

FIRST QUARTER 2005

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Financial Condition and Results of Operations.....2

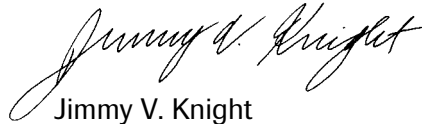
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Jimmy V. Knight
Chief Executive Officer


William G. Welles, IV
Chairman of the Board

April 29, 2005

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

(dollars in thousands)

The following commentary reviews the consolidated financial condition and results of operations of Farm Credit of Southwest Florida, ACA (Association) for the period ended March 31, 2005. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2004 Annual Report of the Association.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including citrus and cattle. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat mitigates the level of dependency on any one given commodity.

The gross loan volume of the Association as of March 31, 2005, was \$255,892, a decrease of \$442 as compared to \$256,334 at December 31, 2004. Net loans outstanding at March 31, 2005, were \$255,652 as compared to \$256,819 at December 31, 2004. Net loans accounted for 95.95 percent of total assets at March 31, 2005, as compared to 94.68 percent of total assets at December 31, 2004.

The decrease in gross loan volume is attributed primarily to large loans that have liquidated due to the increased real estate value of agricultural land that is being purchased for residential development. The association has a detailed marketing plan that will offset these liquidations by expanding our country mortgages and rural home loan business segments.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from \$822 at December 31, 2004, to \$75 at March 31, 2005. Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2005, was \$314 compared to \$337 at December 31, 2004, and is considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2005

Net income for the three months ended March 31, 2005, totaled \$1,165, as compared to \$1,235 for the same period in 2004. Net interest income decreased \$70, for the three months ended March 31, 2005, as compared to the same period in 2004 primarily due to the decrease in gross loan volume.

At March 31, 2005, interest income on loans increased \$692 compared to March 31, 2004. Interest expense increased \$40 for the three months ended March 31, 2005, as compared to the comparable period of 2004. Non-interest income for the three months ended March 31, 2005, totaled \$818, as compared to \$906 for the same period of 2004, a decrease of \$88. Non-interest expense for the three months ended March 31, 2005 increased \$36 compared to the same period of 2004.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2005, was \$209,745 as compared to \$215,908 at December 31, 2004.

CAPITAL RESOURCES

Total members' equity at March 31, 2005, increased to \$51,147 from the December 31, 2004 total of \$50,141. The increase is primarily attributed to the year to date earnings of the Association.

Total capital stock and participation certificates were \$1,476 on March 31, 2005, compared to \$1,602 on December 31, 2004. This decrease is attributed to capital stock and participation certificates retired and protected borrower equity retired in the normal course of business.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2005, the Association's total surplus ratio and core surplus ratio were 22.37 percent and 16.81 percent, respectively, and the permanent capital ratio was 22.62 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

Farm Credit of Southwest Florida, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2005	December 31, 2004
	<i>(unaudited)</i>	
Assets		
Cash	\$ 193	\$ 1,051
Loans	255,966	257,156
Less: allowance for loan losses	314	337
Net loans	255,652	256,819
Accrued interest receivable	2,128	1,828
Investment in other Farm Credit institutions	4,486	4,419
Premises and equipment, net	897	929
Other assets	3,081	6,196
Total assets	\$ 266,437	\$ 271,242
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 209,745	\$ 215,910
Accrued interest payable	687	634
Patronage refund payable	37	1,897
Other liabilities	4,821	2,661
Total liabilities	215,290	221,102
Commitments and contingencies		
Members' Equity		
Protected borrower equity	792	936
Capital stock and participation certificates	684	666
Retained earnings		
Allocated	25,505	25,445
Unallocated	24,166	23,093
Total members' equity	51,147	50,140
Total liabilities and members' equity	\$ 266,437	\$ 271,242

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

Farm Credit of Southwest Florida, ACA
Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2005	2004
Interest Income		
Loans	\$ 3,511	\$ 2,819
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	1,961	1,309
Net interest income	1,550	1,510
Provision for (reversal of) loan losses	(20)	—
Net interest income after provision for (reversal of) loan losses	1,570	1,510
Noninterest Income		
Loan fees	78	88
Equity in earnings of other Farm Credit institutions	709	804
Gains (losses) on other property owned, net	2	2
Other noninterest income	25	13
Total noninterest income	814	907
Noninterest Expense		
Salaries and employee benefits	797	761
Occupancy and equipment	78	64
Insurance Fund premium	23	58
Other operating expenses	320	299
Total noninterest expense	1,218	1,182
Income before income taxes	1,166	1,235
Provision (benefit) for income taxes	1	—
Net income	\$ 1,165	\$ 1,235

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

Farm Credit of Southwest Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2003	\$ 1,154	\$ 673	\$ 23,619	\$ 15,780	\$ (1,885)	\$ 39,341
Net income				1,235		1,235
Protected borrower equity retired	(57)					(57)
Capital stock/participation certificates issued		14				14
Capital stock/participation certificates retired		(2)				(2)
Patronage distribution						
Allocated retained earnings			45	(45)		—
Distribution adjustment			(70)	152		82
Balance at March 31, 2004	\$ 1,097	\$ 685	\$ 23,594	\$ 17,122	\$ (1,885)	\$ 40,613
Balance at December 31, 2004	\$ 936	\$ 666	\$ 25,445	\$ 23,093	\$ —	\$ 50,140
Net income				1,165		1,165
Protected borrower equity retired	(144)					(144)
Capital stock/participation certificates issued		18				18
Distribution adjustment			60	(92)		(32)
Balance at March 31, 2005	\$ 792	\$ 684	\$ 25,505	\$ 24,166	\$ —	\$ 51,147

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

Notes to the Consolidated Financial Statements

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit of Southwest Florida, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2004, are contained in the 2004 Annual Report to Stockholders. These unaudited first quarter 2005 consolidated financial statements should be read in conjunction with the 2004 Annual Report to Stockholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles. The results for the three months ended March 31, 2005, are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

Certain amounts in prior period consolidated financial statements have been reclassified to conform to current consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with generally accepted accounting principles. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2005, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

Balance at 12-31-03	\$ 6,989
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	<u>1</u>
Balance at 3-31-04	<u>\$ 6,990</u>
Balance at 12-31-04	\$ 337
(Reversal of) provision for loan losses	(20)
Loans (charged off), net of recoveries	<u>(3)</u>
Balance at 3-31-05	<u>\$ 314</u>

As discussed in the 2004 Annual Report, the Association recorded a loan loss reversal of \$6,611 in the fourth quarter of 2004 that resulted in a decrease in the allowance for loan losses.

NOTE 3 – EMPLOYEE BENEFIT PLANS

The Association participates in a Districtwide defined benefit retirement plan. The costs of the plan are not segregated by participating entities but are allocated among the participating entities. Pension costs are allocated by multiplying the District's net pension expense times each institution's salary expense as a percentage of the District's salary expense. The Association also participates in Districtwide Thrift and other postretirement benefit plans.

The following is a table of retirement and postretirement benefit expense for the three months ended March 31, 2005:

	For the three months ended March 31,	
	2005	2004
Pension	\$ 88	\$ 98
Thrift/deferred compensation	13	11
Other postretirement benefits	<u>41</u>	<u>57</u>
Total	<u>\$ 142</u>	<u>\$ 166</u>

As of March 31, 2005, no contributions have been made to the pension plan for 2005. Actuarial projections as of the last plan measurement date (September 30, 2004) did not anticipate any contributions for 2005; however, market conditions could impact discount rates and return on plan assets which could change this expectation, making contributions necessary before the next plan measurement date.