Southwest Georgia Farm Credit, ACA

THIRD QUARTER 2005

Richard S. Monson
President/CEO

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October 28, 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 September 30, 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 peanuts, cotton, vegetables, livestock, dairy, poultry, timber, pecans, landlords and rural home loans. These major farm commodity groups represent approximately $354,878 or 76.02 percent of the loan portfolio as of September 30, 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 September 30, 2005, was $471,596, an increase of $70,099 as compared to $401,497 at December 31, 2004. Net loans outstanding at September 30, 2005, were $470,753 as compared to $400,654 at December 31, 2004. Net loans accounted for 95.65 percent of total assets at September 30, 2005, as compared to 94.97 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 loan business. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak in August and rapidly 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 and credit administration remains satisfactory. The Association has a portfolio management policy and plan in place to address portfolio risk and the portfolio is monitored. Nonaccrual loans decreased from $153 at December 31, 2004, to $127 at September 30, 2005. This was a decrease of $26, which was attributed to liquidations and charge-offs.

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 September 30, 2005, was $843 the same as December 31, 2004. The allowance at September 30, 2005 was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2005

Net income for the three months ended September 30, 2005, totaled $2,642, as compared to $2,433 for the same period in 2004, an increase of $209. Net interest income increased $292, for the three months ended September 30, 2005, as compared to the same period in 2004. At September 30, 2005, interest income on loans increased $2,024 compared to September 30, 2004. Nonaccrual income was $0 for the three months ended September 30, 2005, as compared to $7 for the same period in 2004. Interest expense increased $1,732, for the three months ended September 30, 2005, as compared to September 30, 2004. The increase in interest income and is the result of increased volume.

Noninterest income for the three months ended September 30, 2005, totaled $1,250, as compared to $1,180 for the same period in 2004, an increase of $70. Noninterest expense for the three months ended September 30, 2005 totaled $1,564, as compared to $1,431 for the same period in 2004, an increase of $133. The increase in noninterest expense is attributed to an increase in salaries and employee benefits of $110, an increase in occupancy and equipment of $5, an increase in insurance premium of $94, offset by a decrease in other operating expenses of $76. A provision for income taxes was recorded in the amount of $25 for the three months ended compared to a provision in the amount of $5 for the same period in 2004, an increase in tax expense of $20.

For the nine months ended September 30, 2005

Net income for the nine months ended September 30, 2005, totaled $7,204, as compared to $6,285 for the same period in 2004, an increase of $919. This increase is attributed to an increase in net interest income of $883, an increase in non-interest income of $381, an increase of tax expense of $17, an increase in non-interest expense of $328. Interest income for the nine months ended September 30, 2005, was $20,462, compared to $15,375 for the same period in 2004, an increase of $5,087. Interest expense for the nine months ended September 30, 2005, was $12,100, compared to $7,897 for the same period of 2004, an increase of $4,203. Nonaccrual income was $1 for the nine months ended September 30, 2005, the same as September 30, 2004.

Non-interest income for the nine months ended September 30, 2005, totaled $3,393, compared to $3,012 for the same period in 2004, an increase of $381. The increase resulted from an increase of $478 from equity in earnings of AgFirst Farm Credit Bank (the Bank), an increase in other noninterest income of $59, offset by a decrease in loan fees of $150, a decrease in fees for financially related services of $5, and an increase in losses on other property owned of $1.

Non-interest expense for the nine months ended September 30, 2005 totaled $4,526, compared to $4,198 for the same period in 2004, an increase of $328. The increase resulted from an increase in salaries and employee benefits of $292, an increase in occupancy & equipment of $24, and an increase in insurance fund premium of $16, offset by a decrease in other operating expenses of $4. The Association made a provision for income taxes of $24 for the nine months ended September 30, 2005 as compared to a provision for income taxes of $7 in 2004, an increase of $17 in tax expense compared to September 2004.

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 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 September 30, 2005, was $425,010 as compared to $355,722 at December 31, 2004. The increase during the period is primarily attributed to new loan volume.

CAPITAL RESOURCES

Total members' equity at September 30, 2005, increased to $61,039 from the December 31, 2004, total of $57,969. The increase is primarily attributed to the increase in retained earnings in excess of the net reduction of capital stock, participation certificates and revolved equities.

Total capital stock and participation certificates were $1,619 on September 30, 2005, compared to $1,778 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 new lower regulatory 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 September 30, 2005, the Association's total surplus ratio and core surplus ratio were 13.36 percent and 10.96 percent, respectively, and the permanent capital ratio was 13.65 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.

