
Southwest Georgia Farm Credit, ACA

FIRST QUARTER 2007

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President/CEO



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Chairman of the Board

April 25, 2007

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, 2007. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2006 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 \$389,203 or 80.60 percent of the loan portfolio as of March 31, 2007. 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.

Investment securities classed as held to maturity as of March 31, 2007 was \$38,338, an increase of \$6,332 over December 31, 2006. The gross loan volume of the Association as of March 31, 2007, was \$454,601, a decrease of \$22,807 as compared to \$477,408 at December 31, 2006. Net loans outstanding at March 31, 2007, were \$454,174 as compared to \$476,981 at December 31, 2006, a decrease of \$22,807. Total assets at March 31, 2007 were \$596,338 compared to \$630,120 at December 31, 2006, a decrease of \$33,782. The decrease in total assets was primarily due to divestiture of a large portion of USDA loans, a slight reduction in direct loans and a reduction in other investments (SIIC tobacco contracts) from an annual payment. Net loans and Investments accounted for 94.85 percent of total assets at March 31, 2007, as compared to 94.17 percent of total assets at December 31, 2006.

The decrease in gross and net loan volume during the reporting period is primarily a result of selling a significant portion of the USDA loans. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak between August and September 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 \$102 at December 31, 2006, to \$86 at March 31, 2007. This decrease of \$15 is attributed to payments applied on these loans.

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, 2007, was \$427 the same as December 31, 2006. The allowance at March 31, 2007 was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2007

Net income for the three months ended March 31, 2007, totaled \$2,952, as compared to \$2,660 for the same period in 2006, an increase of \$292. Net interest income of \$2,955 for the three months ended March 31, 2007 decreased \$82, as compared to \$3,037 at March 31, 2006. At March 31, 2007, interest income on loans was \$9,085 for the three months ended March 31, 2007, an increase of \$741 as compared to \$8,344 at March 31, 2006. At March 31, 2007, interest income on Investment securities was \$440, an increase of \$440 compared to same period 2006. Other Interest income was \$1,023 at March 31, 2007, an increase of \$14 as compared to \$1,009 at March 31, 2006. Nonaccrual income was \$0 for the three months ended March 31, 2007, the same as the same period in 2006. Interest expense was \$7,593 for the three months ended March 31, 2007, an increase of \$1,277, as compared to March 31, 2006. The increase in interest income is primarily the result of growth in accruing loan volume and investments assets.

Noninterest income for the three months ended March 31, 2007, totaled \$1,911, as compared to \$1,277 for the same period in 2006, an increase of \$634. Noninterest expense for the three months ended March 31, 2007 totaled \$1,870, as compared to \$1,652 for the same period in 2006, an increase of \$218. The increase in noninterest expense is primarily attributed to an increase in salaries and employee benefits. A provision for income taxes was recorded in the amount of \$44 for the three months ended March 31, 2007 compared to a provision in the amount of \$2 for the same period in 2006.

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 March 31, 2007, was \$518,514 as compared to \$547,249 at December 31, 2006. The decrease during the period is primarily a result of selling a significant portion of the USDA loans, the annual SIIC tobacco payment and pay downs in the normal course of business.

PENSION ACCOUNTING UPDATE

On September 29, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 - Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans. The standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Association will be required to implement the Standard for the year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently the Association uses a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Association is

currently evaluating the impact of implementing this Standard. It is anticipated that the impact from the implementation of this Standard will have no impact on the income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the balance sheet.

CAPITAL RESOURCES

Total members' equity at March 31, 2007, increased \$286 from the December 31, 2006, total of \$66,497. The increase is primarily attributed to year to date net income rolling into unallocated retained earnings. Total capital stock and participation certificates were \$1,508 on March 31, 2007, compared to \$1,543 on December 31, 2006.

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, 2007, the Association's total surplus ratio and core surplus ratio were 11.63 percent and 9.88 percent, respectively, and the permanent capital ratio was 11.89 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. 316, or writing Wanda Martin, 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 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

