
Southwest Georgia Farm Credit, ACA

THIRD QUARTER 2006

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

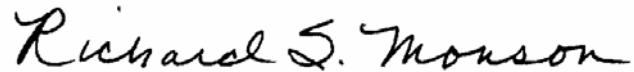
Consolidated Financial Statements

Consolidated Balance Sheets.....5

Consolidated Statements of Income.....6

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

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



Richard S. Monson
President/CEO



Bobby J. Brooks
Chairman of the Board

October 30, 2006

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, 2006. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2005 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 \$398,061 or 76.94 percent of the loan portfolio as of September 30, 2006. 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.

Southwest Georgia has experienced dry weather conditions during this crop season. The state continues to experience dry weather and cooler temperatures. By and large, irrigated crop yields are better than last year and much better than average over all. The peanut and cotton yields are much better than average. Dry land conditions have been disappointing coming in at fair to poor. Although the drought reduced yields and could cause some deterioration management does not expect major deterioration in the portfolio since a large percentage of contracts are protected by crop insurance.

Investment securities classed as held to maturity as of September 30, 2006 was \$33,188, an increase of \$33,188 over December 31, 2005. The gross loan volume of the Association as of September 30, 2006, was \$485,357, an increase of \$30,033 as compared to \$455,324 at December 31, 2005. Net loans outstanding at September 30, 2006, were \$484,513 as compared to \$454,480 at December 31, 2005, an increase of \$30,033. Other investments at September 30, 2006 were \$82,860 compared to \$58,851 at December 31, 2005, an increase of \$24,009. Total assets at September 30, 2006 were \$630,796, compared to \$538,185 at December 31, 2005, an increase of

\$92,611. The increase in total assets was primarily because of increases in investment securities, loans and other investments. Net loans and investments accounted for 95.34 percent of total assets at September 30, 2006, as compared to 95.54 percent of total assets at December 31, 2005.

The increase in gross and net loan volume during the reporting period is attributed primarily to an increase in the domestic and participation portfolio. 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 \$131 at December 31, 2005, to \$101 at September 30, 2006. This was a decrease of \$30, which was attributed to payments.

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, 2006, was \$844 the same as December 31, 2005. The allowance at September 30, 2006 was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2006

Net income for the three months ended September 30, 2006, totaled \$3,202, as compared to \$2,642 for the same period in 2005, an increase of \$560. Net interest income increased \$392, for the three months ended September 30, 2006, as compared to the same period in 2005. At September 30, 2006, interest income on loans increased \$2,320 compared to September 30, 2005. At September 30, 2006, interest income on Investment securities was \$590, an increase of \$590 compared to same period 2005. Other Interest income was \$1,177 at September 30, 2006, an increase of \$1,177 compared to same period in 2005. Nonaccrual income was \$0 for the three months ended September 30, 2006, the same as the same period in 2005. Interest expense increased \$3,695, for the three months ended September 30, 2006, as compared to September 30, 2005. The increase in interest income is primarily the result of increased loan volume and investments.

Noninterest income for the three months ended September 30, 2006, totaled \$1,601, as compared to \$1,250 for the same period in 2005, an increase of \$351. Noninterest expense for the three months ended September 30, 2006 totaled \$1,794, as compared to \$1,564 for the same period in 2005, an increase of \$230. The increase in noninterest expense is attributed to an increase in insurance fund premium of \$99, an increase in other operating expense of \$86, an increase in salaries and employee benefits of \$46 offset by a decrease in occupancy and equipment of \$1. A benefit for income taxes was recorded in the amount of \$22 for the three months ended compared to a provision in the amount of \$25 for the same period in 2005, a decrease of tax expense in the amount of \$47.

