

FIRST QUARTER 2005

Management's Discussion and Analysis of
Financial Condition and Results of Operations.....2

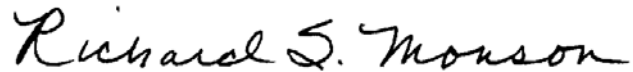
Consolidated Financial Statements

Consolidated Balance Sheets.....4

Consolidated Statements of Income.....5

Consolidated Statements of Changes in Members' Equity.....6

Notes to the Consolidated Financial Statements.....7



Richard S. Monson
President/CEO



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Chairman of the Board

April 29, 2005

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 Southwest Georgia Farm Credit ACA, (Association) for the period ended March 31, 2005. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2004 Annual Report of the Association.

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 in our region, including cotton, peanuts, vegetables, livestock, pecans, dairy, poultry, timber, landlords and rural home loans. These major farm commodity groups represent approximately \$401,047 or 99.29 percent of the loan portfolio as of March 31, 2005. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income in the area, somewhat impacts the level of dependency on a given commodity.

The gross loan volume of the Association as of March 31, 2005, was \$402,281, an increase of \$784 as compared to \$401,497 at December 31, 2004. Net loans outstanding at March 31, 2005, were \$401,438 as compared to \$400,654 at December 31, 2004. Net loans accounted for 96.45 percent of total assets at March 31, 2005, as compared to 94.98 percent of total assets at December 31, 2004.

The increase in gross and net loan volume during the reporting period is attributed primarily to seasonal lending and new term loan business. The short-term portfolio normally reaches a peak in August and declines in the fall months as farm commodities are marketed and proceeds are applied to the operating 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, however, and credit administration remains satisfactory. Nonaccrual loans decreased from \$153 at December 31, 2004, to \$135 at March 31, 2005. 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, 2005, was \$843 compared to \$843 at December 31, 2004. Allowance for loan loss is still considered adequate due to continued high credit quality.

Allowance for Loan Losses

During 2004, the Association completed its study to further refine the allowance for loan losses methodology taking into account recently issued guidance by the Farm Credit Administration (FCA), the System's regulator, as well as the Securities and Exchange Commission (SEC) and Federal Financial Institutions Examination Council. As a result of this study and the resulting refinements in methodology, during the fourth quarter of 2004, the Association recorded a \$6,701 reversal of the allowance for loan losses. The Association's allowance for loan losses methodology utilized prior to the study was in accordance with generally accepted accounting principles and was consistently applied.

In April 2004, the FCA issued an "Informational Memorandum" to System institutions regarding the criteria and methodologies that should be used in evaluating the adequacy of a System institution's allowance for loan losses. The Farm Credit Administration endorsed the direction provided by these other regulatory agencies and indicated the conceptual framework addressed in this guidance would be included as part of their examination process.

The refinement in methodology resulted in calculated allowance for loan losses that was significantly less than the previously recorded balance due to revised loss factors that are more indicative of actual loss experience in recent years and current borrower analysis. The factors considered in determining the revised level of allowance for loan losses were generally based on recent historical charge-off experience adjusted for relevant environmental factors. The Association considered the following when adjusting the historical charge-offs experience:

- changes in credit risk classifications,
- changes in collateral values,
- changes in risk concentrations,
- changes in weather related conditions, and
- changes in economic conditions.

While the reversal had a significant impact on 2004 results of operations and the previously recorded allowance for loan losses, the refinement in methodology is not expected to have a significant impact on comparative results of operations in future periods.

RESULTS OF OPERATIONS

For the three months ended March 31, 2005

Net income for the three months ended March 31, 2005, totaled \$2,169, as compared to \$1,928 for the same period in 2004, an increase of \$241. Net interest income increased \$257, for the three months ended March 31, 2005, as compared to the same period in 2004. The increase is primarily due to increased volume during the reporting period compared to March 31, 2004.

At March 31, 2005, interest income on accruing loans increased \$1,325 compared to March 31, 2004. Nonaccrual income was \$1 for the three months ended March 31, 2005, as compared to \$0 for the same period in 2004, an increase of \$1. Interest expense increased \$1,067 for the three months ended March 31, 2005, as compared to the same period of 2004. Noninterest income for the three months ended March 31, 2005, totaled \$1,048, as compared to \$884 for the same period of 2004, an increase of \$164. Noninterest expense for the three months ended March 31, 2005, increased \$180 compared to the same period of 2004. The provision for income tax at March 31, 2005 was \$1, the same as prior year 2004.

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 funds are advanced by the Bank 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, 2005, was \$352,714 as compared to \$355,722 at December 31, 2004. The decrease during the period is primarily attributed to earnings year to date that have not been distributed.

CAPITAL RESOURCES

Total members' equity at March 31, 2005, increased to \$56,032 from the December 31, 2004, total of \$57,969. The increase is primarily attributed to retained earnings and capital stock retired in excess of net income and capital stock issued for the quarter ended March 31, 2005.

