
FARM CREDIT OF SOUTHWEST FLORIDA, ACA

2007 ANNUAL REPORT

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Management

Jimmy V. Knight President & Chief Executive Officer
Bryan L. Byrd.....Executive Vice President and Chief Operating Officer
Ronnie D. Crawford Chief Lending Officer
William F. Federer..... Chief Relationship Officer
Daniel B. IrbyChief Financial Officer

Board of Directors

William G. Welles, IV Chairman
Walter S. Farr Vice Chairman
John R. Alexander Director
Howard P. “Rowdy” Bateman Director
John Roy Gough..... Director
Jerry M. Newlin..... Director
John F. Smoak, Jr. Director
E. E. “Bucky” Waldron..... Director
J. Mark Wheeler Director

Message from the President

On behalf of everyone at Farm Credit of Southwest Florida, I am pleased to report another year of great accomplishments and achievements. Entering 2007, we set high expectations for ourselves and made firm commitments to accomplish our business plan goals. I am proud to tell you that we not only met our goals in 2007, but had the most profitable year in your Association's history.

Without a doubt, 2007 was a year of milestones. The Capital Markets Group showed phenomenal performance, with their loan volume growing 32.18% over the prior year. In fact, we increased our volume in every business segment, resulting in an increase in net earnings of \$1.0 million over the prior year.

Our financial success is the result of several factors, with one of the most important being the emphasis placed on planning. We have spent the last few years evaluating our long-term strategies and objectives. As the agricultural marketplace has changed, the profile of Rural America has changed, as well. Today, there are fewer full-time farmers and ranchers; small towns are losing infrastructure; and, more and more are moving to the country to enjoy the lifestyle it offers. These changing demographics have driven our strategies and objectives in recent years and will continue to in 2008 and beyond.

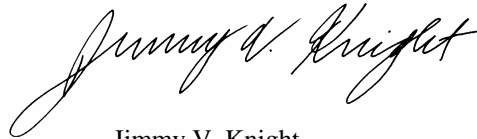
To address the changing marketplace, we have developed new programs and services and fine-tuned existing products and services to fully meet the needs of those who live and work in Rural America. The following are just few examples of the programs we have developed in recent years.

- To meet the demands of "lifestyle" farmers and rural homeowners, we have introduced our "Country Mortgages" program. Offering products especially designed for this market, our specialized staff provide financing for small land purchases, recreational land purchases, home sites, home purchases and construction, and much more.
- To encourage the transition of farms and ranches from one generation to the next, we offer programs targeted to young farmers, those under the age of 35. In addition, we offer programs for beginning farmers, those who have farmed for ten years or less, and small farmers, those with less than \$250,000 in gross farm income.
- To meet the needs of small towns and rural communities, we are investing in rural enterprises and infrastructure through our Rural America Bond Program, thus enhancing the lives of those who live and work in Rural America.
- Helping you protect your crop investment from yield and marketing risks is another priority for Farm Credit of Southwest Florida. Our vision is to offer producers reliable, trustworthy crop insurance services, and in 2007 we took the steps to make that happen by adding a full time crop insurance agent, Darlina Conerly, and by licensing our loan officers so that they can provide our members with full and accurate information about their crop insurance needs.

In 2008, Farm Credit of Southwest Florida will strive to be more competitive and provide even greater value to our members, as we continue to manage capital, increase earnings and build on our ongoing commitment to provide our stockholders with more support services and business tools. We have always been a supporter of the communities and youth in our ten-county territory and will continue to support organizations such as the Cattlemen's, Citrus, and Nursery Growers' Associations, 4-H, FFA and the Chambers of Commerce throughout our service areas. We are glad to be involved in these important organizations, and we pledge to support them to the greatest extent possible.

The employees of Farm Credit of Southwest Florida are our greatest asset and must be credited for their hard work, work that helped us in achieving the associations financial record-breaking year. Looking forward, we will continue to invest in our staff so that they in return can bring the best possible services and products to you, our member.

In closing, as we reflect on the past of the Farm Credit System for over 90 years, we anticipate a bright future — a future full of success and prosperity. We look forward to this success by serving your financial needs in the coming year and beyond.



Jimmy V. Knight
President and Chief Executive Officer

February 28, 2008

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Farm Credit of Southwest Florida, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.


The consolidated financial statements have been examined by independent public auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that the 2007 Annual Report has been prepared 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.

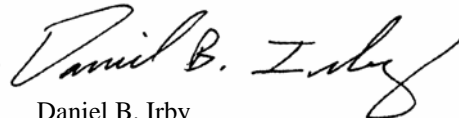
The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.



William G. Welles, IV
Chairman of the Board



Jimmy V. Knight
Chief Executive Officer



Daniel B. Irby
Chief Financial Officer

February 28, 2008

Management's Discussion & Analysis of Financial Condition & Results of Operations

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Farm Credit of Southwest Florida, ACA, (Association) for the year ended December 31, 2007 with comparisons to the years ended December 31, 2006 and December 31, 2005. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System's mission is to maintain and improve the income and well being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of 10 counties in Southwest Florida and has offices in Arcadia, Wauchula, and Lake Suzy, Florida. Refer to Note 1, "Organization and Operations," of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. The Association's success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, www.agfirst.com, or may be obtained at no charge by calling 1-800-845-1745, extension 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, www.farmcreditswfl.com, or by calling 1-800-307-5677,

extension 141, or writing Lori Langfang, Controller, 330 N. Brevard Ave. Arcadia Florida 34266. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

AGRICULTURAL OUTLOOK

In November 2007, the United States Department of Agriculture (USDA) estimated that 2007 farmers' net cash income (a measure of cash income after payment of business expenses) increased to \$85.7 billion, up \$17.8 billion from the 2006 forecast and up \$20.3 billion from its 10 year average. Contributing to this sizeable increase in net cash income were increases in cash receipts for crops and livestock of \$22.6 billion

and \$20.3 billion, respectively, an increase in farm-related income of \$300 million, offset in part by an increase in cash expenses of \$21.7 billion and a decrease in direct government payments of \$3.7 billion. Corn prices have risen as a result of a combination of continued food and feed demand and expanding ethanol demand. Other crop prices, in general, were positively impacted by increased acreage used to plant corn, decreasing the amount of acreage available for other crops. Wheat and soybeans compete with corn as a feed source so both wheat and soybean prices have risen since late 2006. Livestock cash receipts increased as domestic and export demand for beef have risen. The following table, which is based on information published by the USDA, sets forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle from December 31, 2004 to December 31, 2007:

Commodity	12/31/04	12/31/05	12/31/06	12/31/07
Corn	\$2.04	\$1.92	\$3.01	\$3.76
Soybeans	\$5.45	\$5.77	\$6.18	\$10.00
Wheat	\$3.39	\$3.54	\$4.52	\$7.74
Beef Cattle	\$86.80	\$93.30	\$83.10	\$88.90

Rising commodity prices can have both positive and negative impacts on the Association, as a lender to the agricultural and rural sectors. Higher commodity prices have resulted in increased seasonal demand for agribusiness loans. Higher grain prices positively impact grain farmers. However, higher feed costs negatively impact the profitability of livestock producers, as well as those who use corn or other grains as ingredients in processed foods. To date, this has not significantly affected the Association's credit quality. In addition to higher feed costs, most other production cash expenses, such as fertilizer, seed, energy and labor costs, are forecast to rise further in 2008.

The USDA's 2007 income outlook showed a great deal of variation depending on farm size, geographic location and commodity specialties. While we utilized the USDA analysis to provide a general understanding of the U.S. agricultural economic outlook, this outlook does not take into account all aspects of our business.

The USDA classifies all farms into three primary categories: commercial farms, intermediate farms and rural residential farms. Commercial farms represent about 11 percent of U.S. farms by number and represent 75 percent of total U.S. farm production. Intermediate farms (where the primary occupation is farming and gross sales are below \$250,000) represent 26 percent of U.S. farms by number and account for 16 percent of total production. The remaining 63 percent of U.S. farms are classified as rural residential farms and only account for 9 percent of total production.

In addition to farmers' net cash income, off-farm income is an important source of repayment for farm debt obligations and is less subject to cycles in agriculture. The USDA measures farm household income, which is defined as earnings from farming activities plus off-farm income. Nearly 100 percent of farm household income for operators of rural residential farms and more than 80 percent of farm household income for intermediate farms is generated from off-farm sources. Further, USDA data suggests that about 30 percent of farm household income for commercial farms is generated from off-farm income. USDA estimated 2007 farm household income to increase 21 percent for commercial farms, 8 percent for intermediate farms and 4 percent for rural residential farms.

According to the USDA, farm business balance sheets have shown improvement over the last few years, as measured by debt relative to assets and equity levels. Farmers' equity (farm business assets less farm business debt) is expected to have increased in 2007. One measure of the financial health of the agricultural sector used by the USDA is the assessment of farmers' utilization of their capacity to repay debt (actual debt as a percentage of maximum debt that can be supported by farmers' current income). Higher capacity utilization rates indicate tighter cash flow positions and, consequently, higher exposure to financial risk. These estimates do not take into account, however, off-farm income sources. Since 1970, debt repayment capacity utilization has ranged from a low of 35.8 percent in 1973 to 104.1 percent in 1981, and has remained relatively stable since 1987, averaging about 50 percent. The USDA suggests a decrease in the use of repayment capacity from 57 percent in 2006 to 48 percent in 2007.

Farm business debt, defined by the USDA as debt incurred by those involved in on-farm agricultural production, is estimated to have grown 3.8 percent in 2007, the fourth consecutive year of rising farm debt, following a rise of 7.3 percent in 2006. The recent rise in debt can be at least partially attributed to farmers' positive view of the sector's future. Farm real estate debt accounted for approximately 53 percent of all farm debt for 2007 and 2006.

