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*Southwest Georgia Farm Credit, ACA*

# **FIRST QUARTER 2008**

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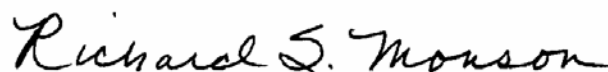
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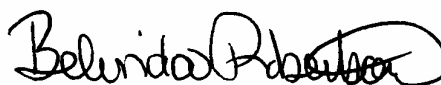
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Richard S. Monson  
President/CEO



Belinda Robertson  
Chief Financial Officer



Bobby J. Brooks  
Chairman of the Board

April 23, 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 March 31, 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 \$427,303 or 61.31 percent of the loan portfolio as of March 31, 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, somewhat impacts the level of dependency on a given commodity.

Investment securities classed as held to maturity as of March 31, 2008 were \$42,368, an increase of \$6,500 compared to \$35,868 at December 31, 2007. The gross loan volume of the Association as of March 31, 2008, was \$424,754, an increase of \$30,733 as compared to \$394,021 at December 31, 2007. Net loans outstanding at March 31, 2008, were \$413,979 as compared to \$393,501 at December 31, 2007, an increase of \$20,478. Total assets at March 31, 2008 were \$558,365, compared to \$551,663 at December 31, 2007, an increase of \$6,702. The increase in total assets was primarily in loans. Net loans and Investments accounted for 93.62 percent of total assets at March 31, 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. The portfolio credit quality has shown significant deterioration in recent months. This has primarily resulted from two large loan relationships exhibiting poor credit administration and under collateralization. Management has been aggressive in dealing with these problem loans as well as putting immediate plans and controls in place to address the indicated weaknesses.

The Association has a portfolio management policy and plan in place to address portfolio risk and monitoring of the portfolio. Nonaccrual loans decreased \$11 from \$2,136 at December 31, 2007, to \$2,125 at March 31, 2008.

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, 2008, was \$10,775 compared to \$520 as of December 31, 2007, an increase of \$10,255. The most recent Internal Credit Review (ICR) has revealed two large loan relationships in which poor credit administration has resulted in a potential loss for the association. For this reason management recommended a \$10,364 provision to the loan loss allowance be processed in March. A \$109 loan loss reversal was process in January 2008. The Risk Management Committee approved the provision to the allowance for loan loss. It is expected the two large loans will be transferred to nonaccrual status as of April 1, 2008.

## RESULTS OF OPERATIONS

### *For the three months ended March 31, 2008*

Net loss for the three months ended March 31, 2008, totaled \$7,192, as compared to net income of \$2,952 for the same period in 2007, a decrease of \$10,144. The first quarter net loss and the change in net income from the prior year quarter are both primarily attributable to the provision for loan losses of \$10,364 recorded during the quarter as discussed above under "Loan Portfolio". Net interest income decreased \$243, for the three months ended March 31, 2008, as compared to the same period in 2007. At March 31, 2008, interest income on loans decreased \$1,660 compared to March 31, 2007. At March 31, 2008, interest income on Investment securities was \$389, a decrease of \$51 compared to same period 2007. Other Interest income was \$941 at March 31, 2008, a decrease of \$82 compared to same period 2007. Interest expense decreased \$1,550, for the three months ended March 31, 2008, as compared to the same period 2007. The decrease in interest income is primarily the result of earning assets sold to the AgFirst CPP. Income on these same assets is now recognized in the form of non-interest income or patronage income.

Noninterest income for the three months ended March 31, 2008, totaled \$2,429, as compared to \$1,911 for the same period in 2007, an increase of \$518. The increase in noninterest income is the result of earning assets sold to the AgFirst CPP. Income on these same assets is now recognized in the form of non-interest income or patronage income. Noninterest expense for the three months ended March 31, 2008 totaled \$2,010, as compared to \$1,870 for the same period in 2007, an increase of \$140.

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A provision for income taxes was recorded in the amount of \$69 for the three months ended compared to \$44, an increase of \$25 for the same period in 2007.

### **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, 2008, was \$486,452 as compared to \$462,596 at December 31, 2007.

