

SECOND QUARTER 2006

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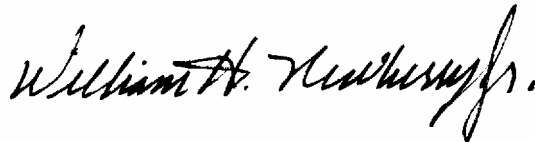
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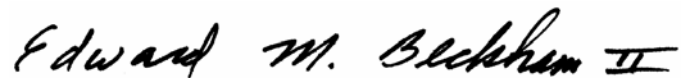
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William H. Newberry, Jr.
Chief Executive Officer



Edward M. Beckham, II
Chairman of the Board

August 4, 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 AgGeorgia Farm Credit ACA, (Association or AgGeorgia) for the period ended June 30, 2006. These comments should be read in conjunction with the accompanying financial statements, notes to the 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 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, 2006, was \$961,629, an increase of \$83,401 as compared to \$878,228 at December 31, 2005. Net loans outstanding at June 30, 2006, were \$954,792 as compared to \$866,269 at December 31, 2005. Net loans accounted for 95.16 percent of total assets at June 30, 2006, as compared to 93.69 percent of total assets at December 31, 2005. The increase in gross and net loan volume during the reporting period is partly attributable to operating loans for row crop operations, and term financing for new poultry facilities.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans decreased from \$20,766 at December 31, 2005, to \$5,970 at June 30, 2006. 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, 2006, was \$6,837 compared to \$11,959 at December 31, 2005, and was considered by management to be adequate to cover probable losses. The significant decrease in the allowance for loss account corresponds to the significant decrease in nonaccrual loans and was primarily caused by the elimination of a sizable specific reserve on a loan that liquidated during the period.

RESULTS OF OPERATIONS

For the three months ended June 30, 2006

Net income for the three months ended June 30, 2006, totaled \$11,340 as compared to \$4,901 for the same period in 2005. Net interest income increased \$1,648 for the three months ended June 30, 2006, as compared to the same period in 2005. Improving interest margins on loans and higher loan volume are the primary reasons for this increase in net interest income. The Association recorded a loan loss provision/(reversal) of (\$5,540) for the three months ended June 30, 2006, as compared to \$292 for the same period in 2005. This significant source of income was primarily caused by the elimination of a sizable specific reserve on a loan that liquidated during the period.

Non-interest income for the three months ended June 30, 2006, totaled \$1,245, as compared to \$1,913 for the same period of 2005, a decrease of \$668. This significant decrease was primarily attributable to a recorded loss on the sale of other property owned by the Association. Non-interest expense for the three months ended June 30, 2006, increased \$408 compared to the same period of 2005. The primary area of increase in non-interest expense is the premium paid to the Farm Credit System Insurance Corporation.

For the six months ended June 30, 2006

Net income for the six months ended June 30, 2006, totaled \$16,649, as compared to \$9,659 for the same period in 2005. At June 30, 2006, net interest income increased by \$3,336 or 25.12 percent compared to June 30, 2005. Interest income on loans increased by \$9,117, and interest expense increased by \$5,781. This change in net interest income is the result of increased interest margins and higher loan volume.

Nonaccrual income was \$1,263 for the six months ended June 30, 2006, as compared to \$818 for the same period in 2005. The Association recorded a provision/(reversal) for

loan loss of (\$5,080) for the six months ended June 30, 2006, as compared to \$78 for the same period in 2005. This significant source of income was primarily caused by the elimination of a sizable specific reserve on a loan that liquidated during the period.

Noninterest income for the six months ended June 30, 2006, totaled \$3,367, as compared to \$3,855 for the same period of 2005, a decrease of \$488. This significant decrease was primarily attributable to a recorded loss on the sale of other property owned by the Association. Noninterest expense for the six months ended June 30, 2006, increased \$743 compared to the same period of 2005. The primary area of increase in non-interest expense is the premium paid to the Farm Credit System Insurance Corporation.

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, 2006, was \$825,231 as compared to \$755,584 at December 31, 2005.

CAPITAL RESOURCES

Total members' equity at June 30, 2006, increased to \$149,772 from the December 31, 2005, total of \$145,170. The increase is primarily attributed to the retained earnings accumulated being more than the retirement of stock and redemption of allocated surplus.

Total capital stock and participation certificates were \$4,127 on June 30, 2006, compared to \$4,649 on December 31, 2005. This decrease is attributed to the retirement of 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, 2006, the Association's total surplus ratio and core surplus ratio were 15.10 percent and 10.85 percent, respectively, and the permanent capital ratio was 15.49 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 770-536-3660, writing Chris Scott, Chief Financial Officer, AgGeorgia Farm Credit, ACA, P.O. Box 2536, Gainesville GA 30503, or accessing the website, www.aggeorgia.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.