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 Jay Wise, 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 1-229-246-8032 or 1-800-844-2615, writing Barbara B. Clark, Assistant Controller, Southwest Georgia Farm Credit, ACA, P. O. Box 790, Bainbridge, Georgia 39818-0790 or accessing the website, *www.swgafarmcredit.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.

Southwest Georgia Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2005 *(unaudited)*	December 31, 2004 *(audited)*
Assets		
Cash	$ 1,276	$ 2,514
Loans	471,596	401,497
Less: allowance for loan losses	843	843
Net loans	470,753	400,654
Accrued interest receivable	8,380	5,794
Investment in other Farm Credit institutions	4,932	4,726
Premises and equipment, net	1,077	1,100
Other property owned	7	—
Other assets	5,722	7,063
Total assets	$ 492,147	$ 421,851
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 425,010	$ 355,722
Accrued interest payable	1,632	1,112
Patronage refund payable	10	2,483
Other liabilities	4,456	4,565
Total liabilities	431,108	363,882
Commitments and contingencies		
Members' Equity		
Protected borrower equity	487	568
Capital stock and participation certificates	1,132	1,140
Retained earnings		
Allocated	19,998	23,949
Unallocated	39,422	32,312
Total members' equity	61,039	57,969
Total liabilities and members' equity	$ 492,147	$ 421,851

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

Southwest Georgia Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2005	For the three months ended September 30, 2004	For the nine months ended September 30, 2005	For the nine months ended September 30, 2004
Interest Income				
Loans	$ 7,656	$ 5,632	$ 20,462	$ 15,375
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	4,675	2,943	12,100	7,897
Net interest income	2,981	2,689	8,362	7,478
Provision for (reversal of) loan losses	—	—	1	—
Net interest income after provision for (reversal of) loan losses	2,981	2,689	8,361	7,478
Noninterest Income				
Loan fees	303	385	787	937
Fees for financially related services	5	4	9	14
Equity in earnings of other Farm Credit institutions	891	733	2,412	1,934
Gains (losses) on other property owned, net	1	—	(1)	—
Other noninterest income	50	58	186	127
Total noninterest income	1,250	1,180	3,393	3,012
Noninterest Expense				
Salaries and employee benefits	1,019	909	2,976	2,684
Occupancy and equipment	109	104	344	320
Insurance Fund premium	64	(30)	132	116
Other operating expenses	372	448	1,074	1,078
Total noninterest expense	1,564	1,431	4,526	4,198
Income before income taxes	2,667	2,438	7,228	6,292
Provision (benefit) for income taxes	25	5	24	7
Net income	$ 2,642	$ 2,433	$ 7,204	$ 6,285

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 Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2003	$ 707	$ 1,139	$ 24,326	$ 22,308	$ (2,374)	$ 46,106
Net income				6,285		6,285
Protected borrower equity retired	(87)					(87)
Capital stock/participation certificates issued		107				107
Capital stock/participation certificates retired		(98)				(98)
Retained earnings retired			(3,769)			(3,769)
Distribution adjustment			(286)	154		(132)
Balance at September 30, 2004	$ 620	$ 1,148	$ 20,271	$ 28,747	$ (2,374)	$ 48,412
Balance at December 31, 2004	$ 568	$ 1,140	$ 23,949	$ 32,312	$ —	$ 57,969
Net income				7,204		7,204
Protected borrower equity retired	(81)					(81)
Capital stock/participation certificates issued		106				106
Capital stock/participation certificates retired		(114)				(114)
Retained earnings retired			(3,786)			(3,786)
Distribution adjustment			(165)	(94)		(259)
Balance at September 30, 2005	$ 487	$ 1,132	$ 19,998	$ 39,422	$ —	$ 61,039

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 Shareholders. These unaudited third quarter 2005 consolidated financial statements should be read in conjunction with the 2004 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. The results for the nine months ended September 30, 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 September 30, 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	(12)
Balance at 9-30-04	$ 7,575
Balance at 12-31-04	$ 843
(Reversal of) provision for loan losses	1
Loans (charged off), net of recoveries	(1)
Balance at 9-30-05	$ 843

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 nine months ended September 30, 2005:

	For the nine months ended September 30,	
	2005	**2004**
Pension	$ 293	$ 332
Thrift/deferred compensation	53	52
Other postretirement benefits	165	224
Total	$ 511	$ 608

The Association had not previously anticipated making a contribution in 2005 to the defined benefit retirement plan based upon actuarial projections as of the last plan measurement date (September 30, 2004). However, due to market conditions affecting discount rates and return on plan assets, current actuarial projections indicated that a contribution was needed to meet the expected accumulated benefit obligation at September 30, 2005. During the third quarter of 2005, the Association contributed $554 to the defined benefit retirement plan. The Association does not anticipate making additional contributions for the remainder of 2005.