<i>(dollars in thousands)</i>	March 31, 2007 <i>(unaudited)</i>	December 31, 2006 <i>(audited)</i>
Assets		
Cash	\$ 1,600	\$ 2,885
Investment securities, held to maturity	38,338	32,006
Loans	454,601	477,408
Less: allowance for loan losses	427	427
Net loans	454,174	476,981
Other investments, held to maturity	73,095	84,426
Accrued interest receivable	9,109	10,167
Investment in other Farm Credit institutions	13,578	13,473
Premises and equipment, net	1,367	1,313
Other property owned	7	7
Prepaid retirement expense	2,802	2,891
Due from AgFirst Farm Credit Bank	1,304	5,239
Other assets	964	732
Total assets	<u>\$ 596,338</u>	<u>\$ 630,120</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 518,514	\$ 547,249
Accrued interest payable	2,548	2,733
Patronage refund payable	142	4,009
Other liabilities	8,351	9,632
Total liabilities	<u>529,555</u>	<u>563,623</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	362	402
Capital stock and participation certificates	1,146	1,141
Retained earnings		
Allocated	24,802	25,198
Unallocated	40,473	39,756
Total members' equity	<u>66,783</u>	<u>66,497</u>
Total liabilities and members' equity	<u>\$ 596,338</u>	<u>\$ 630,120</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,	
	2007	2006
Interest Income		
Loans	\$ 9,085	\$ 8,344
Investment securities	440	—
Other	1,023	1,009
Total Interest Income	10,548	9,353
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	7,593	6,316
Net interest income	2,955	3,037
Provision for (reversal of allowance for) loan losses	—	—
Net interest income after provision for (reversal of allowance for) loan losses	2,955	3,037
Noninterest Income		
Loan fees	298	323
Equity in earnings of other Farm Credit institutions	1,464	893
Other noninterest income	149	61
Total noninterest income	1,911	1,277
Noninterest Expense		
Salaries and employee benefits	1,128	919
Occupancy and equipment	108	115
Insurance Fund premium	148	146
Other operating expenses	486	472
Total noninterest expense	1,870	1,652
Income before income taxes	2,996	2,662
Provision (benefit) for income taxes	44	2
Net income	\$ 2,952	\$ 2,660

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, 2005	\$ 481	\$ 1,125	\$ 24,744	\$ 35,137	\$ 61,487
Net income				2,660	2,660
Protected borrower equity retired	(73)				(73)
Capital stock/participation certificates issued		29			29
Capital stock/participation certificates retired		(30)			(30)
Retained earnings retired			(4,097)		(4,097)
Distribution adjustment			79	(530)	(451)
Balance at March 31, 2006	\$ 408	\$ 1,124	\$ 20,726	\$ 37,267	\$ 59,525
Balance at December 31, 2006	\$ 402	\$ 1,141	\$ 25,198	\$ 39,756	\$ 66,497
Net income				2,952	2,952
Protected borrower equity retired	(40)				(40)
Capital stock/participation certificates issued		37			37
Capital stock/participation certificates retired		(32)			(32)
Patronage distribution					
Allocated retained earnings			26	(26)	-
Retained earnings retired			(2,800)		(2,800)
Distribution adjustment			2,378	(2,209)	169
Balance at March 31, 2007	\$ 362	\$ 1,146	\$ 24,802	\$ 40,473	\$ 66,783

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, 2006, are contained in the 2006 Annual Report to Shareholders. These unaudited first quarter 2007 consolidated financial statements should be read in conjunction with the 2006 Annual Report to Shareholders.

On September 29, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Association will be required to implement the Standard for the year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Association uses a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Association is currently evaluating the impact of implementing this Standard. It is anticipated that the impact from the implementation of this Standard will have no impact on the consolidated income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the consolidated balance sheet.

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, 2007, are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

Certain amounts in prior period consolidated financial statements may 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, 2007, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

Investment Securities: The Association, as permitted under the FCA regulations, holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. The Association's investments are classified as held to maturity and accordingly have been reported at amortized cost. Purchased premiums and discounts are amortized or accreted using the effective interest method over the term of the respective security.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or permanent. In the event of permanent impairment, the cost basis of the investment would be written down to its fair value, and the realized loss would be included in current earnings.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the three months ended March 31,	
	2007	2006
Balance at beginning of period	\$ 427	\$ 844
Provision for (reversal of) loan losses	—	—
Loans (charged off), net of recoveries	—	—
Balance at end of period	<u>\$ 427</u>	<u>\$ 844</u>

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, 2007:

	For the three months ended March 31,	
	2007	2006
Pension	\$ 89	\$ 98
Thrift/deferred compensation	38	26
Other postretirement benefits	31	31
Total	<u>\$ 158</u>	<u>\$ 155</u>

As of March 31, 2007, no contributions have been made to the pension plan for 2007. Actuarial projections as of the last plan measurement date (September 30, 2006) did not anticipate any contributions for 2007; 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.