Ag Georgia Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2006	December 31, 2005
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Cash	\$ 2,735	\$ 8,256
Loans	961,629	878,228
Less: allowance for loan losses	6,837	11,959
Net loans	954,792	866,269
Accrued interest receivable	16,929	14,353
Investment in other Farm Credit institutions	10,235	10,185
Premises and equipment, net	4,923	5,066
Other property owned	116	1,218
Prepaid retirement expense	9,169	9,733
Due from AgFirst Farm Credit Bank	3,101	8,330
Other assets	1,395	1,243
Total assets	<u>\$ 1,003,395</u>	<u>\$ 924,653</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 825,231	\$ 755,584
Accrued interest payable	3,707	3,243
Patronage refund payable	357	4,767
Postretirement benefits other than pensions	6,533	6,323
Other liabilities	17,795	9,566
Total liabilities	<u>853,623</u>	<u>779,483</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	496	644
Capital stock and participation certificates	3,631	4,005
Retained earnings		
Allocated	72,505	83,529
Unallocated	73,140	56,992
Total members' equity	<u>149,772</u>	<u>145,170</u>
Total liabilities and members' equity	<u>\$ 1,003,395</u>	<u>\$ 924,653</u>

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

Ag Georgia Farm Credit, ACA
Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2006	2005	2006	2005
Interest Income				
Loans	\$ 19,455	\$ 14,714	\$ 37,087	\$ 27,970
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	10,825	7,732	20,473	14,692
Net interest income	8,630	6,982	16,614	13,278
Provision for (reversal of allowance for) loan losses	(5,540)	292	(5,080)	78
Net interest income after provision for (reversal of allowance for) loan losses	14,170	6,690	21,694	13,200
Noninterest Income				
Loan fees	320	393	741	813
Fees for financially related services	22	22	56	85
Equity in earnings of other Farm Credit institutions	1,607	1,496	3,173	2,858
Gains (losses) on other property owned, net	(709)	1	(705)	1
Other noninterest income	5	1	102	98
Total noninterest income	1,245	1,913	3,367	3,855
Noninterest Expense				
Salaries and employee benefits	2,695	2,690	5,346	5,345
Occupancy and equipment	257	256	530	521
Insurance Fund premium	341	88	665	170
Other operating expenses	770	621	1,546	1,308
Total noninterest expense	4,063	3,655	8,087	7,344
Income before income taxes	11,352	4,948	16,974	9,711
Provision (benefit) for income taxes	12	47	25	52
Net income	\$ 11,340	\$ 4,901	\$ 16,949	\$ 9,659

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

Ag 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	\$ 840	\$ 3,882	\$ 81,438	\$ 48,466	\$ 134,626
Net income				9,659	9,659
Protected borrower equity retired	(168)				(168)
Capital stock/participation certificates issued		226			226
Capital stock/participation certificates retired		(150)			(150)
Retained earnings retired			(8,770)		(8,770)
Distribution adjustment			(99)	135	36
Balance at June 30, 2005	\$ 672	\$ 3,958	\$ 72,569	\$ 58,260	\$ 135,459
Balance at December 31, 2005	\$ 644	\$ 4,005	\$ 83,529	\$ 56,992	\$ 145,170
Net income				16,949	16,949
Protected borrower equity retired	(148)				(148)
Capital stock/participation certificates issued		204			204
Capital stock/participation certificates retired		(578)			(578)
Retained earnings retired			(11,596)		(11,596)
Distribution adjustment			572	(801)	(229)
Balance at June 30, 2006	\$ 496	\$ 3,631	\$ 72,505	\$ 73,140	\$ 149,772

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

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 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, 2005, are contained in the 2005 Annual Report to Shareholders. These unaudited second quarter 2006 consolidated financial statements should be read in conjunction with the 2005 Annual Report to Shareholders.

As disclosed in the 2005 Annual report, pursuant to a plan of restructuring approved by the Farm Credit Administration and Association shareholders, the Association reorganized its existing organizational structure effective January 1, 2005. Pursuant to this restructuring, a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA) were formed as wholly owned subsidiaries of the Association. The formation of these subsidiaries enables the Association to take advantage of the tax-exempt status of net income from long-term mortgage operations of the FLCA. This restructuring was accounted for as a reorganization of entities under common control similar to a pooling of interests.

Prior to the restructuring, the Association was subject to federal and state income tax. As a result of the restructuring, long-term lending activity was separated into a wholly owned FLCA subsidiary, which is exempt from federal and state income tax. The ACA, which is the holding company, along with the wholly owned PCA subsidiary, will continue to be subject to income tax.

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 six months ended June 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 June 30, 2006, 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 12-31-04	\$ 12,314
(Reversal of) provision for loan losses	78
Recoveries, net of loans charged off	<u>3</u>
Balance at 6-30-05	<u>\$ 12,395</u>
Balance at 12-31-05	\$ 11,959
(Reversal of) provision for loan losses	(5,080)
Loans (charged off), net of recoveries	<u>(42)</u>
Balance at 6-30-06	<u>\$ 6,837</u>

The significant reversal to the allowance for loss account during the period was primarily caused by the elimination of a specific reserve on a nonaccrual loan that was liquidated.

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, 2006:

	For the six months ended June 30,	
	2006	2005
Pension	\$ 573	\$ 577
Thrift/deferred compensation	103	98
Other postretirement benefits	<u>362</u>	<u>563</u>
Total	<u>\$1,038</u>	<u>\$1,238</u>

As of June 30, 2006, no contributions have been made to the pension plan for 2006. Actuarial projections as of the last plan measurement date (September 30, 2005) did not anticipate any contributions for 2006; 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.

The Association also sponsors a supplemental retirement plan for certain key employees. The expenses of this plan are included in the pension costs above. The Association contributed \$15 to this plan during the first six months of 2006. The Association anticipates making additional contributions of \$16 to the supplemental retirement plan during the remainder of 2006.