For the nine months ended September 30, 2006

Net income for the nine months ended September 30, 2006, totaled \$8,938, as compared to \$7,204 for the same period in 2005, an increase of \$1,734. This increase is attributed to an increase in net interest income of \$1,276, an increase in noninterest income of \$1,084, a decrease of tax expense of \$19, and an increase in noninterest expense of \$645. Interest income on loans for the nine months ended September 30, 2006, was \$27,509, compared to \$20,462 for the same period in 2005, an increase of \$7,047. Interest Income on investment securities was \$899, an increase of \$899 compared to same period 2005. Other interest income was \$3,317, an increase of \$3,317 over same period 2005. Interest expense for the nine months ended September 30, 2006, was \$22,088, compared to \$12,100 for the same period of 2005, an increase of \$9,988 because of an increase in notes payable to AgFirst and an increase in interest rates. Nonaccrual income was \$0 for the nine months ended September 30, 2006, the same as September 30, 2005.

Noninterest income for the nine months ended September 30, 2006, totaled \$4,477, compared to \$3,393 for the same period in 2005, an increase of \$1,084. The increase resulted from an increase of \$966 from equity in earnings of AgFirst Farm Credit Bank (the Bank), an increase in loan fees of \$157, an increase in fees for financially related services of \$1, increase in gains on sale of other property owned of \$2 offset by a decrease in other noninterest income fees of \$42.

Noninterest expense for the nine months ended September 30, 2006 totaled \$5,171, compared to \$4,526 for the same period in 2005, an increase of \$645. The increase resulted from an increase in salaries and employee benefits of \$11, an increase in insurance premium of \$332, and an increase in other operating expense of \$309, offset by a decrease in occupancy and equipment of \$7. The Association made a provision for income taxes of \$5 for the nine months ended September 30, 2006 as compared to a provision for income taxes of \$24 in 2005, a decrease of \$19 in tax expense compared to September 2005.

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, 2006, was \$558,024 as compared to \$465,789 at December 31, 2005. The increase during the period is primarily attributed to Investment Securities, held to maturity, loans and Other Investments.

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 September 30, 2006, increased to \$4,326 from the December 31, 2005, total of \$61,487. The increase is primarily attributed to year to date net income rolling into unallocated retained earnings. Total capital stock and participation certificates were \$1,544 on September 30, 2006, compared to \$1,606 on December 31, 2005.

