

SECOND QUARTER 2008

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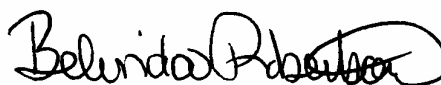
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Richard S. Monson
President/CEO



Belinda Robertson
Chief Financial Officer



Bobby J. Brooks
Chairman of the Board

July 30, 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 Southwest Georgia Farm Credit, ACA (Association) for the period ended June 30, 2008. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated 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.

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 \$433,098 or 61.73 percent of the loan portfolio as of June 30, 2008. 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, reduces the level of dependency on a given commodity.

Scattered rain helped improve corn, hay and soybean conditions, in some counties. Pasture and hayfield conditions improved slightly due to rains. A high number of tobacco budworms have been spotted in peanuts and farmers expect more insect problems to arise in other crops. Corn is ready for harvesting. Cotton and peanuts look good. Most corn and peanuts are under contract.

Investment securities classed as held to maturity as of June 30, 2008 were \$39,042, an increase of \$3,174 compared to \$35,868 at December 31, 2007. The gross loan volume of the Association as of June 30, 2008, was \$430,351, an increase of \$36,330 as compared to \$394,021 at December 31, 2007. Net loans outstanding at June 30, 2008, were \$426,065 as compared to \$393,501 at December 31, 2007, an increase of \$32,564. Total assets at June 30, 2008 were \$570,085, compared to \$551,663 at December 31, 2007, an increase of \$18,422. The increase in total assets was primarily due to the increase in net loans outstanding. Net loans and Investments accounted for 93.40 percent of total assets at June 30, 2008, as compared to 92.03 percent of total assets at December 31, 2007.

The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak between August and September 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 has deteriorated due to loans that were associated with improper credit administration revealed in a recent internal credit review. The Association has engaged outside audit firms to conduct a thorough review of the portfolio to determine if any other credit administration problems are on the horizon. The Association has a portfolio management policy and plan in place to address portfolio risk and ensure that the portfolio is monitored. The loans that were identified as receiving inadequate credit administration were transferred into nonaccrual during second quarter with interest reversals taken at that time. Nonaccrual loans increased \$13,365 from \$2,136 at December 31, 2007, to \$15,502 at June 30, 2008. [Interest reversals year-to-date total \$198.] [Total Charge-offs year-to-date related to these loans total \$9,934.]

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 June 30, 2008, was \$4,286 compared to \$520 as of December 31, 2007 an increase of \$3,766 primarily because of specific reserve provisions to the allowance for loan loss in the amount of \$13,665 offset by charge-offs of loans in the amount of \$9,934. The allowance at June 30, 2008 was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2008

Net loss for the three months ended June 30, 2008, totaled (\$810), as compared to net income of \$2,906 for the same period in 2007, a decrease of \$3,716. Net interest income before provision for loan loss was \$1,984 a decrease of \$1,143, for the three months ended June 30, 2008, as compared to the same period in 2007. The decline was primarily due to lower interest rates and divesting of some of participation loans. At June 30, 2008, interest income on loans was \$6,505 a decrease of \$3,091 compared to \$9,596 at June 30, 2007. At June 30, 2008, interest income on Investment securities was \$213 a decrease of \$330, as compared to \$543 for the same period 2007. Other Interest income was \$918 at June 30, 2008, a decrease of \$133 compared to \$1,051 for the same period 2007. Nonaccrual income was \$11 for the three months ended June 30, 2008; an increase of \$11 compared to the three months ended June 2007. Interest expense decreased \$2,411, for the three months ended June 30, 2008, as compared to \$8,063 as of June 30, 2007. The decrease in interest income is primarily the result of lower interest rates compared to 2007 coupled with selling loans into the AgFirst Capital Participation Pool (CPP) in the third quarter of 2007. Income on these assets is now recognized as off-balance sheet income in the form of patronage from AgFirst. Lower rates also contribute to the variance in interest expense for the three months ended June 30, 2008.

Noninterest income for the three months ended June 30, 2008, totaled \$2,204, as compared to \$1,730 for the same period in 2007, an increase of \$474. The increase is primarily attributed to increased patronage from AgFirst. Noninterest expense for the three months ended June 30, 2008 totaled \$1,554, as compared to \$1,964 for the same period in 2007, a decrease of \$410, primarily attributed to a decrease in salaries and employee benefits. In 2007 a benefit for income taxes was recorded in the amount of \$13 for the three months ended compared to no provision or benefit being recorded in 2008 for the three months ended, a decrease of tax benefit in the amount of \$13.

For the six months ended June 30, 2008

Net loss for the six months ended June 30, 2008, totaled (\$8,002), as compared to net income of \$5,858 for the same period in 2007, a decrease of \$13,860. This decrease is attributed to an increase in provision for allowance for losses on loans in the amount of \$13,698. The significant provision is related to inadequate credit administration revealed in a recent internal credit review. Nonaccrual income was \$11 for the six months ended June 30, 2008 a decrease of \$11 as compared to \$22 for the six months ended June 30, 2007.

Non-interest income for the six months ended June 30, 2008, totaled \$4,633, compared to \$3,641 for the same period in 2007, an increase of \$992. The increase resulted primarily from an increase of \$806 from equity in earnings of AgFirst Farm Credit Bank (the Bank) related principally to the assets sold into the CPP.

Non-interest expense for the six months ended June 30, 2008 totaled \$3,564, compared to \$3,834 for the same period in 2007, a decrease of \$270. The decrease resulted primarily from a decrease in salaries and employee benefits of \$332. The Association made a provision for income taxes of \$69 for the six months ended June 30, 2008 as compared to a provision for income taxes of \$31 in 2007, an increase of \$38 in tax expense compared to June 2007.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (Note 4). [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 June 30, 2008, was \$502,705 as compared to \$462,596 at December 31, 2007. The increase is primarily the result loan growth during the year. [Please see footnote number 4 for additional information on the status of the General Financing Agreement liquidity covenant.]

