2007. The decrease in interest income and interest expense is due to the decrease in rates seen in the market place this year.

Increased risk in the portfolio relating to growth in nonaccrual accounts and operating pressure in certain commodities resulted in a \$1,420 provision for loan losses in the first six months of 2008, compared to a provision for loan losses of \$255 for the first six months of 2007.

Noninterest income for the six months ended June 30, 2008, totaled \$8,311, as compared to \$6,039 for the same period of 2007, an increase of \$2,272. Noninterest income was higher in 2008 partially due to stronger loan fee collections. Equity in earnings of AgFirst Farm Credit Bank (the Bank) increased \$1,253 as a result of higher borrowing from the Bank to support the Association's loan growth and earnings from loans sold to the Bank.

Noninterest expense for the six months ended June 30, 2008, increased \$291, or 3.1 percent, compared to the same period of 2007. Salaries and employee benefits have increased \$103, or 2.0 percent. Insurance fund premiums increased \$52 compared to the same period in 2007. The increase of \$70 in Occupancy and equipment is partially attributable to increased spending on technology. The increase in other operating expenses includes additional spending on travel and insurance.

The provision for income taxes was \$46 for the six months ended June 30, 2008 as compared to \$10 in the same period last year.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2008, was \$1,225,748 as compared to \$1,139,317 at December 31, 2007. The increase in notes payable is mainly due to the growth in loan volume.

CAPITAL RESOURCES

Total members' equity at June 30, 2008, increased to \$197,137 from the December 31, 2007, total of \$188,260. The increase is primarily attributed to year-to-date 2008 earnings reduced by the accrual for 2008 cash patronage.

Total capital stock and participation certificates were \$11,879 on June 30, 2008, compared to \$12,004 on December 31, 2007.

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 June 30, 2008, the Association's permanent capital and total surplus ratio were 12.04 percent and 11.16 percent, respectively, and the core surplus ratio was 10.04 percent. All three ratios were well above the minimum regulatory requirements of 7.00 percent for the permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

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 1-800-349-3568 or writing AgChoice Farm Credit, ACA, 900 Bent Creek Blvd., Mechanicsburg, PA, 17050, or accessing the website www.agchoice.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.

AgChoice Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
Assets		
Cash	\$ 85	\$ 163
Loans	1,390,732	1,298,539
Less: allowance for loan losses	5,736	4,300
Net loans	1,384,996	1,294,239
Loans held for sale	454	450
Accrued interest receivable	8,496	7,464
Investment in other Farm Credit institutions	30,953	28,812
Premises and equipment, net	4,146	3,931
Other property owned	842	309
Due from AgFirst Farm Credit Bank	6,001	11,854
Other assets	5,904	6,126
Total assets	<u>\$ 1,441,877</u>	<u>\$ 1,353,348</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,225,748	\$ 1,139,317
Accrued interest payable	4,514	5,391
Patronage refund payable	3,675	6,833
Other liabilities	10,803	13,547
Total liabilities	<u>1,244,740</u>	<u>1,165,088</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	11,879	12,004
Surplus		
Allocated	91,681	92,116
Unallocated	93,563	84,126
Accumulated other comprehensive income (loss)	14	14
Total members' equity	<u>197,137</u>	<u>188,260</u>
Total liabilities and members' equity	<u>\$ 1,441,877</u>	<u>\$ 1,353,348</u>

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

AgChoice Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	2008	2007
Interest Income				
Loans	\$ 21,798	\$ 23,801	\$ 44,597	\$ 48,048
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	13,900	16,366	28,988	32,946
Net interest income	7,898	7,435	15,609	15,102
Provision for (reversal of allowance for) loan losses	1,416	202	1,420	255
Net interest income after provision for (reversal of allowance for) loan losses	6,482	7,233	14,189	14,847
Noninterest Income				
Loan fees	869	574	1,708	1,025
Fees for financially related services	219	100	348	191
Equity in earnings of other Farm Credit institutions	3,087	2,553	6,000	4,747
Gains (losses) on other property owned, net	88	(30)	80	(43)
Gains (losses) on sale of rural home loans, net	(8)	—	8	(11)
Other noninterest income	183	55	167	130
Total noninterest income	4,438	3,252	8,311	6,039
Noninterest Expense				
Salaries and employee benefits	2,659	2,646	5,380	5,277
Occupancy and equipment	303	254	566	496
Insurance Fund premium	492	451	959	907
Other operating expenses	1,466	1,378	2,702	2,636
Total noninterest expense	4,920	4,729	9,607	9,316
Income before income taxes	6,000	5,756	12,893	11,570
Provision (benefit) for income taxes	22	5	46	10
Net income	\$ 5,978	\$ 5,751	\$ 12,847	\$ 11,560

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

AgChoice Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	Capital Stock and Participation Certificates	Surplus		Accumulated Other Comprehensive Income	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2006	\$ 11,906	\$ 83,341	\$ 78,613	\$ —	\$ 173,860
Net income			11,560		11,560
Capital stock/participation certificates issued/(retired), net	(183)				(183)
Dividends declared/paid	121		(121)		
Patronage distribution					
Cash			(3,160)		(3,160)
Surplus retired		(17)			(17)
Patronage distribution adjustment		(35)	67		32
Balance at June 30, 2007	\$ 11,844	\$ 83,289	\$ 86,959	\$ —	\$ 182,092
Balance at December 31, 2007	\$ 12,004	\$ 92,116	\$ 84,126	\$ 14	\$ 188,260
Net income			12,847		12,847
Capital stock/participation certificates issued/(retired), net	(197)				(197)
Dividends declared/paid	72		(72)		—
Patronage distribution					
Cash			(3,440)		(3,440)
Surplus retired		(47)			(47)
Patronage distribution adjustment		(388)	106		(282)
Employee benefit plans adjustments			(4)		(4)
Balance at June 30, 2008	\$ 11,879	\$ 91,681	\$ 93,563	\$ 14	\$ 197,137

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

AgChoice 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 AgChoice 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	\$ 4,300	\$ 4,000
Provision for (reversal of) loan losses	1,420	255
Loans (charged off), net of recoveries	16	(131)
Balance at end of period	<u>\$ 5,736</u>	<u>\$ 4,124</u>

NOTE 3 – COMMITMENTS AND CONTINGENT LIABILITIES

Actions are pending against the Association in which money damages are sought. However, on the basis of information now at hand, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom, would not be material in relation to the overall financial position of the Association.

NOTE 4 – 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	\$ 316	\$ 487
401(k)	176	143
Other postretirement benefits	243	265
Total	<u>\$ 735</u>	<u>\$ 895</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	\$ 10	\$ 9	\$ 19
Other postretirement benefits	170	129	299
Total	<u>\$ 180</u>	<u>\$ 138</u>	<u>\$ 318</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.

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 \$4 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, \$0 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.