Farm Credit of Northwest Florida, ACA

SECOND QUARTER 2008

James R. Alberts
Chief Executive Officer

Bruce C. Harrison
Chief Financial Officer

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Chairman of the Board

July 25, 2008

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Northwest Florida, ACA (Association) for the period ending June 30, 2008. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2007 Annual Report of the Association.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including forestry, row crops, livestock peanuts, horticulture, dairies and rural homes. 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, 2008, was $516,481, an increase of $377, as compared to $516,104 at December 31, 2007. Net loans outstanding (gross loans net of the allowance for loan losses) at June 30, 2008, were $513,612 as compared to $511,708 at December 31, 2007. Net loans accounted for 95.78 percent of total assets at June 30, 2008, as compared to 95.16 percent of total assets at December 31, 2007.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loan volume was $7,981 at June 30, 2008 as compared to $9,893 at December 31, 2007.

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, 2008 was $2,869, as compared to $4,396 at December 31, 2007. The decrease of $1,527 was primarily due to a charge off related to a bond in the amount $2,616 and an increase in the allowance of $1,089. The allowance for loan loss of $2,869 at June 30, 2008 was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ending June 30, 2008

Net income for the three months ending June 30, 2008, totaled $2,578, as compared to $3,574 for the same period in 2007. For the three months ending June 30, 2008, net interest income decreased by $275 or 7.50 percent compared to the same period ending June 30, 2007. For the three months ending June 30, 2008 interest income on loans decreased by $1,911 and interest expense on notes payable decreased by $1,619 compared to the same period ending June 30, 2007. The changes in net interest income, interest income and interest expense were the result of interest rate reductions.

The Association recorded a provision for loan loss of $506 for the three months ending June 30, 2008. The association provided no provision for loan loss for the three months ending June 30, 2007.

Noninterest income for the three months ending June 30, 2008, totaled $1,162, as compared to $1,211 for the same period of 2007, a decrease of $49. Noninterest expense for the three months ending June 30, 2008, increased $213 compared to the same period of 2007. This increase was primarily due to an increase in salaries and benefits of $157 and an increase in other expenses of $42. Income tax expense decreased by $47 for the three months ending June 30, 2008 as compared to the same period of 2007.

For the six months ending June 30, 2008

Net income for the six months ending June 30, 2008, totaled $5,453, as compared to $7,105 for the same period in 2007. For the six months ending June 30, 2008, net interest income decreased by $253 or 3.45 percent compared to the same period June 30, 2007. For the six months ending June 30, 2008 interest income on loans decreased by $2,513 and interest expense on notes payable decreased by $2,261 compared to the same period ending June 30, 2007. The changes in net interest income, interest income and interest expense were the result of interest rate reductions.

The Association recorded a provision for loan loss of $1,089 for the six months ending June 30, 2008. The association provided no provision for loan loss for the six months ending June 30, 2007.

Noninterest income for the six months ending June 30, 2008, totaled $2,358, as compared to $2,424 for the same period of 2007, an decrease of $66. The decrease is primarily the result of a decrease of $93 in Equity in Earnings of other Farm Credit institutions and an increase of $34 in loan fee income. Noninterest expense for the six months ending June 30, 2008, increased $330 compared to the same period of 2007. The primary reasons for the increase in noninterest expense were an increase in salaries and benefits of $330, an increase in occupancy and equipment of $26 and a decrease of $25 in other 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 June 30, 2008, was $454,510 as compared to $455,811 at December 31, 2007.

CAPITAL RESOURCES

Total members' equity at June 30, 2008, increased to $75,849 from the December 31, 2007, total of $70,858. The increase is primarily attributed to net income of $5,453 for the six months ending June 30, 2008.

Total capital stock and participation certificates were $1,233 on June 30, 2008, compared to $1,373 on December 31, 2007. This increase is attributed to capital stock and participation certificates issuances of $39 and retirements of $179.

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, 2008, the Association's total surplus ratio and core surplus ratio were 12.39 percent and 11.87 percent, respectively, and the permanent capital ratio was 12.63 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 Stephen Gilbert, 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 850-526-4910 ext. 103, or writing Bruce C. Harrison, Chief Financial Officer, Farm Credit of Northwest Florida, ACA, P.O. Box 7000, Marianna, Fl 32447, or accessing the website, *www.farmcredit-fl.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit fo Northwest Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2008	December 31, 2007
	(unaudited)	*(audited)*
Assets		
Cash	$ 610	$ 1,375
Loans	516,481	516,104
Less: allowance for loan losses	2,869	4,396
Net loans	513,612	511,708
Accrued interest receivable	4,308	4,926
Investment in other Farm Credit institutions	10,350	10,372
Premises and equipment, net	1,651	1,727
Other property owned	1,250	—
Due from AgFirst Farm Credit Bank	2,220	5,229
Other assets	2,243	2,385
Total assets	$ 536,244	$ 537,722
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 454,510	$ 455,811
Accrued interest payable	1,682	2,216
Patronage refund payable	37	5,025
Other liabilities	4,166	3,812
Total liabilities	460,395	466,864
Commitments and contingencies		
Members' Equity		
Protected borrower equity	16	24
Capital stock and participation certificates	1,217	1,349
Retained earnings		
Allocated	49,044	49,411
Unallocated	25,572	20,074
Total members' equity	75,849	70,858
Total liabilities and members' equity	$ 536,244	$ 537,722