In general, agriculture has experienced a long period of favorable economic conditions, due to stronger commodity prices, higher land values, and, to a lesser extent, government support programs. To date, the Association's financial results and credit quality have been positively impacted by these conditions. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. In some areas, land values recently have been negatively affected by less favorable economic conditions. Economic conditions in agriculture may not be as favorable in the near future. In an environment of adverse economic conditions in agriculture and without sufficient government support programs, the Association's financial performance and credit quality measures would likely be negatively impacted. However, any negative impacts should be lessened by geographic and commodity diversification and the substantial influence of off-farm income sources supporting agricultural-related debt.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, "Summary of Significant Accounting Policies," of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is management's best estimate of the amount of probable losses existing in and inherent in our loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance

reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which generally considers relevant historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors.

Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.
- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to Hewitt's corporate bond index, actuarial analyses and industry norms. The discount rate was selected by reference to Hewitt Associates' (a global human resource services provider) corporate bond index, actuarial analysis and industry norms.

REGIONAL ECONOMIC CONDITIONS

Growth in Florida's economy has continued to ease over the past several months amid an increasingly severe housing correction. Over the course of the past year and a half, payroll growth has fallen in line with the nation after consistently outperforming since the 1990-1991 recession. As a result of the slowing job growth, Florida's unemployment rate has begun to rise, sitting now at 3.5%. This still represents the lowest unemployment rate by far among the nation's large states.

The main factor behind the economic slowdown is sustained weakness in the state's housing markets. As of summer 2007, the state's median price for existing single-family homes was off about 8% from the peak reached in June 2006, although market performance differs significantly between the state's metro areas. Both the weakest and the strongest markets are found among the smaller metro areas. Weakness appears concentrated in the southwest parts of the state, while the most resilient markets are found in the northern parts of the state, including the Panhandle. Among the larger markets, Miami and Orlando stand out as particularly strong, with rising prices in the former and only mild price declines in the latter. Weak major markets include Tampa and West Palm Beach, in keeping with the overall patterns observed in the smaller markets of the state.

The housing downturn is having substantial negative impacts on the Florida economy through reduced construction and industry layoffs. So far, the job losses have been surprisingly small as gains in the commercial real estate and heavy/civil engineering construction segments have largely offset losses in residential building. Homebuilders have tried to minimize layoffs, but over the past few months, some have reached the point where layoffs are unavoidable. Given the depressed state of homebuilding, there is little doubt that we will see more of the same going forward. In addition, an expected moderation in commercial markets as well as increasingly tight budget constraints on public infrastructure projects does not bode well for the Florida construction industry. The housing boom that started in 2002 brought a significant windfall to Florida households in the form of rising home equity. According to the estimates average home equity per household doubled between the fourth quarter of 2003 and the fourth quarter of 2005, when the housing boom peaked. This induced many Florida households to extract some of this newly created wealth through a second mortgage or a home-equity line of credit, which in turn boosted spending power. Home-equity extraction peaked in the second half of 2006 at no less than 14% of disposable income. Since the peak, home-equity extraction has fallen significantly and was below 10% of disposable income in the second quarter of 2007. As it continues to fall in coming quarters, the effects on consumer-driven industries will be substantial.

The Florida housing correction is having a significantly negative impact on the state's construction industry and has also begun to be felt outside of direct housing-related industries, as weakening house prices and tightening lending standards have combined to deter home-equity extraction, undermining a support pillar for consumer spending growth. The short-term outlook is for a continued deterioration of the situation in construction, financial services and retail trade. The housing market will likely bottom out only next year; a recovery will be under way toward the end of 2008. Once the imbalances have been worked off, and the state's strong demographic and economic fundamentals have

regained the upper hand, Florida will resume robust long-term growth, well in excess of the nation.

Citrus

The 2006-07 Florida citrus crop was one of the smallest on record with 129 million boxes of oranges produced. This crop followed the hurricane plagued 2004-05 and 2005-06 seasons marking three consecutive years of much smaller orange crops in Florida. As a point of comparison, the 2003-04 season produced the near-record orange crop of 242 million boxes. It is still not clear what caused the small crop of 2006-07. Contributing factors include declining bearing tree numbers resulting from the citrus canker eradication program, a carryover from the hurricanes of 2004 and 2005, and a possible freeze in February of 2006 that may have adversely affected the bloom.

Grapefruit production recovered somewhat from the highly depressed levels of 2004-05 and 2005-06 with production rebounding to 27.2 million boxes. This level of production, however, is still substantially below pre-hurricane production levels. The presence of citrus canker has had more profound consequences for grapefruit producers making it unlikely that the grapefruit industry will ever fully recover from the hurricanes of 2004 and 2005 and the results of the canker eradication program.

Long-Run Outlook

Typically when major weather events strike Florida, the stage is set for a period of higher prices. These higher prices stimulate a replanting process and as new trees mature, prices begin to recede. In this cycle, however, three factors may disrupt this process. First is the impact of citrus canker and greening on citrus nursery trees. Citrus canker resulted in nearly two thirds of the nursery stock being destroyed and many nurseries were forced to close. New citrus nursery regulations were released in January and new investment in covered nurseries has begun. This process, however, will take time and presently, the supply of new trees is limited.

The second factor is the boom in land prices in Florida. The price of unimproved land has risen dramatically. Depending upon location, unimproved land may cost \$6,000 to \$10,000 per acre. At these prices, it is nearly prohibitive for a citrus grower to purchase that land, incur another \$5,000 to \$7,000 per acre to establish a new grove, while waiting three years for the first crop. Even though land prices have begun to ease, they are still at high levels. Therefore, the replanting process may be greatly retarded until (or if) land prices recede.

The third factor is citrus greening. This is a highly destructive disease whose impact is still limited, but continues to spread in the state. It is not known if citrus greening can be controlled and therefore, many growers are uncertain regarding future production prospects. This uncertainty has a negative effect on the willingness of growers to make investments in new plantings.

Given these observations, if citrus demand remains stable, it is likely that the industry is in a period of higher prices across all citrus products. The exception to this observation is processed grapefruit. Grapefruit juice continues to experience weak demand. Citrus growers will continue to face, however, challenges from increasing urbanization, supply of labor, the cost of regulation, access to irrigation water, and other intrusions from

government. These factors will conspire to increase production costs and continue to make producers, especially processed orange producers, vulnerable to competition from imports.

Cattle

Florida has mostly cow-calf operators, which is a ranch where cows are raised and bred mainly to produce calves destined for the beef market. The cows produce a calf crop each year, and the operation keeps some heifer calves from each crop for breeding herd replacements. The rest are sold between the ages of 6 to 12 months along with non-productive cows and bulls. Such calves are often sold out west to producers who raise them as feeder cattle.

As of January 1, 2007, the U.S. cattle and calves inventory increased to 97.0 million head, up about 301,000 head (+0.31 percent) from a year ago. The new cattle cycle, which began January 2004, is exhibiting modest growth. However, the inventory of cattle and calves for this cattle cycle is tracking slightly below the expansion years of the previous cattle cycle (1990-2004). The number of cows and heifers that have calved decreased to a total of 42.0 million head, down about 33,000 head (-0.30 percent) from a year ago. U.S. calf crop was estimated to be 37.6 million head, a decrease of 8,000 head (-0.02 percent) from a year ago.

Net beef supply (domestic beef production plus beef imports minus beef exports) during 2008 is expected to decrease to a total of 27.7 billion pounds; down 0.20 billion pounds (-0.72 percent) from 2007. The 2008 decrease is the result of a slight increase in domestic production (+0.10 billion pounds), a slight increase in beef imports (+0.06 billion pounds), and an increase in beef exports (+0.31 billion pounds). Beef and veal imports are expected to be about 3.32 billion pounds, while beef and veal exports are expected to be about 1.7 billion pounds during 2008. Thus, a beef trade deficit of about 1.63 billion pounds is expected to be realized during 2008.

The 2008 cattle market will continue to operate with some uncertainty. Cattle farmers should monitor several factors: including the length, extent, and severity of the drought, growing supplies of broilers and pork, export and import sales (beef, broilers, and pork), and consumer beef demand.

Sugar

The U.S. sweetener market is the largest and most diverse in the world. The United States is the largest consumer of sweeteners, including high fructose corn syrup, and is one of the largest global sugar importers. The United States ranks among the top sugar producers, and is one of the few countries with significant production of both sugar beets and sugarcane. Since the mid-1990s, sugarcane has accounted for about 45 percent of the total sugar produced domestically, and sugar beets for about 55 percent of production. U.S. sugar production expanded significantly from the early 1980s to the 2000s. The production increases are due to a substantial investment in new processing equipment, the adoption of new technologies, the use of improved crop varieties, and acreage expansion (because of higher prices for sugar relative to alternative crops).

The USDA's production estimates and projections are based primarily on information provided by beet sugar processors and cane sugar millers. Processors and millers project FY 2008 sugar production at 8.342 million short tons, raw value (STRV), and a decrease of about 152,000 STRV from FY 2007. Beet sugar is forecast at 4.657 million STRV (371,000 STRV, or 7.4 percent, lower than FY 2007), and cane sugar is forecast at 3.684 million STRV (219,000 STRV, or 6.3 percent, higher than FY 2007).

Even though domestic sugar production is expected to be down from prior year, supply worldwide is high with recent over-expansion of the processing industry and prices of sweeteners are set to slump into 2008. The UN Food and Agriculture Organization noted that the sugar sector over reacted to the high prices of early 2006 and expanded too much crop area and processing capacity. The price outlook for 2008 has been dimmed by preliminary estimates that indicate world sugar production could surpass consumption for the second consecutive season. For 2008, world sugar prices are expected to be depressed. While US prices for sugar are protected somewhat by tariff the forecast for prices remains weak.

Floriculture/Nursery

Floriculture includes annual and perennial flowering plants, cut flowers, and cut cultivated greens and foliage plants. Nursery crops include woody ornamental trees and shrubs, sod and unfinished plant products. Greenhouse and nursery crops constitute a third of the total farm cash receipts from horticulture crops, which include vegetables, fruits, and tree nuts.