### **CAPITAL RESOURCES**

Total members' equity at March 31, 2008, decreased \$10,176 from the December 31, 2007, total of \$72,947. The decrease is primarily attributed to the year to date net loss and its impact on unallocated retained earnings. Total capital stock and participation certificates were \$1,470 on March 31, 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 March 31, 2008, the Association's total surplus ratio and core surplus ratio were 12.58 percent and 10.35 percent, respectively, and the permanent capital ratio was 12.87 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 1-800-844-2615, 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>March 31, 2008</b> <i>(unaudited)</i>	<b>December 31, 2007</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 404	\$ 1,310
Investment securities:		
Held to maturity (fair value of \$42,437 and \$35,880 respectively)	42,368	35,868
Total investment securities	42,368	35,868
Loans	424,754	394,021
Less: allowance for loan losses	10,775	520
Net loans	413,979	393,501
Other investments	66,419	78,342
Accrued interest receivable	7,535	9,463
Investment in other Farm Credit institutions	20,429	21,196
Premises and equipment, net	1,329	1,356
Due from AgFirst Farm Credit Bank	1,851	6,856
Other assets	4,051	3,771
Total assets	\$ 558,365	\$ 551,663
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 486,452	\$ 462,596
Accrued interest payable	1,954	2,233
Patronage refund payable	96	3,552
Other liabilities	7,092	10,335
Total liabilities	495,594	478,716
Commitments and contingencies		
<b>Members' Equity</b>		
Protected borrower equity	321	353
Capital stock and participation certificates	1,149	1,170
Retained earnings		
Allocated	24,218	27,115
Unallocated	37,083	44,309
Total members' equity	62,771	72,947
Total liabilities and members' equity	\$ 558,365	\$ 551,663

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

*Southwest Georgia Farm Credit, ACA*  
**Consolidated Statements of Operations**

*(unaudited)*

**For the three months  
ended March 31,**

*(dollars in thousands)*

	<b>2008</b>	<b>2007</b>
<b>Interest Income</b>		
Investment securities	\$ 389	\$ 440
Loans	7,425	9,085
Other	941	1,023
	8,755	10,548
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	6,043	7,593
	2,712	2,955
Provision for (reversal of allowance for) loan losses	10,254	—
	(7,542)	2,955
<b>Noninterest Income</b>		
Loan fees	501	298
Equity in earnings of other Farm Credit institutions	1,887	1,464
Gains (losses) on sale of rural home loans, net	(1)	52
Other noninterest income	42	97
	2,429	1,911
<b>Noninterest Expense</b>		
Salaries and employee benefits	1,224	1,128
Occupancy and equipment	120	108
Insurance Fund premium	126	148
Other operating expenses	540	486
	2,010	1,870
Income (loss) before income taxes	(7,123)	2,996
Provision (benefit) for income taxes	69	44
	\$ (7,192)	\$ 2,952

*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)*

	<b>Protected Borrower Capital</b>	<b>Capital Stock and Participation Certificates</b>	<b>Retained Earnings</b>		<b>Total Members' Equity</b>
			<b>Allocated</b>	<b>Unallocated</b>	
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)
Patronage distribution adjustment			2,378	(2,209)	169
<b>Balance at March 31, 2007</b>	<b>\$ 362</b>	<b>\$ 1,146</b>	<b>\$ 24,802</b>	<b>\$ 40,473</b>	<b>\$ 66,783</b>
Balance at December 31, 2007	\$ 353	\$ 1,170	\$ 27,115	\$ 44,309	\$ 72,947
Net income (loss)				(7,192)	(7,192)
Protected borrower equity retired	(32)				(32)
Capital stock/participation certificates issued		33			33
Capital stock/participation certificates retired		(54)			(54)
Patronage distribution					
Allocated retained earnings			35		35
Retained earnings retired			(2,444)		(2,444)
Patronage distribution adjustment			(488)	(34)	(522)
<b>Balance at March 31, 2008</b>	<b>\$ 321</b>	<b>\$ 1,149</b>	<b>\$ 24,218</b>	<b>\$ 37,083</b>	<b>\$ 62,771</b>

*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 first 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 three months ended March 31, 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 March 31, 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 No. 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 No. 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 the Standard, but believes that its adoption will significantly impact its accounting for 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 three months ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Balance at beginning of period	\$ 520	\$ 427
Provision for (reversal of) loan losses	10,254	–
Loans (charged off), net of recoveries	1	–
<b>Balance at end of period</b>	<b>\$10,775</b>	<b>\$ 427</b>

**NOTE 3 – EMPLOYEE BENEFIT PLANS**

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

	<b>For the three months ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Pension	\$ 60	\$ 89
401(k)	39	38
Other postretirement benefits	30	31
<b>Total</b>	<b>\$ 129</b>	<b>\$ 158</b>

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

	<b>Actual YTD Through 3/31/08</b>	<b>Projected Contributions For Remainder of 2008</b>	<b>Projected Total Contributions 2008</b>
Pension	\$ –	\$ –	\$ –
Other postretirement benefits	18	60	78
<b>Total</b>	<b>\$ 18</b>	<b>\$ 60</b>	<b>\$ 78</b>

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.