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

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2008	2007	For the six months ended June 30, 2008	2007
Interest Income				
Loans	$ 8,526	$ 10,437	$ 18,158	$ 20,671
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	5,070	6,689	10,913	13,174
Other	64	81	157	156
Total interest expense	5,134	6,770	11,070	13,330
Net interest income	3,392	3,667	7,088	7,341
Provision for (reversal of allowance for) loan losses	506	—	1,089	—
Net interest income after provision for (reversal of allowance for) loan losses	2,886	3,667	5,999	7,341
Noninterest Income				
Loan fees	50	68	142	108
Equity in earnings of other Farm Credit institutions	1,076	1,138	2,178	2,271
Other noninterest income	36	5	38	45
Total noninterest income	1,162	1,211	2,358	2,424
Noninterest Expense				
Salaries and employee benefits	856	699	1,707	1,377
Occupancy and equipment	95	81	189	163
Insurance Fund premium	189	189	372	373
Other operating expenses	306	264	588	613
Total noninterest expense	1,446	1,233	2,856	2,526
Income before income taxes	2,602	3,645	5,501	7,239
Provision (benefit) for income taxes	24	71	48	134
Net income	$ 2,578	$ 3,574	$ 5,453	$ 7,105

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

Farm Credit fo Northwest Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2006	$ 33	$ 1,382	$ 43,299	$ 19,558	$ 64,272
Net income				7,105	7,105
Protected borrower equity retired	(9)				(9)
Capital stock/participation certificates issued/(retired), net		(86)			(86)
Retained earnings retired			(632)		(632)
Patronage distribution adjustment			89	352	441
Balance at June 30, 2007	$ 24	$ 1,296	$ 42,756	$ 27,015	$ 71,091
Balance at December 31, 2007	$ 24	$ 1,349	$ 49,411	$ 20,074	$ 70,858
Net income				5,453	5,453
Protected borrower equity retired	(8)				(8)
Capital stock/participation certificates issued/(retired), net		(132)			(132)
Retained earnings retired			(96)		(96)
Patronage distribution adjustment			(271)	45	(226)
Balance at June 30, 2008	$ 16	$ 1,217	$ 49,044	$ 25,572	$ 75,849

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

Farm Credit of Northwest Florida, ACA

Notes to the Consolidated Financial Statements

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of Farm Credit of Northwest Florida, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2007, are contained in the 2007 Annual Report to Shareholders. These unaudited second quarter 2008 consolidated financial statements should be read in conjunction with the 2007 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the six months ended June, 2008, are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

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

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2008, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In December 2007, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141R, "Business Combinations" (SFAS 141R). SFAS 141R requires business combinations to be accounted for under the acquisition method of accounting (previously called the purchase method). The acquisition method requires (a) identifying the acquirer, (b) determining the acquisition date, (c) recognizing and measuring the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, at their acquisition date fair values, and (d) recognizing and measuring goodwill or a gain from a bargain purchase. SFAS 141R should be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Association is still evaluating the provisions of SFAS 141R, but believes that its adoption will significantly impact its accounting for combinations/acquisitions that may occur in 2009 and beyond.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the six months ended June 30,	
	2008	**2007**
Balance at beginning of period	$ 4,396	$ 1,574
Provision for (reversal of) loan losses	1,089	–
Loans (charged off), net of recoveries	(2,616)	–
Balance at end of period	$ 2,869	$ 1,574

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	2008	**2007**
Pension	$ 93	$ 137
401(k)	52	43
Other postretirement benefits	42	38
Total	$ 187	$ 218

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

	Actual YTD Through 6/30/08	**Projected Contributions For Remainder of 2008**	**Projected Total Contributions 2008**
Pension	$ -	$ –	$ –
Other postretirement benefits	45	55	100
Total	$ 45	$ 55	$ 100

Market conditions could impact discount rates and return on plan assets which could change the above contribution projections by making additional contributions necessary before the next plan measurement date.