The green industry has become a major sector within U.S. agriculture and is of major importance to farmers, rural communities, and consumers and is clearly still a bright sector of U.S. agriculture, but continued larger imports of produce, processed fruits & vegetables, cut flowers and nursery stock raise competitive pressure on domestic producers. With increased growth projections, production and marketing of landscape crops provide an alternative for some farmers who have produced traditional agricultural crops, e.g., corn, soybeans, and vegetables. Producers of all sizes are focusing on marketing and carefully looking at innovative branding campaigns to boost their sales. Smaller growers are looking for niches and value added products. Many of them are retailing directly to consumers. Much opportunity for growth still exists.

The nursery and greenhouse industry has been characterized with unprecedented growth, innovation, and change over the last couple of decades. The green industry in the United States represents \$148 billion in economic impacts and almost 2 million jobs nationally. Nursery and floral production represent one of the fast growing sectors in agriculture; however, slowing growth in demand and tighter margins point to a maturing market.

In 2006 and 2007, higher petroleum prices led to greater price inflation in the food and agriculture sector as costs rose for fertilizer, storage, processing, and transport. This trend for higher production costs coupled with weak real estate market will weaken demand in 2008 despite the abundant availability of quality nursery and floral. As a result, product prices and net income for U.S. producers will decline or remain flat.

Florida is a leading producer in the nursery & landscaping industry ranked second only to California in the United States. Overall, the Florida nursery industry as a whole remains stable even though weakness in housing market has depressed demand. In the end, the level of growth expected in Southwest Florida over the next decade will help to foster expansion for area producers. Demographic studies indicate that Southwest Florida will continue to realize a 2% annual growth rate over the next several years, which translates into increased landscape and interior foliage demand.

Growth opportunities will occur from the funding expansion of existing operations, acquisitions of smaller operations by larger ones and real estate purchases. Smaller operations, which currently account for more than half of all sales for Florida producers, will also provide opportunities for the ACA through part-time farmer and lifestyle lending.

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 through numerous product types.

Business Segments	12/31/07		12/31/06	
	Balance	% of Total	Balance	% of Total
Commercial Lending	\$ 105,109	40.70 %	\$ 91,359	41.60 %
Capital Markets Lending	130,333	50.47	113,068	51.49
Rural America Bonds	7,037	2.72	3,457	1.57
USDA Investment Lending	-	-	-	-
Country Mortgages	4,273	1.65	3,775	1.72
Retail Lending	11,493	4.45	7,940	3.62
Total Association	\$ 258,245	100.00 %	\$ 219,599	100.00 %

Business Segments	12/31/05	
	Balance	% of Total
Commercial Lending	\$ 134,192	48.51 %
Capital Markets Lending	104,607	37.82
Rural America Bonds	-	-
USDA Investment Lending	28,162	10.18
Country Mortgages	-	-
Retail Lending	9,657	3.49
Total Association	\$ 276,618	100.00 %

The gross loan volume of the Association as of December 31, 2007, was 258,245, an increase of \$38,746 or 17.65 percent as compared to 219,599 at December 31, 2006, and a decrease of \$57,019 or 20.61 percent as compared to \$276,618 at December 31, 2005. Net loans outstanding (gross loans net of the allowance for loan losses) on December 31, 2007, were \$258,013 as compared to \$219,412 at December 31, 2006 and \$276,435 at December 31, 2005. Net loans accounted for 80.65 percent of total assets on December 31, 2007 as compared to 79.53 percent of total assets at December 31, 2006 and 95.09 percent of total assets at December 31, 2005. The Association's decrease in loan volume from 2005 to 2006 is attributed to the selling of the loan assets in the AgFirst Capitalization Participation Pool.

The Association's total servicing loan volume was \$1.248 billion at December 31st, 2007 as compared to \$1.127 billion for December 31st 2006. Total servicing loan volume is equal to the Association's loan volume outstanding plus loans sold and available commitments. The total servicing loan volume represents the total amount of loans that are serviced by the Association.

The diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	2007		December 31, 2006		2005	
			<i>(dollars in thousands)</i>			
Real estate mortgage	\$ 143,035	53.92%	\$ 121,681	55.41%	\$ 171,097	61.85%
Production and intermediate-term	75,021	30.51	67,278	30.64	56,976	20.60
Loans to cooperatives					419	0.15
Processing and marketing	24,632	9.54	18,011	8.20	6,091	2.20
Farm-related business	12,044	4.66	8,515	3.88	38,611	13.96
Energy	1,827	0.71	2,251	1.03	1,252	0.45
Rural home	1,686	0.65	1,863	0.85	2,172	0.79
Total	\$ 258,245	100.00%	\$ 219,599	100.00%	\$ 276,618	100.00%

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The geographic distribution of the loans by state for the past three years is as follows:

State	December 31,		
	2007	2006	2005
Florida	75.90%	75.75%	78.64%
South Carolina	5.60	7.16	5.19
Georgia	2.82	5.43	3.55
New York	1.82	2.42	2.32
Minnesota	1.78	1.87	—
North Carolina	1.68	1.70	1.28
California	2.25	1.66	2.15
Washington	—	1.63	0.38
Virginia	1.15	0.90	0.06
Ohio	0.87	0.79	0.95
Texas	1.49	—	0.82
Other	4.62	0.69	4.66
	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The predominant commodities are Citrus, Horticulture, and Cattle, which constitute over 57 percent of the entire portfolio.

Commodity Type	2007		December 31, 2006		2005	
			<i>(dollars in thousands)</i>			
Citrus	\$ 84,075	33%	\$ 79,064	36%	\$ 106,278	38%
Horticulture	41,894	16	31,443	14	32,485	12
Cattle	18,522	7	15,715	7	30,188	11
Timber	13,494	5	19,799	9	19,766	7
Saw & Paper Mill	5,224	2	9,152	4	4,077	1
Farm Services	11,572	4	7,728	4	8,977	3
Dairy Farms	8,820	3	6,769	3	10,913	4
Non-Farm	9,510	4	5,895	3	3,499	1
Sugar Cane	5,096	2	4,969	2	4,631	2
Financial Institutions	—	—	1,671	1	26,213	9
General Farm	6,620	3	—	—	—	—
Vegetables and Melons	6,786	3	3,105	1	—	—
Misc. Business/ Credit Institutions	5,480	2	—	—	—	—
Other Field Crops	5,219	2	—	—	—	—
Fuel Manufacturing	3,779	1	—	—	—	—
Other	32,154	13	34,290	16	29,591	12
Total	\$ 258,245	100%	\$ 219,599	100%	\$ 276,618	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of Citrus and Horticultural producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The increase in gross loan volume for the twelve months ended December 31, 2007, is primarily attributed to increased loan volume associated with the Capital Markets and Commercial lending business segments.

For the past few years, the Association has experienced a shift in loan assets. The long-term volume trend has been downward while the short and intermediate-term loan volume trend is upward. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and rapidly declines in the fall months as commodities are marketed and proceeds are applied to repay operating loans.

During 2007, the Association increased activity in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which is intended to strengthen our capital position.

Loan Participations	2007	2006	2005
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 404,621	\$ 347,705	\$ 231,538
Participations Sold			
– Non-FCS Institutions	—	—	—
Participations Sold	(745,989)	(572,114)	(343,145)
Total	<u>\$(341,368)</u>	<u>\$(224,409)</u>	<u>\$(111,607)</u>

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the year ended December 31, 2007.

The Association sells qualified long-term mortgage loans into the secondary market. For the year ended December 31, 2007, the Association originated loans for resale totaling \$1,736, which was sold into the secondary market. The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2007, the Association had loans amounting to \$6,695 which were 100 percent guaranteed by Farmer Mac.

MISSION-RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved a Rural America Bonds pilot program under the mission-related investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2007 and December 31, 2006, the Association had \$8,052 and \$3,457, respectively, in Rural America Bonds, and they are classified as Loans or Investments on the Consolidated Balance Sheets.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association's investments consist of asset-backed securities (ABS). The ABSs amounted to \$35,598 at December 31, 2007 and \$32,202 at December 31, 2006, respectively. These ABSs are rated AAA, as they are guaranteed by the full faith and credit of the United States government.

In view of the recent economic conditions and volatility related to these types of securities, the Association is actively monitoring the creditworthiness of these securities. These securities are supported by various forms of credit enhancements

including insurance guarantees from AAA rated insurers, over-collateralization and favorable priority of payments. Based on our evaluations, we believe these securities do not pose a significant risk of loss given the credit enhancements and relatively short weighted average lives. However, in the event a security is downgraded, we may be required by our regulator to dispose of the security.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than \$250,000. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2007	2006	2005
Acceptable & OAEM	99.61%	99.87%	99.42%
Substandard	0.39	0.13	0.58
Doubtful	-	-	-
Loss	-	-	-
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

High-risk Assets	December 31,		
	2007	2006	2005
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 995	\$ -	\$ -
Restructured loans	-	-	-
Accruing loans 90 days past due	-	613	-
Total high-risk loans	995	613	-
Other property owned	-	-	-
Total high-risk assets	\$ 995	\$ 613	\$ -

Ratios

Nonaccrual loans to total loans	0.39%	-%	-%
High-risk assets to total assets	0.31%	.22%	-%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased \$995 or 100.00 percent in 2007. This increase resulted from three loans that had deteriorated in repayment capacity.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

The following table presents the activity in the allowance for loan losses for the most recent three years:

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2007	2006	2005
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 187	\$ 183	\$ 337
Charge-offs:			
Production and intermediate-term	2	-	(36)
Total charge-offs	2	-	(36)
Recoveries:			
Real estate mortgage	17	14	-
Production and intermediate-term	-	-	5
Total recoveries	17	14	5
Net (charge-offs) recoveries	19	14	(31)
Provision for (reversal of allowance for) loan losses	26	(10)	(123)
Balance at end of year	\$ 232	\$ 187	\$ 183
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(.01)%	(.01)%	.01%

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31,		
	2007	2006	2005
	<i>(dollars in thousands)</i>		
Production agriculture	\$ 197	\$ 170	\$ 151
Real estate mortgage	20	16	31
Production and intermediate-term	15	-	-
Rural residential real estate	-	1	1
Total allowance for loan losses	\$ 232	\$ 187	\$ 183

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	December 31,		
	2007	2006	2005
Total loans	0.09%	0.09%	0.07%
Nonperforming loans	23.30%	-%	-%
Nonaccrual loans	23.30%	-%	-%

Please refer to Note 4, "Loans and Allowance for Loan Losses," of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was \$6.3 million, \$7.6 million and \$6.4 million in 2007, 2006 and 2005, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is a principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. Net interest income decreased by \$1,300 or 17.08 percent in 2007 compared to 2006. The primary reason for the decrease in net interest income is attributed to the AgFirst Capitalization Participation Pool where the Association has sold loan assets totaling \$69 million. The sold loans generate income in the form of patronage.

