

THIRD QUARTER 2006

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Jimmy V. Knight
Chief Executive Officer



William G. Welles, IV
Chairman of the Board

October 27, 2006

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Southwest Florida, ACA for the period ended September 30, 2006. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. These comments should be read in conjunction with the consolidated financial statements, notes to the consolidated financial statements and the 2005 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 September 30, 2006, was \$261,173 a decrease of \$15,445 as compared to \$276,618 at December 31, 2005. Net loans outstanding at September 30, 2006, were \$260,969 as compared to \$276,435 at December 31, 2005. Net loans accounted for 87.31 percent of total assets at September 30, 2006, as compared to 95.09 percent of total assets at December 31, 2005. The decrease in gross and net loan volume during the reporting period is attributed primarily to liquidating the USDA guaranteed loan portfolio and the Low Priced Loan Pool sell-back to AgFirst Farm Credit.

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. There is no non-accrual loan volume to report for the third quarter ending September 30, 2006.

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 September 30, 2006, was \$204 compared to \$183 at December 31, 2005, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2006

Net income for the three months ended September 30, 2006, totaled \$2,337, as compared to \$1,348 for the same period in 2005. Net interest income increased \$516 for the three months ended September 30, 2006, as compared to the same period in 2005.

Noninterest income for the three months ended September 30, 2006, totaled \$1,655, as compared to \$1,060 for the same period of 2005, an increase of \$595. The increase is primarily due to accrued earnings for patronage from other Farm Credit Institutions and AgFirst Farm Credit Bank. Noninterest expense for the three months ended September 30, 2006, increased \$81 compared to the same period of 2005. The increase is due to the approved controllable operating costs associated with the normal course of business and increased Farm Credit System Insurance Corp premiums from previous year.

For the nine months ended September 30, 2006

Net income for the nine months ended September 30, 2006, totaled \$5,828, as compared to \$4,368 for the same period in 2005, an increase of \$1,460 over prior year. At September 30, 2006, net interest income increased by \$1,029 or 21.95 percent as compared to September 30, 2005.

Noninterest income for the nine months ended September 30, 2006, totaled \$4,420, as compared to \$3,273 for the same period of 2005, an increase of \$1,147. The increase is primarily the result of Patronage based income from other Farm Credit Institutions from Participations purchased and sold. Noninterest expense for the nine months ended September 30, 2006, increased \$605 compared to the same period of 2005. The primary reasons for the increase in noninterest expense is attributed primarily to an increase in non-controllable insurance premiums from the Farm Credit Insurance Corp and an overall approved increase in total operating expenses.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2006, was \$241,948 as compared to \$233,259 at December 31, 2005.

CAPITAL RESOURCES

Total members' equity at September 30, 2006, increased to \$51,969 from the December 31, 2005, total of \$51,766. The increase is primarily attributed to YTD interest and noninterest income.

Total capital stock and participation certificates were \$1,109 on September 30, 2006, compared to \$1,278 on December 31, 2005. This decrease is attributed to protected borrower's equity that has been 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 September 30, 2006, the Association's total surplus ratio and core surplus ratio were 16.55 percent and 12.58 percent, respectively, and the permanent capital ratio was 16.77 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.

ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

On September 29, 2006, the Financial Accounting Standards Board 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 comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after

June 15, 2007. The Association will be required to implement the Standard for the year ended December 31, 2007. 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 Association 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. The Association is currently evaluating the impact of implementing this Standard. It is anticipated that the impact from the implementation of this Standard will have no impact on the consolidated income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the consolidated balance sheet.

