

SECOND QUARTER 2004

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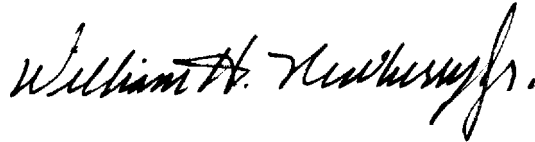
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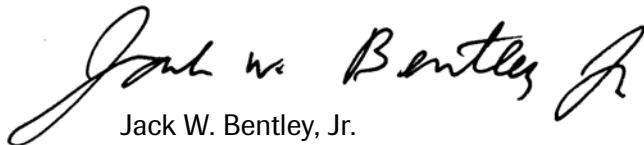
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William H. Newberry, Jr.
Chief Executive Officer



Jack W. Bentley, Jr.
Chairman of the Board

July 29, 2004

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 AgGeorgia Farm Credit ACA, (Association) for the period ended June 30, 2004. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2003 Annual Report of the Association.

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 including poultry, cotton, timber, peanuts and livestock. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of June 30, 2004, was \$777,311, an increase of \$49,134 as compared to \$728,177 at December 31, 2003. Net loans outstanding at June 30, 2004, were \$756,000 as compared to \$706,961 at December 31, 2003. Net loans accounted for 96.62 percent of total assets at June 30, 2004, as compared to 95.88 percent of total assets at December 31, 2003. The increase in gross and net loan volume during the reporting period is partly attributable to operating loans for row crop operations, which were drawn on primarily during the second quarter.

There is an inherent risk in the extension of any type of credit; however, portfolio credit quality continues to be maintained at an acceptable level. Nonaccrual loans decreased from \$20,262 at December 31, 2003, to \$19,033 at June 30, 2004. This decrease is primarily the result of transfers of loan volume to nonaccrual being less than regular payments made on nonaccrual loans,

along with nonaccrual loans liquidated or reinstated to accrual status.

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, 2004, was \$21,311 compared to \$21,216 at December 31, 2003, and was considered by management to be adequate to cover possible losses.

In June 2003, the American Institute of Certified Public Accountants' (AICPA) Accounting Standards Executive Committee (AcSEC) issued a proposed Statement of Position – Allowance for Credit Losses, which was intended to clarify the methodology for estimating the allowance for credit losses and to enhance financial statement disclosures related to the allowance for credit losses. In January 2004, AcSEC abandoned its proposed Statement of Position and announced that it would focus instead on improving financial statement disclosures regarding the allowance for loan losses.

System institutions have initiated studies to further refine their methodologies for calculating their respective allowances for loan losses, taking into account generally accepted accounting principles and applicable Farm Credit Administration requirements, as well as the Securities and Exchange Commission and Federal Financial Institutions Examination Council guidelines. These studies are likely to be completed by the fourth quarter of 2004 with any appropriate reductions to the allowance for loan losses implemented at that time. The resulting reductions in the allowance for loan losses may be significant.

In April 2004, the Farm Credit Administration, the System's regulator, issued an "Informational Memorandum" to System institutions regarding the allowance for loan losses. The memorandum addresses the status of the AICPA's project and the Securities and Exchange Commission and the Federal Financial Institutions Examination Council guidance on the subject. The objective of the Farm Credit Administration's memorandum was to clarify its expectations regarding

the analysis and related documentation for the allowance for loan losses. The Farm Credit Administration endorsed the direction provided by these other regulatory agencies and will include the conceptual framework addressed in this guidance in their examination process.

RESULTS OF OPERATIONS

For the three months ended June 30, 2004

Net income for the three months ended June 30, 2004, totaled \$3,471, as compared to \$4,038 for the same period in 2003. Net interest income decreased \$257 for the three months ended June 30, 2004, as compared to the same period in 2003. The provision for loan losses totaled \$0 for the three months ended June 30, 2004, as compared to \$258 for the same period in 2003.

Noninterest income for the three months ended June 30, 2004, totaled \$1,639, as compared to \$1,636 for the same period of 2003, an increase of \$3. Noninterest expense for the three months ended June 30, 2004, increased \$535 compared to the same period of 2003. The primary areas of increase in noninterest expense are salaries and employee benefits.

For the six months ended June 30, 2004

Net income for the six months ended June 30, 2004, totaled \$7,150, as compared to \$7,056 for the same period in 2003. Net interest income increased \$300 for the six months ended June 30, 2004, as compared to the same period in 2003. The provision for loan losses totaled \$0 for the six months ended June 30, 2004, as compared to \$358 for the same period in 2003.

Both interest income and interest expense are at lower levels because of the current low interest rate environment. At June 30, 2004, interest income decreased \$326 compared to June 30, 2003. Interest expense decreased \$626 for the six months ended June 30, 2004, as compared to the comparable period of 2003.

Noninterest income for the six months ended June 30, 2004, totaled \$3,317, as compared to \$3,038 for the same period of 2003, an increase of \$279. Noninterest expense for the six months ended June 30, 2004, increased \$771 compared to the same period of 2003. The primary areas of increase in noninterest expense are salaries and employee benefits.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (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 Bank advances funds 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, 2004, was \$647,480 as compared to \$596,800 at December 31, 2003. The increase during the period corresponds to the increase in gross and net loan volume, discussed above.

CAPITAL RESOURCES

Total members' equity at June 30, 2004, decreased to \$111,016 from the December 31, 2003, total of \$113,277. The decrease is primarily attributed to the retained earnings accumulated being less than the combined (1) revolvment of surplus and (2) retirement of stock.