CAPITAL RESOURCES

Total members' equity at June 30, 2008, decreased \$11,107 from the December 31, 2007, total of \$72,947. The decrease is primarily attributed to the year to date net loss rolling into

unallocated retained earnings. Total capital stock and participation certificates were \$1,494 on June 30, 2008, compared to \$1,523 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 total surplus ratio and core surplus ratio were 9.98 percent and 7.74 percent, respectively, and the permanent capital ratio was 10.28 percent. All three ratios were 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 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 1-229-246-8032 or 1-800-844-2615, writing Belinda H. Robertson, Chief Financial Officer, 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 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.

Southwest Georgia 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	\$ 619	\$ 1,310
Investment securities:		
Held to maturity (fair value of \$39,222 and \$35,880 respectively)	39,042	35,868
Total investment securities	39,042	35,868
Loans	430,351	394,021
Less: allowance for loan losses	4,286	520
Net loans	426,065	393,501
Loans held for sale		
Other investments	67,354	78,342
Accrued interest receivable	7,236	9,463
Investment in other Farm Credit institutions	19,721	21,196
Premises and equipment, net	1,303	1,356
Due from AgFirst Farm Credit Bank	3,696	6,856
Other assets	5,049	3,771
Total assets	\$ 570,085	\$ 551,663
Liabilities		
Notes payable to AgFirst Farm Credit Bank (Note 4)	\$ 502,705	\$ 462,596
Accrued interest payable	1,867	2,233
Patronage refund payable	26	3,552
Other liabilities	3,647	10,335
Total liabilities	508,245	478,716
Commitments and contingencies		
Members' Equity		
Protected borrower equity	315	353
Capital stock and participation certificates	1,179	1,170
Retained earnings		
Allocated	24,056	27,115
Unallocated	36,290	44,309
Total members' equity	61,840	72,947
Total liabilities and members' equity	\$ 570,085	\$ 551,663

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

Southwest Georgia Farm Credit, ACA
Consolidated Statements of Operations

(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				
Investment securities	\$ 213	\$ 543	\$ 602	\$ 983
Loans	6,505	9,596	13,930	18,681
Other	918	1,051	1,859	2,074
Total interest income	7,636	11,190	16,391	21,738
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	5,652	8,063	11,695	15,656
Net interest income	1,984	3,127	4,696	6,082
Provision for (reversal of allowance for) loan losses	3,444	—	13,698	—
Net interest income (loss) after provision for (reversal of allowance for) loan losses	(1,460)	3,127	(9,002)	6,082
Noninterest Income				
Loan fees	302	260	803	558
Equity in earnings of other Farm Credit institutions	1,895	1,512	3,782	2,976
Gains (losses) on other property owned, net	—	(6)	—	(6)
Gains (losses) on sale of rural home loans, net	(2)	34	(3)	86
Other noninterest income	9	(70)	51	27
Total noninterest income	2,204	1,730	4,633	3,641
Noninterest Expense				
Salaries and employee benefits	770	1,198	1,994	2,326
Occupancy and equipment	111	117	231	225
Insurance Fund premium	148	165	274	313
Other operating expenses	525	484	1,065	970
Total noninterest expense	1,554	1,964	3,564	3,834
Income (loss) before income taxes	(810)	2,893	(7,933)	5,889
Provision (benefit) for income taxes	—	(13)	69	31
Net income (loss)	\$ (810)	\$ 2,906	\$ (8,002)	\$ 5,858

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		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2006	\$ 402	\$ 1,141	\$ 25,198	\$ 39,756	\$ 66,497
Net income				5,858	5,858
Protected borrower equity retired	(40)				(40)
Capital stock/participation certificates issued/(retired), net		35			35
Retained earnings retired			(2,800)		(2,800)
Patronage distribution adjustment			2,378	(2,235)	143
Balance at June 30, 2007	<u>\$ 362</u>	<u>\$ 1,176</u>	<u>\$ 24,776</u>	<u>\$ 43,379</u>	<u>\$ 69,693</u>
Balance at December 31, 2007	\$ 353	\$ 1,170	\$ 27,115	\$ 44,309	\$ 72,947
Net income (loss)				(8,002)	(8,002)
Protected borrower equity retired	(38)				(38)
Capital stock/participation certificates issued/(retired), net		9			9
Retained earnings retired			(2,583)		(2,583)
Patronage distribution adjustment			(476)	(17)	(493)
Balance at June 30, 2008	<u>\$ 315</u>	<u>\$ 1,179</u>	<u>\$ 24,056</u>	<u>\$ 36,290</u>	<u>\$ 61,840</u>

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

The accompanying financial statements include the accounts of Southwest Georgia 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	\$ 520	\$ 427
Provision for (reversal of) loan losses	13,698	–
Loans (charged off), net of recoveries	(9,932)	1
Balance at end of period	\$ 4,286	\$ 428

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	2008	2007
Pension	\$ 119	\$ 178
401(k)	65	65
Other postretirement benefits	60	62
Total	\$ 244	\$ 305

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	\$ -	\$ -	\$ -
Other postretirement benefits	37	41	78
Total	\$ 37	\$ 41	\$ 78

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.

NOTE 4 – NOTES PAYABLE TO AGFIRST FARM CREDIT BANK

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by a General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes a liquidity covenant. At June 30, 2008, the Association failed to meet its liquidity covenant. This default allows the Bank to accelerate repayment of all indebtedness. However, the Bank has granted the Association a waiver of this covenant default in connection with its approval of a plan submitted by the Association to achieve compliance with the covenant requirement.