

---

Southwest Georgia Farm Credit, ACA

# THIRD QUARTER 2008

## TABLE OF CONTENTS

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

Consolidated Financial Statements

Consolidated Balance Sheets .....5

Consolidated Statements of Income.....6

Consolidated Statements of Changes in Members' Equity.....7

Notes to the Consolidated Financial Statements.....8

## CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2008 quarterly report of Southwest Georgia 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.



Richard S. Monson  
President/CEO



Belinda Robertson  
Chief Financial Officer



Bobby J. Brooks  
Chairman of the Board

October 28, 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 September 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 timber, landlords, poultry, cotton, livestock, peanuts, fruit and nut, vegetables and dairy. These major farm commodity groups represent approximately \$303,742 or 78.15 percent of the loan portfolio as of September 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.

At present, the overall outlook for 2008 should be a good profit year for most members. Corn yields were very good, with many exceeding 200 bushels per acre with better than average prices. The peanut harvest is almost complete with yields better than recent years. Irrigated yields have been very good and dry land yields have been better in 2008 than compared to recent years, with most production contracted at better than average prices. For the past couple years drought has reduced dry land yields. At present, rain is needed to provide moisture to dig remaining peanuts, to seed winter grazing and bolster pastures.

The cotton harvest is underway evidencing significant variability in yields due to the damage sustained from tropical storm Faye. Even with damage to the crop, overall yields are expected to be good. Most of the 2008 cotton crop has been contracted at prices well above recent years.

Investment securities classed as held to maturity as of September 30, 2008 were \$38,669, an increase of \$2,801, compared to \$35,868 at December 31, 2007. The gross loan volume of the Association as of September 30, 2008, was \$385,493, a decrease of \$8,528 as compared to \$394,021 at December 31, 2007. Net loans outstanding at September 30, 2008, were \$380,886 as compared to \$393,501 at December 31, 2007, a decrease of \$12,615. Total assets at September 30, 2008 were \$529,249, compared to \$551,663 at December 31,

2007, a decrease of \$22,414. The decrease in total assets was primarily because of the reduction in loans, an increase in allowance for loan losses and a decrease in other investments. The decrease in loans is due to divestiture of loan assets to strengthen the capital position. The increase in allowance for loan losses is netted against total loans. The decrease in other investments is due to an annual payment received on Successor-In-Interest Contracts. Net loans and investments accounted for 92.20 percent of total assets at September 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 that were revealed during second quarter through the internal credit review and due to downgrades of loans that were purchased from other Associations. 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. Five entities were transferred into nonaccrual during third quarter. One entity that was transferred into nonaccrual during second quarter, liquidated in third quarter and two of the entities that were transferred into nonaccrual in third quarter were acquired by the Association. Nonaccrual loans increased \$13,578 from \$2,136 at December 31, 2007, to \$15,714 at September 30, 2008. Interest reversals year-to-date related to these loans total \$524. Total Charge-offs year-to-date related to these loans total \$10,355.

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, 2008, was \$4,607 compared to \$520 as of December 31, 2007 an increase of \$4,087. This variance relates to specific reserve provisions to the allowance for loan loss in the amount of \$14,440 offset by charge-offs of loans in the amount of \$10,355. Management recommended a provision to the FAS 5 general allowance for loan losses for year-to-date as of September 30, 2008 in the amount of \$94 in the month of October, 2008.

---

## RESULTS OF OPERATIONS

### *For the three months ended September 30, 2008*

Net income for the three months ended September 30, 2008, totaled \$1,694, as compared to net income of \$3,002 for the same period in 2007, a decrease of \$1,308. Net interest income before provision for loan loss was \$2,299 a decrease of \$789, for the three months ended September 30, 2008, as compared to the same period in 2007, primarily due to divesting of loans from the balance sheet. At September 30, 2008, interest income on loans was \$6,736 a decrease of \$2,639 compared to \$9,375 at September 30, 2007. At September 30, 2008, interest income on Investment securities was \$309 a decrease of \$248, as compared to \$557 for the same period 2007. Other Interest income was \$930 at September 30, 2008, a decrease of \$138 compared to \$1,068 for the same period 2007. The decrease in interest income is primarily the result of selling loans to AgFirst Farm Credit Bank coupled with lower interest rates compared to 2007. Nonaccrual income was \$212 for the three months ended September 30, 2008; an increase of \$171 compared to the three months ended September 2007 primarily due to a nonaccrual loan that liquidated. Interest expense decreased \$2,236 to \$5,676, for the three months ended September 30, 2008, as compared to \$7,912 as of September 30, 2007. Lower rates also contribute to the variance in interest expense for the three months ended September 30, 2008.

