

# THIRD QUARTER 2008

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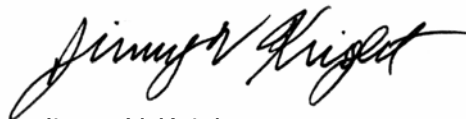
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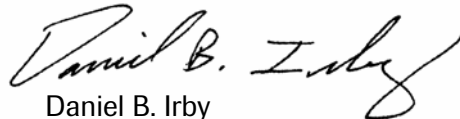
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## CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2008 quarterly report of Farm Credit of Southwest Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Jimmy V. Knight  
Chief Executive Officer



Daniel B. Irby  
Chief Financial Officer



Walter S. Farr  
Chairman of the Board

October 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 Farm Credit of Southwest Florida, ACA (the Association) for the period ended September 30, 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.

## **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 citrus, sugar and cattle. 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 September 30, 2008, was \$199,024, a decrease of \$59,221 as compared to \$258,245 at December 31, 2007. Net loans outstanding at September 30, 2008, were \$196,147 as compared to \$258,013 at December 31, 2007. Net loans accounted for 74.55 percent of total assets at September 30, 2008, as compared to 80.65 percent of total assets at December 31, 2007. The decrease in gross and net loan volume during the reporting period is largely attributed to the sale of loan assets through the AgFirst Farm Credit Bank Capitalization Participation Pool (CPP).

The Association maintains an allowance for loan losses at a level considered adequate to provide for probable and estimable credit losses within the loan portfolio. The Association increases the allowance by providing a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan is uncollectible. Any subsequent recoveries are added to the allowance. Managements' evaluations consider factors which include, among many other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions. The allowance for loan losses at September 30, 2008 was \$2,877 compared to \$232 at December 31, 2007,

and was considered by management to be adequate to cover probable losses.

## **RESULTS OF OPERATIONS**

### ***For the three and nine months ended September 30, 2008***

Net income for the three months ended September 30, 2008, totaled \$1,278, as compared to \$2,359 for the same period in 2007. Net interest income decreased \$659 for the three months ended September 30, 2008, as compared to the same period in 2007. Net interest income after provision for loan losses decreased \$1,395 or 84.44 percent as compared to the same period in 2007.

Net income for the nine months ended September 30, 2008, totaled \$2,371, as compared to \$6,308 for the same period in 2007. Net interest income decreased \$1,348 for the nine months ended September 30, 2008, as compared to the same period in 2007. Net interest income after provision for loan losses decreased \$4,186 or 87.66 percent as compared to the same period in 2007.

For both the three and nine month periods, net interest income decreased primarily due to the sale of loan assets through the CPP. The sold loans generate income in the form of patronage. Net interest income after provision for loan losses decreased for both the three and nine month periods primarily due to the decrease in net interest income discussed above and due to specific loss reserves established for loans placed on nonaccrual in 2008.

Non-interest income for the three months ended September 30, 2008, totaled \$2,289, as compared to \$2,205 for the same period of 2007, an increase of \$84. Non-interest expense for the three months ended September 30, 2008, decreased \$259 compared to the same period of 2007.

Non-interest income for the nine months ended September 30, 2008, totaled \$6,170, as compared to \$6,406 for the same period of 2007, a decrease of \$236. Non-interest expense for the nine months ended September 30, 2008, decreased \$491 compared to the same period of 2007.

The increase in non-interest income for the three month period is primarily due to accrued earnings for CPP patronage discussed above and the decrease for the nine month period is primarily due to accrued earnings for non-CPP patronage

from other Farm Credit Institutions and AgFirst Farm Credit Bank. The decrease in non-interest expense for both the three and nine month periods is primarily due to decreased incentive compensation costs and the changes made in payment schedules for controllable operating costs associated with the normal course of business.

## 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 September 30, 2008, was \$211,673 as compared to \$260,052 at December 31, 2007. The decrease is associated with the sale of loan assets through the CPP.

Although there has been recent uncertainty in the debt markets, funds for the Association through the Bank are expected to be available as needed, as the Bank continues to have access to funds/ liquidity, primarily through issuance of Farm Credit System short-term debt.

## CAPITAL RESOURCES

Total members' equity at September 30, 2008, decreased to \$48,282 from the December 31, 2007, total of \$51,569. The decrease is primarily due to the revolvement of surplus back to members.

Total capital stock and participation certificates were \$887 on September 30, 2008, compared to \$937 on December 31, 2007. The decrease is attributed to lower loan volume allowing capital stock and participation certificates to be retired.

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, 2008, the Association's total surplus ratio and core surplus ratio were 13.02 percent and 9.08 percent, respectively, and the permanent capital ratio was 13.28 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 (AgFirst). 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 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 1-800-307-5677 ext. 141, or writing Lori Langfang, Controller, Farm Credit of Southwest Florida, ACA 330 N. Brevard Ave 34266, or accessing the website, [www.farmcreditswfl.com](http://www.farmcreditswfl.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.