Total capital stock and participation certificates were \$4,711 on June 30, 2004, compared to \$4,859 on December 31, 2003. This decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business.

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, 2004, the Association's total surplus ratio and core surplus ratio were 15.24 percent and 11.27 percent, respectively, and the permanent capital ratio was 15.76 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.

Ag Georgia Farm Credit, ACA

Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2004	December 31, 2003
	<i>(unaudited)</i>	
Assets		
Cash	\$ 153	\$ 2,176
Loans	777,311	728,177
Less: allowance for loan losses	21,311	21,216
Net loans	756,000	706,961
Accrued interest receivable	9,026	8,249
Investment in other Farm Credit institutions	9,510	9,445
Premises and equipment, net	4,580	4,511
Other property owned	—	7
Other assets	3,188	5,963
Total assets	\$ 782,457	\$ 737,312
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 647,480	\$ 596,800
Accrued interest payable	1,998	1,965
Patronage refund payable	538	5,277
Postretirement benefits other than pensions	5,016	4,572
Minimum pension liability	3,661	3,851
Other liabilities	12,748	11,570
Total liabilities	671,441	624,035
Commitments and contingencies		
Members' Equity		
Protected borrower equity	884	1,097
Capital stock and participation certificates	3,827	3,762
Retained earnings		
Allocated	71,488	81,420
Unallocated	42,229	34,410
Accumulated other comprehensive income (loss)	(7,412)	(7,412)
Total members' equity	111,016	113,277
Total liabilities and members' equity	\$ 782,457	\$ 737,312

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

Ag Georgia Farm Credit, ACA

Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2004	2003	2004	2003
Interest Income				
Loans	\$ 11,602	\$ 12,080	\$ 22,917	\$ 23,243
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	5,926	6,147	11,665	12,291
Net interest income	5,676	5,933	11,252	10,952
Provision for (reversal of) loan losses	—	258	—	358
Net interest income after provision for (reversal of) loan losses	5,676	5,675	11,252	10,594
Noninterest Income				
Loan fees	371	341	731	667
Fees for financially related services	28	36	52	54
Equity in earnings of other Farm Credit institutions	1,228	1,148	2,437	2,210
Gains (losses) on other property owned, net	1	1	2	3
Other noninterest income	11	110	95	104
Total noninterest income	1,639	1,636	3,317	3,038
Noninterest Expense				
Salaries and employee benefits	2,747	2,273	5,201	4,486
Occupancy and equipment	259	229	493	469
Insurance Fund premium	189	215	376	419
Other operating expenses	578	521	1,207	1,132
Total noninterest expense	3,773	3,238	7,277	6,506
Income before income taxes	3,542	4,073	7,292	7,126
Provision (benefit) for income taxes	71	35	142	70
Net income	\$ 3,471	\$ 4,038	\$ 7,150	\$ 7,056

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

Ag Georgia Farm Credit, ACA
**Statements of Changes in
Members' Equity**

(unaudited)

(dollars in thousands)

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2002	\$ 1,477	\$ 3,773	\$ 85,918	\$ 37,736	\$ (8,028)	\$ 120,876
Net income				7,056		7,056
Protected borrower equity retired	(317)					(317)
Capital stock/participation certificates issued		174				174
Capital stock/participation certificates retired		(146)				(146)
Retained earnings retired			(17,218)			(17,218)
Distribution adjustment			773	(1,081)		(308)
Balance at June 30, 2003	\$ 1,160	\$ 3,801	\$ 69,473	\$ 43,711	\$ (8,028)	\$ 110,117
Balance at December 31, 2003	\$ 1,097	\$ 3,762	\$ 81,420	\$ 34,410	\$ (7,412)	\$ 113,277
Net income				7,150		7,150
Protected borrower equity retired	(213)					(213)
Capital stock/participation certificates issued		204				204
Capital stock/participation certificates retired		(139)				(139)
Retained earnings retired			(9,457)			(9,457)
Distribution adjustment			(475)	669		194
Balance at June 30, 2004	\$ 884	\$ 3,827	\$ 71,488	\$ 42,229	\$ (7,412)	\$ 111,016

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

Notes to the Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of AgGeorgia 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, 2003, are contained in the 2003 Annual Report to Stockholders. These unaudited second quarter 2004 financial statements should be read in conjunction with the 2003 Annual Report to Stockholders.

The accompanying 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 six months ended June 30, 2004, are not necessarily indicative of the results to be expected for the year ending December 31, 2004.

Certain amounts in prior period financial statements have been reclassified to conform to current 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 June 30, 2004, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

Balance at 12-31-02	\$ 20,828
(Reversal of) provision for loan losses	358
Recoveries, net of loans charged off	<u>12</u>
Balance at 6-30-03	<u>\$ 21,198</u>
Balance at 12-31-03	\$ 21,216
(Reversal of) provision for loan losses	–
Recoveries, net of loans charged off	<u>95</u>
Balance at 6-30-04	<u>\$ 21,311</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 six months ended June 30, 2004:

	For the six months ended June 30,	
	2004	2003
Pension	\$ 671	\$ 538
Thrift/deferred compensation	96	82
Other postretirement benefits	<u>633</u>	<u>621</u>
Total	<u>\$ 1,400</u>	<u>\$ 1,241</u>

As of June 30, 2004, the Association had contributed \$855 to the Districtwide defined benefit retirement plan. The Association anticipates making additional contributions prior to September 30, 2004 in amounts sufficient to eliminate its accrued benefit obligation.