

SECOND QUARTER 2005

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

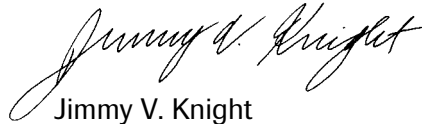
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Jimmy V. Knight
Chief Executive Officer


William G. Welles, IV
Chairman of the Board

July 29, 2005

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Southwest Florida, ACA (Association) for the period ended June 30, 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 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 reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of June 30, 2005, was \$258,151, an increase of \$995, as compared to \$257,156 at December 31, 2004. Net loans outstanding at June 30, 2005, were \$257,875 as compared to \$256,819 at December 31, 2004. Net loans accounted for 95.81 percent of total assets at June 30, 2005, as compared to 94.68 percent of total assets at December 31, 2004. The increase in gross and net loan volume during the reporting period is attributed primarily to increased loan activity in the Capital Markets Lending Unit from loans purchased and sold to and from other Farm Credit institutions.

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 June 30, 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 June 30, 2005, was \$275 compared to \$337 at December 31, 2004, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2005

Net income for the three months ended June 30, 2005, totaled \$1,855, as compared to \$1,197 for the same period in 2004. Net interest income increased \$169 for the three months ended June 30, 2005, as compared to the same period in 2004.

Noninterest income for the three months ended June 30, 2005, totaled \$1,400, as compared to \$917 for the same period of 2004, an increase of \$483. The increase is primarily the result of one large Capital Markets loan that had considerable fees associated with it. Noninterest expense for the three months ended June 30, 2005, increased \$36 compared to the same period of 2004.

For the six months ended June 30, 2005

Net income for the six months ended June 30, 2005, totaled \$3,020, as compared to \$2,432 for the same period in 2004, an increase of \$588 over prior year. At June 30, 2005, net interest income increased by \$208 or 7.03 percent as compared to June 30, 2004.

Noninterest income for the six months ended June 30, 2005, totaled \$2,213, as compared to \$1,824 for the same period of 2004, an increase of \$389. The increase is primarily the result of one Capital Markets loan that had considerable fees associated with it. Noninterest expense for the six months ended June 30, 2005, increased \$72 compared to the same period of 2004.

The primary reasons for the increase in noninterest expense, is attributed primarily to a decrease in controllable costs that was offset by combined increases in salaries and employee benefits.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2005, was \$215,443 as compared to \$215,910 at December 31, 2004.

CAPITAL RESOURCES

Total members' equity at June 30, 2005, decreased to \$49,388 from the December 31, 2004, total of \$50,141. The decrease is primarily attributed to the large volume of loans that paid out during the 1st quarter of 2005.

Total capital stock and participation certificates were \$1,306 on June 30, 2005, compared to \$1,602 on December 31, 2004. This decrease is attributed to protected borrower equity, capital stock and participation certificates 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 June 30, 2005, the Association's total surplus ratio and core surplus ratio were 20.38 percent and 15.91 percent, respectively, and the permanent capital ratio was 20.53 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Jay Wise, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-307-5677 ext. 141, or writing: Lori Langfang, Controller, Farm Credit of Southwest Florida, ACA 330 N. Brevard Ave 34266, or accessing the website, www.farmcreditswfl.com. The Association prepares a quarterly report within 45 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit of Southwest Florida, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2005 <i>(unaudited)</i>	December 31, 2004 <i>(audited)</i>
Assets		
Cash	\$ —	\$ 1,051
Loans	258,150	257,156
Less: allowance for loan losses	275	337
Net loans	257,875	256,819
Accrued interest receivable	2,164	1,828
Investment in other Farm Credit institutions	4,586	4,419
Premises and equipment, net	948	929
Other assets	3,568	6,196
Total assets	<u>\$ 269,141</u>	<u>\$ 271,242</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 215,443	\$ 215,910
Accrued interest payable	743	634
Patronage refund payable	4	1,897
Other liabilities	3,563	2,661
Total liabilities	<u>219,753</u>	<u>221,102</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	686	936
Capital stock and participation certificates	620	666
Retained earnings		
Allocated	22,060	25,445
Unallocated	26,022	23,093
Total members' equity	<u>49,388</u>	<u>50,140</u>
Total liabilities and members' equity	<u>\$ 269,141</u>	<u>\$ 271,242</u>

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 June 30,		For the six months ended June 30,	
	2005	2004	2005	2004
Interest Income				
Loans	\$ 3,785	\$ 2,794	\$ 7,296	\$ 5,613
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	2,162	1,340	4,123	2,649
Net interest income	1,623	1,454	3,173	2,964
Provision for (reversal of) loan losses	(43)	—	(63)	—
Net interest income after provision for (reversal of) loan losses	1,666	1,454	3,236	2,964
Noninterest Income				
Loan fees	536	120	614	208
Equity in earnings of other Farm Credit institutions	789	741	1,498	1,545
Gains (losses) on other property owned, net	1	1	3	3
Other noninterest income	73	55	98	68
Total noninterest income	1,399	917	2,213	1,824
Noninterest Expense				
Salaries and employee benefits	777	756	1,574	1,517
Occupancy and equipment	75	67	153	131
Insurance Fund premium	22	58	45	116
Other operating expenses	336	293	656	592
Total noninterest expense	1,210	1,174	2,428	2,356
Income before income taxes	1,855	1,197	3,021	2,432
Provision (benefit) for income taxes	—	—	1	—
Net income	\$ 1,855	\$ 1,197	\$ 3,020	\$ 2,432

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)

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
<i>(dollars in thousands)</i>						
Balance at December 31, 2003	\$ 1,154	\$ 673	\$ 23,619	\$ 15,780	\$ (1,885)	\$ 39,341
Net income				2,432		2,432
Protected borrower equity retired	(101)					(101)
Capital stock/participation certificates issued		32				32
Capital stock/participation certificates retired		(65)				(65)
Retained earnings retired			(1,622)			(1,622)
Distribution adjustment			(70)	109		39
Balance at June 30, 2004	\$ 1,053	\$ 640	\$ 21,927	\$ 18,321	\$ (1,885)	\$ 40,056
Balance at December 31, 2004	\$ 936	\$ 666	\$ 25,445	\$ 23,093	\$ —	\$ 50,140
Net income				3,020		3,020
Protected borrower equity retired	(250)					(250)
Capital stock/participation certificates issued		33				33
Capital stock/participation certificates retired		(79)				(79)
Retained earnings retired			(3,444)			(3,444)
Distribution adjustment			59	(91)		(32)
Balance at June 30, 2005	\$ 686	\$ 620	\$ 22,060	\$ 26,022	\$ —	\$ 49,388

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

Farm Credit of Southwest Florida, ACA

Notes to the Consolidated Financial Statements

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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 Shareholders. These unaudited second quarter 2005 consolidated financial statements should be read in conjunction with the 2004 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles. The results for the six months ended June 30, 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 June 30, 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	3
Balance at 6-30-04	\$ 6,992
Balance at 12-31-04	\$ 337
(Reversal of) provision for loan losses	(63)
Recoveries, net of loans charged off	1
Balance at 6-30-05	\$ 275

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 six months ended June 30, 2005:

	For the six months ended June 30,	
	2005	2004
Pension	\$ 176	\$ 197
Thrift/deferred compensation	27	23
Other postretirement benefits	83	113
Total	\$ 286	\$ 333

As of June 30, 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.