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, 2006, the Association's total surplus ratio and core surplus ratio were 11.70 percent and 10.03 percent, respectively, and the permanent capital ratio was 11.95 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> | September 30, 2006 <i>(unaudited)</i> | December 31, 2005 <i>(audited)</i> |
|--|---|--|
| Assets | | |
| Cash | \$ 683 | \$ 3,358 |
| Investment securities, held to maturity | 33,188 | — |
| Loans | 485,357 | 455,324 |
| Less: allowance for loan losses | 844 | 844 |
| Net loans | 484,513 | 454,480 |
| Other investments | 82,860 | 58,851 |
| Accrued interest receivable | 11,853 | 7,176 |
| Investment in other Farm Credit institutions | 9,877 | 5,503 |
| Premises and equipment, net | 963 | 1,048 |
| Other property owned | 7 | 7 |
| Prepaid retirement expense | 2,988 | 3,279 |
| Due from AgFirst Farm Credit Bank | 2,938 | 4,203 |
| Other assets | 926 | 280 |
| Total assets | <u>\$ 630,796</u> | <u>\$ 538,185</u> |
| Liabilities | | |
| Notes payable to AgFirst Farm Credit Bank | \$ 558,024 | \$ 465,789 |
| Accrued interest payable | 2,688 | 1,981 |
| Patronage refund payable | 11 | 3,182 |
| Other liabilities | 4,260 | 5,746 |
| Total liabilities | <u>564,983</u> | <u>476,698</u> |
| Commitments and contingencies | | |
| Members' Equity | | |
| Protected borrower equity | 403 | 481 |
| Capital stock and participation certificates | 1,141 | 1,125 |
| Retained earnings | | |
| Allocated | 20,726 | 24,744 |
| Unallocated | 43,543 | 35,137 |
| Total members' equity | <u>65,813</u> | <u>61,487</u> |
| Total liabilities and members' equity | <u>\$ 630,796</u> | <u>\$ 538,185</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 September 30, | | For the nine months ended September 30, | |
|--|---|-------------|--|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| Interest Income | | | | |
| Loans | \$ 9,976 | \$ 7,656 | \$ 27,509 | \$ 20,462 |
| Investment securities | 590 | — | 899 | — |
| Other | 1,177 | — | 3,317 | — |
| | | | | |
| Total interest income | 11,743 | 7,656 | 31,725 | 20,462 |
| Interest Expense | | | | |
| Notes payable to AgFirst Farm Credit Bank | 8,370 | 4,675 | 22,088 | 12,100 |
| | | | | |
| Net interest income | 3,373 | 2,981 | 9,637 | 8,362 |
| Provision for (reversal of) loan losses | — | — | — | 1 |
| | | | | |
| Net interest income after provision for (reversal of) loan losses | 3,373 | 2,981 | 9,637 | 8,361 |
| Noninterest Income | | | | |
| Loan fees | 328 | 303 | 944 | 787 |
| Fees for financially related services | 7 | 5 | 10 | 9 |
| Equity in earnings of other Farm Credit institutions | 1,216 | 891 | 3,378 | 2,412 |
| Gains (losses) on other property owned, net | — | 1 | 1 | (1) |
| Other noninterest income | 50 | 50 | 144 | 186 |
| | | | | |
| Total noninterest income | 1,601 | 1,250 | 4,477 | 3,393 |
| Noninterest Expense | | | | |
| Salaries and employee benefits | 1,065 | 1,019 | 2,987 | 2,976 |
| Occupancy and equipment | 108 | 109 | 337 | 344 |
| Insurance Fund premium | 163 | 64 | 464 | 132 |
| Other operating expenses | 458 | 372 | 1,383 | 1,074 |
| | | | | |
| Total noninterest expense | 1,794 | 1,564 | 5,171 | 4,526 |
| | | | | |
| Income before income taxes | 3,180 | 2,667 | 8,943 | 7,228 |
| Provision (benefit) for income taxes | (22) | 25 | 5 | 24 |
| | | | | |
| Net income | \$ 3,202 | \$ 2,642 | \$ 8,938 | \$ 7,204 |

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, 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 |
| Balance at December 31, 2005 | \$ 481 | \$ 1,125 | \$ 24,744 | \$ 35,137 | \$ 61,487 |
| Net income | | | | 8,938 | 8,938 |
| Protected borrower equity retired | (78) | | | | (78) |
| Capital stock/participation certificates issued | | 120 | | | 120 |
| Capital stock/participation certificates retired | | (104) | | | (104) |
| Retained earnings retired | | | (4,097) | | (4,097) |
| Distribution adjustment | | | 79 | (532) | (453) |
| Balance at September 30, 2006 | \$ 403 | \$ 1,141 | \$ 20,726 | \$ 43,543 | \$ 65,813 |

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, 2005, are contained in the 2005 Annual Report to Shareholders. These unaudited third quarter 2006 consolidated financial statements should be read in conjunction with the 2005 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 nine months ended September 30, 2006, are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

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, 2006, 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 nine months ended September 30, | |
|---|---|---------------|
| | 2006 | 2005 |
| Balance at beginning of period | \$ 844 | \$ 843 |
| Provision for (reversal of) loan losses | – | 1 |
| Loans (charged off), net of recoveries | – | (1) |
| Balance at end of period | <u>\$ 844</u> | <u>\$ 843</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 nine months ended September 30, 2006:

| | For the nine months ended September 30, | |
|-------------------------------|--|----------------------|
| | <u>2006</u> | <u>2005</u> |
| Pension | \$ 291 | \$ 293 |
| Thrift/deferred compensation | 65 | 53 |
| Other postretirement benefits | 92 | 165 |
| Total | <u>\$ 448</u> | <u>\$ 511</u> |

As of September 30, 2006, no contributions have been made to the pension plan for 2006. The Association does not anticipate making additional contributions for the remainder of 2006.