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 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>	September 30, 2006 <i>(unaudited)</i>	December 31, 2005 <i>(audited)</i>
Assets		
Cash	\$ —	\$ 466
Investment securities, held to maturity	22,622	—
Loans	261,173	276,618
Less: allowance for loan losses	204	183
Net loans	260,969	276,435
Accrued interest receivable	2,900	1,494
Investment in other Farm Credit institutions	5,307	4,638
Premises and equipment, net	1,000	938
Prepaid retirement expense	2,387	2,673
Due from AgFirst Farm Credit Bank	2,111	3,179
Other assets	1,595	876
Total assets	<u>\$ 298,891</u>	<u>\$ 290,699</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 242,026	\$ 233,259
Accrued interest payable	1,170	1,038
Patronage refund payable	4	1,724
Other liabilities	3,722	2,912
Total liabilities	<u>246,922</u>	<u>238,933</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	520	622
Capital stock and participation certificates	588	656
Retained earnings		
Allocated	21,114	25,257
Unallocated	29,747	25,231
Total members' equity	<u>51,969</u>	<u>51,766</u>
Total liabilities and members' equity	<u>\$ 298,891</u>	<u>\$ 290,699</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 September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Interest Income				
Loans	\$ 5,305	\$ 3,984	\$ 15,797	\$ 11,280
Investment securities	305	—	570	—
Total interest income	5,610	3,984	16,367	11,280
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	3,657	2,469	10,650	6,592
Net interest income	1,953	1,515	5,717	4,688
Provision for (reversal of) loan losses	(64)	(50)	10	(113)
Net interest income after provision for (reversal of) loan losses	2,017	1,565	5,707	4,801
Noninterest Income				
Loan fees	131	331	437	945
Fees for financially related services	—	1	—	1
Equity in earnings of other Farm Credit institutions	1,489	700	3,823	2,198
Gains (losses) on other property owned, net	2	2	5	5
Other noninterest income	33	26	155	124
Total noninterest income	1,655	1,060	4,420	3,273
Noninterest Expense				
Salaries and employee benefits	830	755	2,619	2,329
Occupancy and equipment	92	79	276	232
Insurance Fund premium	95	39	286	84
Other operating expenses	318	381	1,106	1,037
Total noninterest expense	1,335	1,254	4,287	3,682
Income before income taxes	2,337	1,371	5,840	4,392
Provision (benefit) for income taxes	—	23	12	24
Net income	\$ 2,337	\$ 1,348	\$ 5,828	\$ 4,368

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		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2004	\$ 936	\$ 666	\$ 25,445	\$ 23,093	\$ 50,140
Net income				4,368	4,368
Protected borrower equity retired	(273)				(273)
Capital stock/participation certificates issued		52			52
Capital stock/participation certificates retired		(79)			(79)
Retained earnings retired			(3,444)		(3,444)
Distribution adjustment			59	(92)	(33)
Balance at September 30, 2005	\$ 663	\$ 639	\$ 22,060	\$ 27,369	\$ 50,731
Balance at December 31, 2005	\$ 622	\$ 656	\$ 25,257	\$ 25,231	\$ 51,766
Net income				5,828	5,828
Protected borrower equity retired	(102)				(102)
Capital stock/participation certificates issued		61			61
Capital stock/participation certificates retired		(129)			(129)
Retained earnings retired			(4,995)		(4,995)
Distribution adjustment			852	(1,312)	(460)
Balance at September 30, 2006	\$ 520	\$ 588	\$ 21,114	\$ 29,747	\$ 51,969

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

On September 29, 2006, the Financial Accounting Standards Board 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 comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Association will be required to implement the Standard for the year ended December 31, 2007. 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 Association 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. The Association is currently evaluating the impact of implementing this Standard. It is anticipated that the impact from the implementation of this Standard will have no impact on the consolidated income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the consolidated balance sheet.

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 nine months ended September 30, 2006, are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

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

The Association maintains an allowance for loan losses in accordance with generally accepted accounting principles. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of September 30,

2006, the allowance for losses is adequate in management’s opinion to provide for possible losses on existing loans.

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 using the effective interest method over the term of the respective security.

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

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30,	
	2006	2005
Balance at beginning of period	\$ 183	\$ 337
Provision for (reversal of) loan losses	10	(113)
Loans (charged off), net of recoveries	11	(27)
Balance at end of period	<u>\$ 204</u>	<u>\$ 197</u>

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 nine months ended September 30, 2006:

	For the nine months ended September 30,	
	2006	2005
Pension	\$ 285	\$ 264
Thrift/deferred compensation	50	41
Other postretirement benefits	59	124
Total	<u>\$ 394</u>	<u>\$ 429</u>

As of September 30, 2006, no contributions have been made to the pension plan for 2006. The Association does not anticipate making additional contributions for the remainder of 2006.