The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual	
			Income	Total
<i>(dollars in thousands)</i>				
12/31/07 - 12/31/06				
Interest income	\$ (1,575)	\$ (14)	\$ 86	\$ (1,589)
Interest expense	(674)	385	-	(289)
Change in net interest income	<u>\$ (900)</u>	<u>\$ (400)</u>	<u>\$ 86</u>	<u>\$ (1,300)</u>
12/31/06 - 12/31/05				
Interest income	\$ 431	\$ 5,424	\$ (66)	\$ 5,789
Interest expense	344	4,232	-	4,575
Change in net interest income	<u>\$ 88</u>	<u>\$ 1,192</u>	<u>\$ (66)</u>	<u>\$ 1,214</u>

* Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	For the Year Ended			Percentage	
	December 31,			Increase/(Decrease)	
	2007	2006	2005	2007/ 2006	2006/ 2005
<i>(dollars in thousands)</i>					
Loan fees	\$ 612	\$ 680	\$ 1,077	(10.00)%	(36.86)%
Fees for financially related services	-	-	2	-	(100.00)
Patronage refund from other Farm Credit Institutions	8,434	5,663	4,298	48.93	31.76
Gains (losses) on sale of rural homes	(1)	8	6	(112.50)	33.33
Gains (losses) on sales of premises and equipment, net	11	7	-	57.14	-
Other noninterest income	239	177	137	35.02	29.20
Total noninterest income	<u>\$ 9,295</u>	<u>\$ 6,535</u>	<u>\$ 5,520</u>	<u>48.93%</u>	<u>18.39%</u>

The increase of \$2,771, or 48.93%, in patronage refunds is attributed to increased loans sold to the bank, the AgFirst Capitalization Participation Pool, and other Farm Credit Associations. The ACA receives patronage from Farm Credit Cooperative entities who pay patronage on loans purchased from the Association.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense	For the Year Ended			Percentage	
	December 31,			Increase/(Decrease)	
	2007	2006	2005	2007/ 2006	2006/ 2005
<i>(dollars in thousands)</i>					
Salaries and employee benefits	\$ 3,930	\$ 3,651	\$ 3,085	7.64%	18.35%
Occupancy and equipment	418	392	345	6.63	13.62
Insurance Fund premiums	340	373	115	(8.85)	224.50
Other operating expenses	1,731	1,460	1,379	18.56	5.89
Total noninterest expense	<u>\$ 6,419</u>	<u>\$ 5,876</u>	<u>\$ 4,924</u>	<u>9.24%</u>	<u>19.33%</u>

Salaries and employee benefits increased in 2007, as compared with 2006, primarily due to increased costs associated with employee benefit plans, merit and incentive compensation, and employee staffing levels. Noninterest expense increased \$543 or 9.24 percent for December 31, 2007, as compared to the same

period of 2006 and increased \$952 or 19.33 percent compared to December 31, 2005.

Income Taxes

The Association recorded a benefit for income taxes of \$76 for the year ended December 31, 2007, as compared to a provision of \$64 for 2006 and a benefit of \$26 for 2005.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended		
	12/31/07	12/31/06	12/31/05
Return on average assets	3.25%	2.79%	2.67%
Return on average members' equity	18.13%	16.11%	14.28%
Net interest income as a percentage of average earning assets	2.43%	2.71%	2.49%
Net charge-offs (recoveries) to average loans	(0.01)%	(0.01)%	0.01%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue the improvement shown in recent years and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA 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 the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. 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. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the

Bank. The Association's participation in the Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

Total notes payable to the Bank at December 31, 2007, was \$260,052 as compared to \$217,032 at December 31, 2006 and \$233,259 at December 31, 2005. The increase of 19.82 percent compared to December 31, 2006 was primarily attributable to continued loan growth in the Association. The average volume of outstanding notes payable to the Bank was \$226,965, \$238,372 and 213,232 for the years ended December 31, 2007, 2006, and 2005 respectively. Refer to Note 7, "Notes Payable to AgFirst Farm Credit Bank," of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

The Association had no lines of credit from third party financial institutions as of December 31, 2007.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors (Board) establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2007 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2007, decreased 0.37 percent to \$51,569 from the December 31, 2006, total of \$51,759. At December 31, 2006, total members' equity decreased 0.01 percent from the December 31, 2005 total of \$51,766. The decrease was primarily attributed to the Association's Board adopting a shorter revolvment cycle and thereby distributing additional allocated surplus back to members.

Total capital stock and participation certificates were \$937 on December 31, 2007, compared to \$1,109 on December 31, 2006 and \$1,278 on December 31, 2005. The decrease was attributed to the protected stock and participation certificates in loans liquidated in the normal course of business, retirement of excess stock through revolvment and new loans being capitalized at lower levels.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2007	2006	2005	Regulatory Minimum
Permanent capital ratio	15.19%	17.08%	18.07%	7.00%
Total surplus ratio	15.13%	16.85%	17.81%	7.00%
Core surplus ratio	10.67%	14.27%	12.63%	3.50%

The decrease in the Association's permanent capital, total surplus, and core surplus for December 31, 2007 and December 31, 2006 was attributed to increased loan volume within the association. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 8, "Members' Equity," of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 8, "Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of \$7,560 in 2007, \$7,177 in 2006, and \$4,917 in 2005.

YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association’s mission is to provide financial services to agriculture and the rural community, which includes providing credit to young*, beginning** and small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. As a result, 2007 goals were established and met.

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2007	
	Number of Loans	Amount of Loans
Young	82	\$16,644
Beginning	242	54,741
Small	308	42,689

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2002 USDA (2002 is the latest USDA Ag census data available; next census will be available in 2008.) Ag census data has been used as a benchmark to measure penetration of the Association’s marketing efforts. The census data indicated that within the Association’s chartered territory (counties) 26.27 percent were Young, 12.33 percent were Beginning, and 4.94 percent were Small. Comparatively, as of December 31, 2007, the demographics of the Association’s agricultural portfolio contained 32.16 percent Young 11.82 percent were Beginning and 5.30 percent were Small.

The Start Right program was created to help YBS farmers finance their operations. It consists of three focus areas: education, events, and financial support. Education is at the heart of the program, and includes seminars, speaking opportunities and training sessions, which are conducted throughout the year. These educational opportunities are both in-house, in the form of events held by the Association, and external, in which case, the Association provides a speaker or provides educational materials. The Association website, www.farmcrediswfl.com, includes an entire section of information and resources for YBS visitors to the site.

The second focus area of the program includes those activities in which the Association sponsors local events (such as 4-H and FFA fairs), or events where the Association is an exhibitor (such as industry or trade shows).

The third prong of the Start Right program, financial support, addresses the specific credit programs and partnerships that we’ve developed to help small farmers, young farmers, and farmers just starting out. It comprises programs such as those offered by the Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers. The Association is a “preferred lender,” the highest status designated by FSA.

The Association is also a Guaranteed Participating Lender for the Small Business Administration (SBA), which offers lending programs specifically for small borrowers. Additionally, the Association offers flexible financing options in-house for qualifying borrowers.

The Senior Vice President, Director of Marketing, who coordinates the Association’s efforts, oversees the Start Right program. Additional staff members in each of the Association’s regions have been designated as the YBS Program Coordinator for their specific territories. The Association includes YBS goals in the annual strategic plan, and reports on those goals and achievements to the Board of Directors on a quarterly basis.

The Association is committed to the future success of young, beginning and small farmers.

* **Young farmers** are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** **Beginning farmers** are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

*** **Small farmers** are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than \$250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

REGULATORY MATTERS

Proposed Federal Legislation

The current Farm Bill expired on September 29, 2007. In July 2007, the House of Representatives passed its version of a new Farm Bill, the Farm, Nutrition, and Bioenergy Act of 2007. Under the Farm Bill as passed by the House of Representatives, the Congressional Budget Office estimated that payments to farmers under the commodity programs (i.e., direct and countercycle payments and loan deficiency payments) would be reduced by an estimated \$825 million in total over the next 10 years, as compared with a current services baseline of approximately \$75 billion for commodities. However, the specific provisions of the Farm Bill may increase payments for certain commodities or increase them in certain years and reduce them in others. This Farm Bill would also revise certain income payment limitations.

The Farm Bill as passed by the House of Representatives also contains provisions that would expand certain authorities of the Farm Credit System Insurance Corporation. The proposed changes generally would authorize the Insurance Corporation to collect higher levels of premiums and expand the base upon which premiums are charged. Premiums of up to 20 basis points could be charged against insured debt, adjusted to exclude an amount equal to government-guaranteed loans and investment securities. Up to an additional 10 basis points could be charged for any loan volume that is nonaccrual or investments that are other-than-temporarily impaired. Currently, premiums of up to 15 basis points may be charged on accruing loans and up to 25 basis points on nonaccrual loans.