Noninterest income for the three months ended September 30, 2008, totaled \$2,052, as compared to \$1,977 for the same period in 2007, an increase of \$75. The increase is primarily attributed to increased patronage from AgFirst Farm Credit Bank. Noninterest expense for the three months ended September 30, 2008 totaled \$1,982, as compared to \$1,992 for the same period in 2007, a decrease of \$10, primarily attributed to a decrease in salaries and employee benefits of \$24, offset by an increase in occupancy and equipment of \$14. In 2007 a benefit for income taxes was recorded in the amount of \$20 for the three months ended compared to a benefit recorded in 2008 for the three months ended in the amount of \$67, an increase of tax benefit in the amount of \$47.

### *For the nine months ended September 30, 2008*

Net loss for the nine months ended September 30, 2008, totaled (\$6,308), as compared to net income of \$8,860 for the same period in 2007, a decrease of \$15,168. This decrease is primarily attributed to an increase in provision for loan losses in the amount of \$14,349. The significant provision is related to negligent credit administration that was revealed in second quarter 2008 during an internal credit review and deteriorated credit quality on loans purchased from other associations. Nonaccrual income was \$223 for the nine months ended September 30, 2008 an increase of \$182 as compared to \$41 for the nine months ended September 30, 2007.

Non-interest income for the nine months ended September 30, 2008, totaled \$6,685, compared to \$5,618 for the same period in 2007, an increase of \$1,067. The increase resulted primarily from an increase of \$910 from equity in earnings of AgFirst Farm Credit Bank (the Bank).

Non-interest expense for the nine months ended September 30, 2008 totaled \$5,546, compared to \$5,826 for the same period in 2007, a decrease of \$280. The decrease

resulted primarily from a decrease in salaries and employee benefits of \$356. The Association made a provision for income taxes of \$2 for the nine months ended September 30, 2008 as compared to a provision for income taxes of \$11 in 2007, a decrease of \$9 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 September 30, 2008, was \$460,543 as compared to \$462,596 at December 31, 2007. The decrease is primarily the result of divesting loans from the balance sheet in order to manage capital. Please see footnote number 4 for additional information on the status of the General Financing Covenant.

## CAPITAL RESOURCES

Total members' equity at September 30, 2008, decreased \$9,444 to \$63,503 from the December 31, 2007, total of \$72,947. The decrease is primarily attributed to the year to date net loss which reduces unallocated retained earnings. Total capital stock and participation certificates were \$1,505 on September 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 September 30, 2008, the Association's total surplus ratio and core surplus ratio were 9.91 percent and 7.64 percent, respectively, and the permanent capital ratio was 10.22 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](http://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](http://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>	<b>September 30, 2008</b> <i>(unaudited)</i>	<b>December 31, 2007</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 461	\$ 1,310
Investment securities:		
Held to maturity (fair value of \$38,485 and \$35,880 respectively)	38,669	35,868
Total investment securities	38,669	35,868
Loans	385,493	394,021
Less: allowance for loan losses	4,607	520
Net loans	380,886	393,501
Loans held for sale		
Other investments	68,399	78,342
Accrued interest receivable	7,658	9,463
Investment in other Farm Credit institutions	17,965	21,196
Premises and equipment, net	1,306	1,356
Other property owned	3,663	—
Due from AgFirst Farm Credit Bank	5,415	6,856
Other assets	4,827	3,771
Total assets	\$ 529,249	\$ 551,663
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 460,543	\$ 462,596
Accrued interest payable	1,859	2,233
Patronage refund payable	22	3,552
Other liabilities	3,322	10,335
Total liabilities	465,746	478,716
Commitments and contingencies		
<b>Members' Equity</b>		
Protected borrower equity	310	353
Capital stock and participation certificates	1,195	1,170
Retained earnings		
Allocated	23,993	27,115
Unallocated	38,005	44,309
Total members' equity	63,503	72,947
Total liabilities and members' equity	\$ 529,249	\$ 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>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Interest Income</b>				
Investment securities	\$ 309	\$ 557	\$ 911	\$ 1,540
Loans	6,736	9,375	20,666	28,056
Other	930	1,068	2,789	3,142
Total interest income	7,975	11,000	24,366	32,738
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	5,676	7,912	17,371	23,568
Net interest income	2,299	3,088	6,995	9,170
Provision for (reversal of allowance for) loan losses	742	91	14,440	91
Net interest income (loss) after provision for (reversal of allowance for) loan losses	1,557	2,997	(7,445)	9,079
<b>Noninterest Income</b>				
Loan fees	270	326	1,073	884
Equity in earnings of other Farm Credit institutions	1,729	1,625	5,511	4,601
Gains (losses) on other property owned, net	47	—	47	(6)
Gains (losses) on sale of rural home loans, net	—	12	(3)	99
Other noninterest income	6	14	57	40
Total noninterest income	2,052	1,977	6,685	5,618
<b>Noninterest Expense</b>				
Salaries and employee benefits	1,141	1,165	3,135	3,491
Occupancy and equipment	113	99	344	324
Insurance Fund premium	140	159	414	472
Other operating expenses	588	569	1,653	1,539
Total noninterest expense	1,982	1,992	5,546	5,826
Income before income taxes	1,627	2,982	(6,306)	8,871
Provision (benefit) for income taxes	(67)	(20)	2	11
Net income (loss)	\$ 1,694	\$ 3,002	\$ (6,308)	\$ 8,860