*Farm Credit of Southwest Florida, ACA*  
**Consolidated Balance Sheets**

<i>(dollars in thousands)</i>	<b>September 30, 2008</b> <i>(unaudited)</i>	<b>December 31, 2007</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ —	\$ 64
Investment securities:		
Held to maturity (fair value of \$38,077 and \$36,599 respectively)	38,478	36,958
Total investment securities	38,478	36,958
Loans	199,024	258,245
Less: allowance for loan losses	2,877	232
Net loans	196,147	258,013
Accrued interest receivable	1,679	2,617
Investment in other Farm Credit institutions	16,863	11,166
Premises and equipment, net	1,045	1,072
Other property owned	178	—
Due from AgFirst Farm Credit Bank	4,050	5,247
Other assets	4,678	4,768
Total assets	\$ 263,118	\$ 319,905
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 211,673	\$ 260,052
Accrued interest payable	685	1,274
Patronage refund payable	37	2,646
Other liabilities	2,441	4,364
Total liabilities	214,836	268,336
Commitments and contingencies		
<b>Members' Equity</b>		
Protected borrower equity	338	356
Capital stock and participation certificates	549	581
Retained earnings		
Allocated	21,337	26,030
Unallocated	26,239	24,827
Accumulated other comprehensive income (loss)	(181)	(225)
Total members' equity	48,282	51,569
Total liabilities and members' equity	\$ 263,118	\$ 319,905

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

*Farm Credit of Southwest Florida, ACA*  
**Consolidated Statements of Income**

(unaudited)

<i>(dollars in thousands)</i>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Interest Income</b>				
Investment securities	\$ 355	\$ 460	\$ 1,165	\$ 1,334
Loans	2,556	4,635	8,189	13,388
Total interest income	2,911	5,095	9,354	14,722
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	2,001	3,526	6,063	10,083
Net interest income	910	1,569	3,291	4,639
Provision for (reversal of allowance for) loan losses	653	(83)	2,702	(136)
Net interest income after provision for (reversal of allowance for) loan losses	257	1,652	589	4,775
<b>Noninterest Income</b>				
Loan fees	186	167	586	428
Equity in earnings of other Farm Credit institutions	2,110	2,001	5,532	5,752
Gains (losses) on other property owned, net	—	1	3	4
Other noninterest income	(7)	36	49	222
Total noninterest income	2,289	2,205	6,170	6,406
<b>Noninterest Expense</b>				
Salaries and employee benefits	742	916	2,722	2,990
Occupancy and equipment	91	95	279	295
Insurance Fund premium	61	86	186	246
Other operating expenses	379	435	1,204	1,351
Total noninterest expense	1,273	1,532	4,391	4,882
Income before income taxes	1,273	2,325	2,368	6,299
Provision (benefit) for income taxes	(5)	(34)	(3)	(9)
Net income	\$ 1,278	\$ 2,359	\$ 2,371	\$ 6,308

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

*Farm Credit of Southwest Florida, ACA*  
**Consolidated 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, 2006	\$ 508	\$ 601	\$ 25,779	\$ 24,871	\$ —	\$ 51,759
Net income				6,308		6,308
Protected borrower equity retired	(148)					(148)
Capital stock/participation certificates issued/(retired), net		(36)				(36)
Patronage distribution						
Cash				(350)		(350)
Allocated retained earnings			261	(261)		—
Nonqualified allocated retained earnings			1,135	(1,135)		—
Retained earnings retired			(5,300)			(5,300)
Patronage distribution adjustment			(11)	18		7
Balance at September 30, 2007	\$ 360	\$ 565	\$ 21,864	\$ 29,451	\$ —	\$ 52,240
Balance at December 31, 2007	\$ 356	\$ 581	\$ 26,030	\$ 24,827	\$ (225)	\$ 51,569
Net income				2,371		2,371
Protected borrower equity retired	(18)					(18)
Capital stock/participation certificates issued/(retired), net		(32)				(32)
Retained earnings retired			(5,513)			(5,513)
Patronage distribution adjustment			820	(939)		(119)
Employee benefit plans adjustments				(20)	44	24
Balance at September 30, 2008	\$ 338	\$ 549	\$ 21,337	\$ 26,239	\$ (181)	\$ 48,282

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

*Farm Credit of Southwest Florida, 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 Farm Credit of Southwest Florida, 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 third 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 nine months ended September 30, 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 September 30, 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 141R). SFAS 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 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 SFAS 141R, but believes that its adoption will significantly impact its accounting for combinations/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 nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Balance at beginning of period	\$ 232	\$ 187
Provision for (reversal of) loan losses	2,702	(136)
Loans (charged off), net of recoveries	(57)	15
Balance at end of period	<u>\$ 2,877</u>	<u>\$ 66</u>

**NOTE 3 – EMPLOYEE BENEFIT PLANS**

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

	<b>For the nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Pension	\$ 221	\$ 241
401(k)	63	58
Other postretirement benefits	56	55
Total	<u>\$ 340</u>	<u>\$ 354</u>

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

	<b>Actual YTD Through 9/30/08</b>	<b>Projected Contributions For Remainder of 2008</b>	<b>Projected Total Contributions 2008</b>
Pension	\$ -	\$ -	\$ -
Other postretirement benefits	31	21	52
Total	<u>\$ 31</u>	<u>\$ 21</u>	<u>\$ 52</u>

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As of September 30, 2008, no contributions have been made to the pension plan for 2008. Actuarial projections as of the last plan measurement date (September 30, 2007) did not anticipate any contributions for 2008. However, a new funding policy adopted during 2008 and a declining investment market, which has impacted the discount rate and the return on plan assets, will require an additional contribution to be made prior to the next plan measurement date at December 31, 2008. The additional contribution amount will be determined by the plan's Sponsor Committee.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158)*, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007 by the Association.

SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Association allows for the use of the measurements determined for the prior year end. Under this alternative, pension and other postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 30, 2007 measurement date) is reflected as an adjustment to beginning 2008 unallocated retained earnings. As a result, the Association decreased unallocated retained earnings and increased the pension liability by \$20.

Upon adoption, SFAS 158 further required the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income (AOCI). These amounts are subsequently recognized as components of net periodic benefit costs over time. For the first nine months of 2008, \$44 has been recognized as a credit to AOCI and a debit to pension expense to reflect the amortization of the components previously recognized in AOCI.

Further details regarding employee benefit plans and adoption of SFAS 158 are contained in the 2007 Annual Report to Shareholders.