In December 2007, the Senate passed its version of the Farm Bill, the Food and Energy Security Act of 2007. As reported, the bill proposes adjustments to current farm policy while maintaining the basic safety net structure of current law. The bill, when combined with tax provisions previously reported by the Senate Finance Committee, would provide for a permanent disaster fund and provide new incentives for farmers to engage in soil conservation activities. Before these changes are enacted into law, the Senate must conference their actions with the bill earlier approved by the House. It is premature to predict the final outcome of this process. The Senate Farm Bill contains the same expanded authorities with respect to the Insurance Corporation as noted above.

The Senate has named conferees. Conference Committee deliberation, however, awaits the naming of House conferees before it can move forward.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109*" (FIN 48 or Interpretation) that was effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies how an enterprise should recognize, measure, present and disclose in its financial statements uncertain tax positions that the enterprise has taken or expects to take on a tax return. Under the Interpretation, the financial statements reflect expected future tax consequences of income tax positions presuming the relevant taxing authority's full knowledge of the position and all relevant facts, but without considering time values. FIN 48 is applicable to all uncertain positions for taxes accounted for under FASB Statement No. 109. The Association adopted FIN 48 on January 1, 2007 and determined that interest and penalties would be classified as a component of income taxes. There were no uncertain positions for income taxes at January 1, 2007.

On September 29, 2006, the FASB 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 other comprehensive income. The Standard further requires the determination of the fair value of plan assets at year-end and recognition of actuarial gains and losses, prior service costs or credits, and transition assets and obligations as a component of other comprehensive income. 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 Bank and its affiliated Associations 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. See Note 10, "Employee Benefit Plans," of the Consolidated Financial Statements, for the impact of the adoption of FAS 158 on the current period.

In September 2006, the FASB also issued Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements.*" This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As a result, there is now a common definition of fair value to be used throughout generally accepted accounting principles. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. This Statement clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure. In measuring fair value for a financial statement item, the Statement sets forth a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The highest priority is given to quoted prices in active markets and the lowest priority to unobservable inputs. Additional disclosure requirements will be required for the lowest priority level. The Statement became effective as of January 1, 2008, and will be applied to our consolidated financial statements on a prospective basis.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "*Fair Value Option for Financial Assets and Financial Liabilities.*" The Standard permits entities to choose on an instrument-by-instrument basis, at specified election dates, to measure financial assets and liabilities and certain other items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected must be reported in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. This Standard became effective as of January 1, 2008. The Association has not made any elections under the fair value option, thus there will be no impact of the initial adoption of the Standard. However, the Association may elect to apply the fair value option to financial instruments acquired in future periods.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1 of the Consolidated Financial Statements, "Organization and Operations," included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Florida:

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
330 N. Brevard Avenue Arcadia	Administrative Offices	Owned
1311 Highway 17 N. Wauchula	Branch	Owned
340 N. Brevard Avenue Arcadia	Operations	Owned
12415 SW Sheri Avenue, Suite A Lake Suzy	Country Mortgages	Leased

The Lake Suzy office is on a 3-year renewable contract lease term from January 2006-2009.

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 13 of the Consolidated Financial Statements, "Commitments and Contingencies," included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 8 of the Consolidated Financial Statements, "Members' Equity," included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities and intrasystem financial assistance rights and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 7, 11 and 13 of the Consolidated Financial Statements included in this Annual Report.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association:

<u>Senior Officer</u>	<u>Position</u>
Jimmy V. Knight	President & Chief Executive Officer since January 1997.
Bryan L. Byrd	Executive Vice President & Chief Operating Officer since July 2002.
Daniel B. Irby	Senior Vice President & Chief Financial Officer since May 2005. His previous experience was a tax and financial accountant, providing consulting services to clients of CPA firms.
Ronnie D. Crawford	Senior Vice President & Chief Lending Officer since October 2006. He has been with the ACA for 22 years and has held various positions including Branch Manager, Internal Reviewer, Litigation Specialist, Credit Administrator, and Risk Policy Manager until promoted to Chief Lending Officer in October 2006.
William F. Federer	Senior Vice President & Chief Relationship Officer since 2007. He has been with the ACA for 10 years and has held various positions including Sr. Agricultural - Commercial Loan Officer, and Lending Coach.

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2007, 2006 and 2005, is as follows:

Name of Individual or Number in Group	Year	Annual		Deferred Comp.	Perq./ Other*	Total
		Salary	Bonus			
Jimmy V. Knight	2007	\$265,010	\$ 85,982	-	\$18,050	\$369,042
Jimmy V. Knight	2006	\$247,792	\$100,155	\$20,984	\$ 6,371	\$375,301
Jimmy V. Knight	2005	\$237,624	\$139,094	-	\$ 3,707	\$380,425
5	2007	\$558,770	\$180,111	-	\$25,566	\$764,447
5*	2006	\$471,309	\$190,581	-	\$10,411	\$671,301
8	2005	\$603,288	\$186,037	-	\$ 6,631	\$795,956

* Regulatory reporting changes have affected the content of the compensation reported for 2006 and those changes may not be reflected in the 2005 amounts. Beginning with year-end 2006, CEO compensation must be disclosed as a separate line item and is not included in the aggregate amount. The CEO salary is included in the aggregate amount for 2005.

In addition to a base salary, senior officers may earn additional compensation through the Employee Profit Sharing Plan (EPS) approved by the Board of Directors and adopted for fiscal year 2007. All employees are covered under the EPS Plan which is designed to motivate employees to exceed the business plan goals during the fiscal year. These goals typically include net income and credit quality. In addition, some senior officers may earn additional compensation through the Loan Officers Sales Performance Plan. Loan Officers are compensated for loans made that exceed specific

Business Plan goals approved by the Board of Directors. Both plan years run from November 1 to October 31 and distribution for both plans is made in the last quarter of the year.

NONQUALIFIED PLANS

Defined Benefit-Type

The Association sponsors a non-qualified defined benefit supplemental executive retirement plan. The purpose of the non-qualified plan is to provide benefits that supplement the qualified defined benefit plan in which the Association’s employees participate. For eligible key employees, compensation in excess of the 401(a)(17) limit and benefits in excess of the 415(b) limit in the qualified defined benefit plan will be made up through the non-qualified plan. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

Defined Contribution-Type

The Association sponsors a non-qualified supplemental deferred compensation plan. The purpose of the non-qualified plan is to provide supplemental deferred compensation options to eligible key employees. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, current committee assignments and total cash compensation paid for days served at Board Meetings and Incidentals:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2007
William G. Welles III, <i>Chairman</i>	1975	2008	\$ 11,000
Walter Farr, <i>Vice Chairman</i>	1991	2010	8,600
John R. Alexander	1992	2009	9,600
Howard P. Bateman	2004	2010	9,400
John Roy Gough	1992	2009	8,600
John F. Smoak, Jr.	1981	2009	8,600
J. Mark Wheeler	1999	2008	9,100
E.E. "Bucky" Waldron, <i>Outside Director</i>	2002	2008	9,400
Jerry Newlin, <i>Outside Director</i>	2007	2008	2,433
			\$ 76,733

Note: In 2007, Mr. Newlin was appointed to the Board in the last half of the 2nd qtr and was given a pro-rata share of quarterly compensation.

The following represents certain information regarding the directors of the Association and their principal occupation and employment for the past five years:

William G. Welles, IV, Chairman, is involved with agricultural endeavors of citrus, vegetables and cattle. He serves on the board of SunTrust, Mid-Florida, N. A.

Walter S. Farr, Vice Chairman, is a retired Certified Public Accountant who has interests in citrus and beef cattle. He serves as a Trustee and Officer of the Matred Carlton Olliff Foundation, a charitable organization.

John R. Alexander is the Executive Chairman of Alico Inc. Mr. Alexander also serves on the Board of Directors of Alico which is a land management corporation traded on NASDAQ under the symbol ALCO.

Howard P. "Rowdy" Bateman, manages a citrus and cattle operation for Bright Hour Ranch in Desoto County. He has personal interests in a family cattle operation, as well as his own personal cattle operation. Mr. Bateman currently serves on the Peace River Valley Citrus Growers Association Board, and the Florida Cattleman’s Foundation Board.

John Roy Gough is an agri-chemical salesman also involved in citrus and cattle ranching.

John F. Smoak, Jr. is self-employed through Smoak Groves, Inc., a privately owned agri-business corporation.

J. Mark Wheeler is self-employed through Wheeler Farms, Inc., a privately owned agri-business corporation. He serves on the board of Florida Citrus Mutual, Wheeler Brothers, Inc., and is on the Riverside National Bank’s Advisory Committee.

E.E. "Bucky" Waldron, Outside Director, is an attorney in a private civil practice in Desoto County.

Jerry M. Newlin, Outside Director, is Vice President of citrus production and harvesting for Orange-Co LP. He serves as the President of Florida Citrus Production Managers Association and is a Board member of Florida Citrus Production Research Advisory Council (Research Box Tax).

Subject to approval by the board, the Association may allow directors honoraria of \$400 for attendance at meetings, committee meetings, or special assignments and \$1,250 per quarter for incidental services. Chairman of the Board receives \$1,500 per quarter for incidental services, \$500 for attendance of meetings or special assignments. Director’s who serve as Chairman of committees are compensated \$500 for attendance of these meetings. Total compensation paid to directors as a group was \$112,733. No director received more than \$5,000 in non-cash compensation during the year.