Total capital stock and participation certificates were \$1,639 on March 31, 2005, compared to \$1,708 on December 31, 2004. This decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business, new loans being capitalized at lower levels and at risk capital stock and participation certificates retired.

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, 2005, the Association's total surplus ratio and core surplus ratio were 16.40 percent and 13.30 percent, respectively, and the permanent capital ratio was 16.78 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.

Southwest Georgia Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2005	December 31, 2004
	<i>(unaudited)</i>	
Assets		
Cash	\$ 413	\$ 2,514
Loans	402,281	401,497
Less: allowance for loan losses	843	843
Net loans	401,438	400,654
Accrued interest receivable	4,517	5,794
Investment in other Farm Credit institutions	4,785	4,726
Premises and equipment, net	1,063	1,100
Other property owned	20	—
Other assets	3,988	7,063
Total assets	<u>\$ 416,224</u>	<u>\$ 421,851</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 352,714	\$ 355,722
Accrued interest payable	1,216	1,112
Patronage refund payable	83	2,483
Other liabilities	6,179	4,565
Total liabilities	<u>360,192</u>	<u>363,882</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	503	568
Capital stock and participation certificates	1,136	1,140
Retained earnings		
Allocated	19,998	23,949
Unallocated	34,395	32,312
Total members' equity	<u>56,032</u>	<u>57,969</u>
Total liabilities and members' equity	<u>\$ 416,224</u>	<u>\$ 421,851</u>

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

Southwest Georgia Farm Credit, ACA
Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2005	2004
Interest Income		
Loans	\$ 6,033	\$ 4,708
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	3,449	2,382
Net interest income	2,584	2,326
Provision for (reversal of) loan losses	1	—
Net interest income after provision for (reversal of) loan losses	2,583	2,326
Noninterest Income		
Loan fees	242	304
Fees for financially related services	2	8
Equity in earnings of other Farm Credit institutions	731	556
Gains (losses) on other property owned, net	(1)	—
Other noninterest income	74	16
Total noninterest income	1,048	884
Noninterest Expense		
Salaries and employee benefits	995	775
Occupancy and equipment	114	113
Insurance Fund premium	33	71
Other operating expenses	319	322
Total noninterest expense	1,461	1,281
Income before income taxes	2,170	1,929
Provision (benefit) for income taxes	1	1
Net income	\$ 2,169	\$ 1,928

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

Southwest Georgia 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, 2003	\$ 707	\$ 1,139	\$ 24,326	\$ 22,308	\$ (2,374)	\$ 46,106
Net income				1,928		1,928
Protected borrower equity retired	(67)					(67)
Capital stock/participation certificates issued		43				43
Capital stock/participation certificates retired		(32)				(32)
Retained earnings retired			(3,768)			(3,768)
Distribution adjustment			(286)	153		(133)
Balance at March 31, 2004	\$ 640	\$ 1,150	\$ 20,272	\$ 24,389	\$ (2,374)	\$ 44,077
Balance at December 31, 2004	\$ 568	\$ 1,140	\$ 23,949	\$ 32,312	\$ —	\$ 57,969
Net income				2,169		2,169
Protected borrower equity retired	(65)					(65)
Capital stock/participation certificates issued		29				29
Capital stock/participation certificates retired		(33)				(33)
Retained earnings retired			(3,780)			(3,780)
Distribution adjustment			(171)	(86)		(257)
Balance at March 31, 2005	\$ 503	\$ 1,136	\$ 19,998	\$ 34,395	\$ —	\$ 56,032

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

Southwest Georgia Farm Credit, ACA

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 Southwest Georgia 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, 2004, are contained in the 2004 Annual Report to Stockholders. These unaudited first quarter 2005 consolidated financial statements should be read in conjunction with the 2004 Annual Report to Stockholders.

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, 2005, are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

Certain amounts in prior period consolidated financial statements 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, 2005, 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:

Balance at 12-31-03	\$ 7,587
(Reversal of) provision for loan losses	—
Loans (charged off), net of recoveries	—
Balance at 3-31-04	<u>\$ 7,587</u>
Balance at 12-31-04	\$ 843
(Reversal of) provision for loan losses	1
Loans (charged off), net of recoveries	<u>(1)</u>
Balance at 3-31-05	<u>\$ 843</u>

As discussed in the 2004 Annual Report, the Association recorded a loan loss reversal of \$6,701 in the fourth quarter of 2004 that resulted in a decrease in the allowance for loan losses.

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, 2005:

	For the three months ended March 31,	
	<u>2005</u>	<u>2004</u>
Pension	\$ 98	\$ 111
Thrift/deferred compensation	24	23
Other postretirement benefits	55	75
Total	<u>\$ 177</u>	<u>\$ 209</u>

As of March 31, 2005, no contributions have been made to the pension plan for 2005. Actuarial projections as of the last plan measurement date (September 30, 2004) did not anticipate any contributions for 2005; 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.