*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				8,860	8,860
Protected borrower equity retired	(40)				(40)
Capital stock/participation certificates issued/(retired), net		4			4
Retained earnings retired			(2,811)		(2,811)
Patronage distribution adjustment			2,378	(2,231)	147
Balance at September 30, 2007	\$ 362	\$ 1,145	\$ 24,765	\$ 46,385	\$ 72,657
Balance at December 31, 2007	\$ 353	\$ 1,170	\$ 27,115	\$ 44,309	\$ 72,947
Net income (loss)				(6,308)	(6,308)
Protected borrower equity retired	(43)				(43)
Capital stock/participation certificates issued/(retired), net		25			25
Retained earnings retired			(2,646)		(2,646)
Patronage distribution adjustment			(476)	4	(472)
Balance at September 30, 2008	\$ 310	\$ 1,195	\$ 23,993	\$ 38,005	\$ 63,503

*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 third 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 nine months ended September 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 September 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:

	<b>For the nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Balance at beginning of period	\$ 520	\$ 427
Provision for (reversal of) loan losses	14,440	91
Loans (charged off), net of recoveries	(10,353)	2
<b>Balance at end of period</b>	<b>\$ 4,607</b>	<b>\$ 520</b>

### NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	<b>For the nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Pension	\$ 178	\$ 266
401(k)	92	91
Other postretirement benefits	91	94
<b>Total</b>	<b>\$ 361</b>	<b>\$ 451</b>

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

	<b>Actual YTD Through 9/30/08</b>	<b>Projected Contributions For Remainder of 2008</b>	<b>Projected Total Contributions 2008</b>
Pension	\$ -	\$ -	\$ -
Other postretirement benefits	55	23	78
<b>Total</b>	<b>\$ 55</b>	<b>\$ 23</b>	<b>\$ 78</b>

---

As of September 30, 2008, no contributions have been made to the pension plan for 2008. Actuarial projections as of the last plan measurement date (September 30, 2007) did not anticipate any contributions for 2008. However, a new funding policy adopted during 2008 and a declining investment market, which has impacted the discount rate and the return on plan assets, will require an additional contribution to be made prior to the next plan measurement date at December 31, 2008. The additional contribution amount will be determined by the plan's Sponsor Committee.

**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 standard liquidity covenant. At September 30, 2008, the Association failed to meet its standard liquidity covenant. This default allows the Bank to accelerate repayment of all indebtedness. However, the Bank has granted the Association a temporary waiver of this standard covenant default and established a lower temporary covenant requirement in connection with its approval of a plan submitted by the Association to achieve compliance with the standard covenant requirement. The Association is in compliance with the temporary covenant requirement at September 30, 2008.