The following chart details the number of meetings, other activities and additional compensation paid for other activities for each director:

Name of Director	Days Served		Committee Assignments	Comp. Paid for other Activities
	Regular Board Meetings	Other Official Activities		
William G Welles III, <i>Chairman</i>	10	7	Primary Representative of the AgFirst Nominating Committee	\$ 3,500
Walter Farr, <i>Vice Chairman</i>	9	11	Audit, Alternate Representative of the AgFirst Nominating Committee	4,200
John R. Alexander	11	8	Chairman-Compensation	3,400
Howard P. Bateman	11	21	Audit, Political Communication Advocate (CAP) District Advisory Committee (DAC)	8,400
John Roy Gough	9	4	Compensation	1,600
John F. Smoak, Jr.	9	8	Compensation	3,200
J. Mark Wheeler	10	16	Chairman-Audit, AgFirst Farm Credit Council, AgFirst Employee Benefit Committee	6,500
E.E. "Bucky" Waldron	11	11	Audit	4,400
Jerry Newlin	4	2	Compensation	800
				\$ 36,000

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$47,768 for 2007, \$28,890 for 2006, and \$39,366 for 2005.

Transactions with Senior Officers and Directors

The reporting entity’s policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 12 of the Consolidated Financial Statements, “*Related Party Transactions*,” included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditors and Other Qualified Public Accountants

There were no changes in or material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees paid by the Association for services rendered by its independent auditors and other qualified public accountants for the year ended December 31, 2007 were as follows:

	<u>2007</u>
Independent Auditor	
PricewaterhouseCoopers LLP	
Audit services	\$ 55,815
Nonaudit services	2,352
Tax services	3,720
Qualified Public Accountants	
FCC Services Inc.	
Audit services	20,700
AAA Services of Wellington	
Audit services	9,825
J. Robin Haynes, CPA	
Audit services	22,027
Nonaudit services	6,300
Tax services	9,500
Total	<u>\$ 130,239</u>

Audit fees were for the annual audit of the consolidated financial statements.

Nonaudit fees totaled \$8,652. These fees were associated with Sarbanes and Oxley testing and consulting.

All nonaudit service fees incurred by the Association were approved by the Audit Committee.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 28, 2008 and the report of management, which appear in this Annual Report are incorporated herein by reference.

Copies of the Association’s quarterly reports are available upon request, free of charge, by calling 863-494-0500, or writing Farm Credit of Southwest Florida, ACA, Attention: **Lori Langfang, Controller**, 330 N. Brevard Avenue, Arcadia, Florida 34266. The Association prepares an electronic version of the Annual Report, which is available on the Association’s web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the 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.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers’ nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management’s Discussion and Analysis of Financial Condition and Results of Operations section included in this Annual Report to the shareholders.

Shareholder Investment

Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank’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 by going to AgFirst’s web site at www.agfirst.com. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

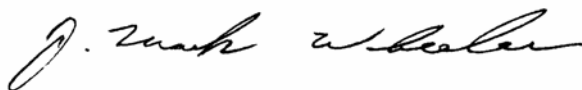
The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of Southwest Florida, ACA (Association) and in the opinion of the Board of Directors; each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent auditor for 2007, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 (*The Auditor's Communication With Those Charged With Governance*). PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (*Independence Discussions with Audit Committees*), and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2007. The foregoing report is provided by the following independent directors, who constitute the Committee:



J. Mark Wheeler
Chairman of the Audit Committee

Members of Audit Committee

Howard P. Bateman
Walter S. Farr
E.E. (Bucky) Waldron

February 28, 2008

Report of Independent Auditors



PricewaterhouseCoopers LLP
10 Tenth Street, Suite 1400
Atlanta, GA 30309
Telephone (678) 419 1000

Report of Independent Auditors

To the Board of Directors and Members
of Farm Credit of Southwest Florida, ACA

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of Farm Credit of Southwest Florida, ACA (the Association) and its subsidiaries at December 31, 2007, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

February 28, 2008

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of Southwest Florida, ACA (Association) is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified purposes in the counties of Charlotte, Collier, DeSoto, Glades, Hardee, Hendry, Highlands, Lee, Manatee, and Sarasota in the state of Florida.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2007, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and ninety-four Associations.

AgFirst Farm Credit Bank (Bank) and its related Associations are collectively referred to as the "District." The Bank provides funding to associations within the District and is responsible for supervising certain activities of the Association, as well as the other Associations operating within the District. The District consists of the Bank and twenty-three Agricultural Credit Associations (ACAs), all of which are structured as ACA parent-companies, which have two wholly owned subsidiaries, a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA). FLCAs are tax-exempt while ACAs and PCAs are taxable.

ACA parent-companies provide financing and related services through its FLCA and PCA subsidiaries. The FLCA makes collateralized long-term agricultural real estate and rural home mortgage loans. The ACA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising Bank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average loan principal outstanding until the monies in the Insurance Fund reach the

"secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (Systemwide debt obligations) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on net income or total members' equity of prior years. The Consolidated Financial Statements include the accounts of the FLCA and the PCA. All significant inter-company transactions have been eliminated in consolidation.

A. **Cash:** Cash, as included in the statements of cash flows, represents cash on hand and on deposit at banks.

B. **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 ratably over the term of the respective security.

The Association may also hold additional investments in accordance with mission-related investment and other investment programs, approved by the Farm Credit Administration. These programs allow the Association to make investments that further the System's mission to serve rural America. Mortgage-backed securities issued by Farmer Mac are considered other investments. Mission-related investments for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts. Farmer Mac investments are classified either as held-to-maturity or available-for-sale depending on the institution's ability and intent to hold the investment to maturity. The ACA does not hold any Farmer Mac Investment Securities.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered 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.

- C. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have original maturities ranging from 5 to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Loan origination fees and direct loan origination costs are deferred as part of the carrying amount of the loan and the net fee or cost is amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses existing as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The Association considers the following factors when adjusting the historical charge-offs experience:

- Changes in credit risk classifications,
- Changes in collateral values,
- Changes in risk concentrations,
- Changes in weather related conditions, and
- Changes in economic conditions.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

A specific allowance may be established for impaired loans under Statement of Financial Accounting Standards No. 114. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs.

- D. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** The Association is required to maintain ownership in the Bank in the form of Class C stock. Accounting for this investment is on the cost plus allocated equities basis. Patronage refunds from the Bank are accrued as earned. The receivable for such patronage refunds is classified as due from AgFirst Farm Credit Bank.
- E. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in gains (losses) on other property owned, net.
- F. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the

estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.

G. Advanced Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as interest-bearing liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

H. Employee Benefit Plans: Substantially all employees of the Association may participate in the AgFirst Farm Credit Retirement Plan (Plan), which is a defined benefit plan and is considered a multi-employer plan. The Plan is noncontributory and includes eligible District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. For participants hired before January 1, 2003, benefits are determined based on a final average pay formula. For those participants hired on or after January 1, 2003, benefits are determined using a cash balance formula. The cost of the Plan is allocated based on a percentage of each institution's salary expense to the total salary expense for all Plan participants.

Substantially all employees of the Association may also be eligible to participate in the District's thrift plan (Thrift Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes \$.50 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes \$1.00 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. Thrift Plan costs are expensed as funded.

Effective January 1, 2006 the Districtwide 401(k) Plan known as the AgFirst Farm Credit Employee Thrift Plan merged with the Farm Credit Bank of Texas Thrift Plus Plan. The new plan is known as the AgFirst/FCBT 401(k) Employee Benefit Plan.

The Association may provide certain health care and life insurance benefits to eligible retired employees. Substantially all employees may become eligible for these benefits if they reach early retirement age while working for the Association.

I. Income Taxes: The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

J. Patronage Refund from AgFirst and Other Financial Institutions: The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

K. Recently Issued Accounting Pronouncements: In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109" (FIN 48 or Interpretation) that was effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies how an enterprise should recognize, measure, present and disclose in its financial statements uncertain tax positions that the enterprise has taken or expects to take on a tax return. Under the Interpretation, the financial statements reflect expected future tax consequences of income tax positions presuming the relevant taxing authority's full knowledge of the position and all relevant facts, but without considering time values. FIN 48 is applicable to all uncertain positions for taxes accounted for under FASB Statement No. 109. The Association adopted FIN 48 on January 1, 2007 and determined that interest and penalties would be classified as a component of income taxes.

There were no uncertain positions for income taxes at January 1, 2007 identified as a result of the adoption and therefore no cumulative adjustment to beginning members' equity was required. The tax years that remain open for federal and major state income tax jurisdictions are 2004 and forward.

On September 29, 2006, the FASB 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 other comprehensive income. The Standard further requires the determination of the fair value of plan assets at year-end and recognition of actuarial gains and losses, prior service costs or credits, and transition assets and obligations as a component of other comprehensive income. 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 District 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. See Note 10, Employee Benefit Plans, for the impact of the adoption of FAS 158 on the current period.

In September 2006, the FASB also issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As a result, there is now a common definition of fair value to be used throughout generally accepted accounting principles. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. This Statement clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure. In measuring fair

value for a financial statement item, the Statement sets forth a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The highest priority is given to quoted prices in active markets and the lowest priority to unobservable inputs. Additional disclosure requirements will be required for the lowest priority level. The Statement became effective as of January 1, 2008, and will be applied to the Association's Consolidated Financial Statements on a prospective basis.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "Fair Value Option for Financial Assets and Financial Liabilities." The Standard permits entities to choose on an instrument-by-instrument basis, at specified election dates, to measure financial assets and liabilities and certain other items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected must be reported in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. This Standard became effective as of January 1, 2008. The Association has not made any elections under the fair value option, thus there will be no impact of the initial adoption of the Standard. However, the Association may elect to apply the fair value option to financial instruments acquired in future periods.

Note 3 — Investment Securities

A summary of the amortized cost and fair value of investment securities held-to-maturity at December 31, 2007, and 2006 follows:

	December 31, 2007				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 335,958	\$ 3	\$ (378)	\$ 335,583	5.47%
Other	\$ 1,000	\$ 16	\$ -	\$ 1,016	7.75%

	December 31, 2006				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 32,202	\$ 10	\$ (235)	\$ 31,977	5.83%

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are rated AAA, as they are guaranteed by the full faith and credit of the United States government. All unrealized losses referenced above are related to changes in interest rates and are not credit related.

The following table shows the fair value and gross unrealized losses for investments in a loss position by the length of time the securities have been in a continuous unrealized loss position at December 31, 2007. The continuous loss position is based on the date the impairment occurred. The unrealized losses on these investments resulted from interest rate volatility and are not credit related. The Association expects to recover substantially all of our cost in these investments. Substantially all of these investments were in U. S. government securities and we expect that these securities would not be settled at a price less than their amortized cost. Because the decline in market value was caused by interest rate increases and not credit quality, and because the Association has the ability and intent to hold these investments to maturity, the Association has not recognized any other-than-temporary impairment in connection with these investments.

	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	\$ 10,109	\$ (95)	\$ 18,436	\$ (283)

A summary of the expected maturity, amortized cost and estimated fair value of investment securities at December 31, 2007, follows:

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-%
After one year through five years	2,226	2,183	4.88
After five years through ten years	18,611	18,419	4.36
After ten years	16,121	15,997	5.83
Total	\$ 36,958	\$ 36,599	5.53%

Note 4 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31,		
	2007	2006	2005
Real estate mortgage	\$ 139,256	\$ 121,681	\$ 171,097
Production and intermediate term	78,800	67,278	56,976
Loans to cooperatives	-	18,011	419
Processing and marketing	24,632	8,515	6,091
Farm related business	12,044	-	38,611
Communication	-	2,251	-
Energy	1,827	-	1,252
Water and waste disposal	-	1,863	-
Rural residential real estate	1,686	-	2,172
Total loans	\$ 258,245	\$ 219,599	\$ 276,618

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

Total loans at December 31, 2007, 2006 and 2005 consisted of the following commodity types:

Commodity Type	December 31,		
	2007	2006	2005
Citrus Fruits	33%	36%	38%
Horticulture	16	14	12
Other	13	16	12
Cattle	7	7	11
Timber	5	9	7
Farm Services	4	4	3
Non-Farm	4	3	1
Dairy Services	3	3	4
General Farm	3	-	-
Vegetables and Melons	3	1	-
Saw and Paper Mills	2	4	1
Sugar Cane	2	2	2
Misc. Business/Credit Institutions	2	-	-
Other Field Crops	2	-	-
Fuel Manufacturing	1	-	-
Financial Institutions	-	1	9
Total	100%	100%	100%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms.

The following table presents information relating to impaired loans.

	December 31,		
	2007	2006	2005
Nonaccrual loans:			
Current as to principal and interest	\$ -	\$ -	\$ -
Past due	995	-	-
Total nonaccrual loans	<u>995</u>	<u>-</u>	<u>-</u>
Impaired accrual loans:			
Restructured accrual loans	-	-	-
Accrual loans 90 days or more past due	-	613	-
Total impaired accrual loans	<u>-</u>	<u>613</u>	<u>-</u>
Total impaired loans	<u>\$ 995</u>	<u>\$ 613</u>	<u>\$ -</u>

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2007.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

	Year Ended December 31,		
	2007	2006	2005
Interest income recognized on nonaccrual loans	\$ 86	\$ -	\$ 66
Interest income on impaired accrual loans	<u>4</u>	<u>4</u>	<u>7</u>
Interest income recognized on impaired loans	<u>\$ 90</u>	<u>\$ 4</u>	<u>\$ 73</u>

The following table presents information concerning impaired loans as of December 31,

	2007	2006	2005
Impaired loans with related allowance	\$ 914	\$ -	\$ -
Impaired loans with no related allowance	81	613	-
Total impaired loans	<u>\$ 995</u>	<u>\$ 613</u>	<u>\$ -</u>
Allowance on impaired loans	<u>\$ 163</u>	<u>\$ -</u>	<u>\$ -</u>

The following table summarizes impaired loan information for the year ended December 31,

	2007	2006	2005
Average impaired loans	<u>\$ 1,495</u>	<u>\$ 43</u>	<u>\$ 90</u>

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

	Year Ended December 31,		
	2007	2006	2005
Interest income which would have been recognized under the original loan terms	\$ 151	\$ 2	\$ 68
Less: interest income recognized	<u>86</u>	<u>-</u>	<u>66</u>
Foregone interest income	<u>\$ 65</u>	<u>\$ 2</u>	<u>\$ 2</u>

The changes in the allowance for loan losses are as follows:

	Year Ended December 31,		
	2007	2006	2005
Balance at beginning of year	\$ 187	\$ 183	\$ 337
Charge-offs:			
Production and intermediate term	2	-	(36)
Total charge-offs	<u>2</u>	<u>-</u>	<u>(36)</u>
Recoveries:			
Real estate mortgage	17	14	-
Production and intermediate term	-	-	5
Total recoveries	<u>17</u>	<u>14</u>	<u>5</u>
Net (charge-offs) recoveries	<u>19</u>	<u>14</u>	<u>(31)</u>
Provision for (reversal of allowance for) loan losses	<u>26</u>	<u>(10)</u>	<u>(123)</u>
Balance at end of year	<u>\$ 232</u>	<u>\$ 187</u>	<u>\$ 183</u>
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period			
	<u>(0.01)%</u>	<u>(0.01)%</u>	<u>0.01%</u>

In addition, the following is a breakdown of the allowance for loan losses for the end of the last three fiscal years:

	December 31, 2007		December 31, 2006	
	Amount	%	Amount	%
Real estate mortgage	\$ 197	85%	\$ 170	91%
Production and intermediate term	20	9	16	9
Agribusiness	15	6	-	-
Rural residential real estate	-	-	1	-
Total	<u>\$ 232</u>	<u>100%</u>	<u>\$ 187</u>	<u>100%</u>
	December 31, 2005			
	Amount	%		
Real estate mortgage	\$ 151	83%		
Production and intermediate term	31	17		
Agribusiness	-	-		
Rural residential real estate	1	-		
Total	<u>\$ 183</u>	<u>100%</u>		

To mitigate the risk of loan losses, the Association may enter into long-term standby "commitment to purchase" agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under long-term standby commitments was \$6,695, \$8,163 and \$14,253 at December 31, 2007, 2006 and 2005, respectively. Fees paid to Farmer Mac for such commitments totaled \$39, \$62 and \$99 for the years ended December 31, 2007, 2006 and 2005, respectively. These amounts are classified as noninterest expense.

Note 5 — Investment in AgFirst Farm Credit Bank

The Association is required to maintain ownership in the Bank of Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements.

Note 6 — Premises and Equipment

Premises and equipment consisted of the following:

	December 31,		
	2007	2006	2005
Land	\$ 164	\$ 163	\$ 146
Buildings and improvements	1,027	910	851
Furniture and equipment	877	809	776
	<u>2,068</u>	<u>1,882</u>	<u>1,773</u>
Less: accumulated depreciation	996	898	835
Total	<u>\$ 1,072</u>	<u>\$ 984</u>	<u>\$ 938</u>

Note 7 — Notes Payable to AgFirst Farm Credit Bank

The Association’s indebtedness to the Bank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association’s assets and the terms of the revolving lines of credit are governed by a general financing agreement. Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank’s marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and Association. The weighted average interest rates on the variable rate notes were 5.81 percent for LIBOR-based loans, 5.74 percent for Prime-based loans, and the weighted average remaining maturities were 3.1 years and 2.7 years, respectively, at December 31, 2007. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) notes payable which are match funded by the Bank was 5.66 percent and the weighted average remaining maturity was 4.3 years at December 31, 2007. The weighted average interest rate on all interest-bearing notes payable was 5.73 percent and the weighted average remaining maturity was 3.5 years at December 31, 2007.

Variable rate and fixed rate notes payable represent approximately 43.35 percent and 56.65 percent, respectively, of total notes payable at December 31, 2007.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The Bank, consistent with FCA regulations, has established limitations on the Association’s ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2007, the Association’s notes payable were within the specified limitations.

Note 8 — Members’ Equity

A description of the Association’s capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. Protected Borrower Stock

Protection of certain borrower stock is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower stock, to retire such stock at par or stated value regardless of its book value. Protected borrower stock includes capital stock and participation certificates, which were

outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower stock at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund

B. Capital Stock and Participation Certificates

In accordance with the Farm Credit Act and the Association’s capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of \$1 thousand or two percent of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association’s capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

C. Regulatory Capitalization Requirements and Restrictions

The FCA’s capital adequacy regulations require the Association to achieve permanent capital of seven percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the seven percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association’s financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. The FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of seven percent and of core surplus as a percentage of risk-adjusted assets of three and one-half percent. The Association’s permanent capital, total surplus and core surplus ratios at December 31, 2007 were 15.19 percent, 15.13 percent and 10.67 percent, respectively.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

D. Description of Equities

The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association’s business. All stock and participation certificates have a par or face value of five dollars (\$5.00) per share.

The Association had the following shares outstanding at December 31, 2007:

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
B Common/Nonvoting	Yes	70,493	\$ 352
C Common/Voting	No	106,005	530
B Participation Certificates/Nonvoting	Yes	711	4
C Participation Certificates/Nonvoting	No	10,218	51
Total Capital Stock and Participation Certificates		187,427	\$ 937

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met.

At December 31, 2007, allocated members' equity consisted of no qualified and \$21,116 of nonqualified distributions. Nonqualified distributions are tax deductible only when redeemed.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A and D Preferred Stock, or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividend paid on Class A, B or C Common Stock or participation certificates for such

year. The rate of dividends on Class A, B and C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these financial statements.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Transfer

Classes A and D Preferred, Classes A, B and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Allocated Surplus evidenced by nonqualified written notices of allocation.
2. Allocated Surplus evidenced by qualified written notices of allocation
3. Classes A, B and C Common Stock, Classes B and C Participation Certificates
4. Classes A and D Preferred Stock

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Classes A and D Preferred Stock
2. Classes A and B and C Common Stock and Class B and C Participation Certificates
3. Holders of allocated surplus evidenced by qualified written notices of allocation.
4. Holders of allocated surplus evidenced by non-qualified written notices of allocation.
5. All unallocated surplus issued after April 23, 1998 shall be distributed to Patrons of the Association from the period beginning April 23, 1998.
6. Any remaining assets of the Association after such distributions shall be distributed ratably to the holders of all classes of stock and participation certificates.

E. Other Comprehensive Income (Loss)

The Association reports other comprehensive income (loss) (OCI) in its consolidated statements of changes in members' equity. The Association recognized OCI of \$225 in 2007 adopting FAS 158 (see Note 10, Employee Benefit Plans, for further information).

Note 9 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2007	2006	2005
Current:			
Federal	\$ (68)	\$ 46	\$ —
State	1	18	—
	<u>(67)</u>	<u>64</u>	<u>—</u>
Deferred:			
Federal	(9)	—	(23)
State	—	—	(3)
	<u>(9)</u>	<u>—</u>	<u>(26)</u>
Total provision (benefit) for income taxes	<u>\$ (76)</u>	<u>\$ 64</u>	<u>\$ (26)</u>

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31,		
	2007	2006	2005
Federal tax at statutory rate	\$ 3,116	\$ 2,817	\$ 2,421
State tax, net	7	12	(2)
Patronage distributions	(1,107)	(854)	(585)
Tax-exempt FLCA earnings	(2,118)	(2,029)	(1,764)
Change in deferred tax asset valuation allowance	75	—	—
Bank equity redemption	98	—	—
Other	(147)	118	(96)
Provision (benefit) for income taxes	<u>\$ (76)</u>	<u>\$ 64</u>	<u>\$ (26)</u>

Deferred tax assets and liabilities result from the following at:

	December 31,		
	2007	2006	2005
Deferred income tax assets:			
Allowance for loan losses	\$ 86	\$ 27	\$ 24
Loan origination fees	44	—	—
Annual leave	80	15	1
Nonaccrual loan interest	3	1	1
Pensions and other postretirement benefits	522	123	7
Deferred incentive	90	—	—
Other	—	38	—
Gross deferred tax assets	<u>825</u>	<u>204</u>	<u>33</u>
Less: valuation allowance	<u>(75)</u>	<u>—</u>	<u>—</u>
Gross deferred tax assets, net of valuation allowance	<u>750</u>	<u>204</u>	<u>33</u>
Deferred income tax liabilities:			
Loan origination fees	—	(10)	(3)
Pensions and other postretirement benefits	(742)	(201)	(16)
Depreciation	(8)	(2)	(6)
Other	—	—	(17)
Gross deferred tax liability	<u>(750)</u>	<u>(213)</u>	<u>(42)</u>
Net deferred tax asset (liability)	<u>\$ —</u>	<u>\$ (9)</u>	<u>\$ (9)</u>

At December 31, 2007, deferred income taxes have not been provided by the Association on approximately \$1.6 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$75, \$0 and \$0 during 2007, 2006 and 2005, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

The Association adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," on January 1, 2007. As a result of the adoption, there were no uncertain positions for income taxes identified and therefore the Association recognized no change in the liability for unrecognized tax benefits and no reduction to the January 1, 2007 balance of retained earnings. The Association recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. There were no uncertain tax positions identified related to the current year. The tax years that remain open for federal and major state income tax jurisdictions are 2004 and forward.

Note 10 — Employee Benefit Plans

The employees of the Association may participate in a Districtwide defined benefit retirement plan. This plan is noncontributory and covers substantially all Association employees. Benefits are based on salary and years of service. As a participant in the District's defined benefit plan, the Association funded \$0 for 2007 and 2006, and \$490 for 2005, through its note payable to the Bank. Plan expenses included in salaries and employee benefits were \$321 for 2007, \$380 for 2006, and \$352 for 2005.

The District sponsors a plan providing certain benefits (primarily health care) to its retirees. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. Postretirement benefits other than pensions (primarily health care benefits) included in salaries and employee benefits were \$74 for 2007, \$78 for 2006 and \$165 for 2005.

Under SFAS No. 158, accounting for the impact of the adoption of the standard follows the plan sponsor, which is at the District entity level for the Districtwide benefit plans in which the Association participates. Therefore, there is no impact to the Association's financial statements for the adoption of SFAS No. 158 for the two defined benefit plans discussed above.

Additional financial information for the District sponsored plans may be found in Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2007 Annual Report.

During 2007, the Association adopted a supplemental defined benefit executive plan for one (or more) of its key executives. The supplemental defined benefit executive plan is unfunded and had a projected benefit obligation of \$225 and a net under-funded status of \$225 at December 31, 2007. Net periodic pension cost for the period was \$225. The weighted average assumption used to determine the projected benefit obligation included a discount rate of 6.40 percent. Pursuant to SFAS No. 158, the Association recorded a charge to Other Comprehensive Income and an addition to Other liabilities of \$225.

The Association participates in a Districtwide Thrift Plan. For employees hired on or prior to December 31, 2002, the Association will contribute \$.50 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association will contribute \$1.00 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. Employer contributions to this plan were \$94, \$86, and \$62 for the years ended December 31, 2007, 2006 and 2005, respectively.

Note 11 — Intra-System Financial Assistance

The Farm Credit Act provided for capital assistance to System institutions experiencing severe financial stress through the issuance, prior to October 1, 1992, by the Financial Assistance Corporation of U.S. Treasury-guaranteed 15-year bonds, of which \$1.261 billion in principal amount was originally issued. The last remaining Financial Assistance Corporation bonds matured and were repaid on June 10, 2005.

Pursuant to the Farm Credit Act, the U.S. Treasury paid \$440 million, on behalf of the System, in interest costs on \$844 million of the Financial Assistance Corporation bonds issued for purposes other than funding Capital Preservation Agreement accruals. The Banks had irrevocably set aside funds, including interest earned, that totaled the \$440 million needed to repay the interest advanced by the U.S. Treasury. On June 10, 2005, the Banks repaid the U.S. Treasury the interest advanced. The Farm Credit Administrative Board cancelled the Financial Assistance Corporation's charter as of December 31, 2006.

Note 12 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons at December 31, 2007 amounted to \$2,755. During 2007, \$3,143 of new loans were made and repayments totaled \$7,662. In the opinion of management, none of these loans outstanding at December 31, 2007 involved more than a normal risk of collectibility.

Note 13 — Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are

agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2007, \$45,508 of commitments to extend credit and \$0 of commercial letters of credit was outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2007, the Association had outstanding \$6,699 of standby letters of credit, with expiration dates ranging from December 31, 2007 to April 2, 2012. The maximum potential amount of future payments the Association may be required to make under these existing guarantees is \$6,699.

A guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the guarantee commitment. The Association has determined the fair value of the guarantee commitment based upon the fees to be earned over the life of the guarantee. The fair value is updated periodically to reflect changes in individual guarantee amounts and the remaining life to maturity of the individual guarantees in the Association's inventory. At December 31, 2007, the Association's inventory of standby letters of credit had a fair value of \$115 and was included in other liabilities.

During 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investments Company (RBIC). At December 31, 2007 there was an outstanding commitment of \$290 to make additional equity purchases.

Note 14 — Disclosures About Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2007, 2006 and 2005. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments are as follows:

	December 31, 2007		December 31, 2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	\$ 64	\$ 64	\$ -	\$ -
Loans	\$ 258,245	\$ 261,063	\$ 219,599	\$ 221,698
Allowance for loan losses	232	-	187	-
Loans, net	\$ 258,013	\$ 261,063	\$ 219,412	\$ 221,698
Investment securities	\$ 36,958	\$ 36,599	\$ 32,202	\$ 31,977
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 260,052	\$ 263,010	\$ 217,032	\$ 218,426

	December 31, 2005	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	\$ 466	\$ 466
Loans	\$ 276,618	\$ 275,993
Allowance for loan losses	183	-
Loans, net	\$ 276,435	\$ 275,993
Investment securities	\$ -	\$ -
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	\$ 233,259	\$ 232,387

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate that value follows:

- A. **Cash:** The carrying value is a reasonable estimate of fair value.
- B. **Loans:** Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Bank's loan rates, as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated to be the carrying amount less specific reserves.

The carrying value of accrued interest approximates its fair value.
- C. **Investment Securities:** Fair value is based upon quoted market price.
- D. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. As described in Note 5, the net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 2.47 percent of the issued stock of the Bank as of December 31, 2007 net of any reciprocal investment. As of

that date, the Bank's assets totaled \$26.9 billion and shareholders' equity totaled \$1,457 million. The Bank's earnings were \$192 million during 2007.

In addition, the Association has an investment of \$3,516 related to other Farm Credit institutions.

- E. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.
- F. **Commitments to Extend Credit and Standby Letters of Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

Note 15 — Quarterly Financial Information (Unaudited)

Quarterly results of operations for the years ended December 31, 2007, 2006 and 2005 follow:

	2007				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,584	\$ 1,486	\$ 1,569	\$ 1,677	\$ 6,316
Provision for (reversal of allowance for) loan losses	(36)	(17)	(83)	162	26
Noninterest income (expense), net	187	639	707	1,419	2,952
Net income (loss)	\$ 1,807	\$ 2,142	\$ 2,359	\$ 2,934	\$ 9,242

	2006				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,970	\$ 1,794	\$ 1,953	\$ 1,899	\$ 7,616
Provision for (reversal of allowance for) loan losses	67	7	(64)	(20)	(10)
Noninterest income (expense), net	(276)	77	320	474	595
Net income (loss)	\$ 1,627	\$ 1,864	\$ 2,337	\$ 2,393	\$ 8,221

	2005				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,550	\$ 1,623	\$ 1,515	\$ 1,714	\$ 6,402
Provision for (reversal of allowance for) loan losses	(20)	(43)	(50)	(10)	(123)
Noninterest income (expense), net	(405)	189	(217)	1,055	622
Net income (loss)	\$ 1,165	\$ 1,855	\$ 1,348	\$ 2,779	\$ 7,147