

# THIRD QUARTER 2008

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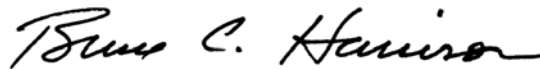
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## CERTIFICATION

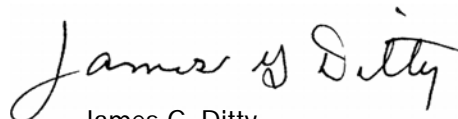
The undersigned certify that we have reviewed the September 30, 2008 quarterly report of Farm Credit of Northwest Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



James R. Alberts  
Chief Executive Officer



Bruce C. Harrison  
Chief Financial Officer



James G. Ditty  
Chairman of the Board

October 24, 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 September 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 September 30, 2008, was \$507,320, a decrease of \$8,784, as compared to \$516,104 at December 31, 2007. Net loans outstanding (gross loans net of the allowance for loan losses) at September 30, 2008, were \$502,808 as compared to \$511,708 at December 31, 2007. Net loans accounted for 95.47 percent of total assets at September 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 \$20,094 at September 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 September 30, 2008 was \$4,512, as compared to \$4,396 at December 31, 2007. The increase of \$116 was primarily due to

an increase in the allowance of \$2,737 and a charge off related to a bond in the amount \$2,616. The allowance for loan loss of \$4,512 at September 30, 2008 was considered by management to be adequate to cover probable losses.

## **RESULTS OF OPERATIONS**

### ***For the three months ending September 30, 2008***

Net income for the three months ending September 30, 2008, totaled \$1,163, as compared to \$2,621 for the same period in 2007. For the three months ending September 30, 2008, net interest income decreased by \$335 or 9.42 percent compared to the same period ending September 30, 2007. For the three months ending September 30, 2008 interest income on loans decreased by \$2,350 and interest expense on notes payable decreased by \$1,939 compared to the same period ending September 30, 2007. The changes in net interest income, interest income and interest expense were the result of interest rate reductions, a decrease in loan volume and an increase in non-accrual volume.

The Association recorded a provision for loan loss of \$1,648 for the three months ending September 30, 2008 as compared to \$599 for the three months ending September 30, 2007.

Noninterest income for the three months ending September 30, 2008, totaled \$1,143, as compared to \$1,158 for the same period of 2007, a decrease of \$15. Noninterest expense for the three months ending September 30, 2008, increased \$49 as compared to the same period of 2007. This increase was primarily due to an increase in salaries and benefits of \$48 an increase in other operating expenses of \$31 and a decrease in Insurance Fund Premiums of \$25.

### ***For the nine months ending September 30, 2008***

Net income for the nine months ending September 30, 2008, totaled \$6,616, as compared to \$9,726 for the same period in 2007. For the nine months ending September 30, 2008, net interest income decreased by \$588 or 5.4 percent compared to the same period September 30, 2007. For the nine months ending September 30, 2008 interest income on loans decreased by \$4,863 and interest expense on notes payable decreased by \$4,200 compared to the same period ending

September 30, 2007. The changes in net interest income, interest income and interest expense were the result of interest rate reductions, a decrease in loan volume and an increase in non-accrual volume.

The Association recorded a provision for loan loss of \$2,737 for the nine months ending September 30, 2008 as compared to \$599 for the nine months ending September 30, 2007

Noninterest income for the nine months ending September 30, 2008, totaled \$3,501, as compared to \$3,582 for the same period of 2007, a decrease of \$81. The decrease is primarily the result of a decrease of \$106 in Equity in Earnings of other Farm Credit institutions and an increase of \$32 in loan fee income.

Noninterest expense for the nine months ending September 30, 2008, increased \$379 compared to the same period of 2007. The primary reasons for the increase in noninterest expense were an increase in salaries and benefits of \$378, an increase in occupancy and equipment of \$21 and a decrease of \$26 in Insurance Fund Premiums.

## 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, 2008, was \$444,407 as compared to \$455,811 at December 31, 2007.

## CAPITAL RESOURCES

Total members' equity at September 30, 2008, increased to \$77,024 from the December 31, 2007, total of \$70,858. The increase is primarily attributed to net income of \$6,616 for the nine months ending September 30, 2008.

Total capital stock and participation certificates were \$1,246 on September 30, 2008, compared to \$1,373 on December 31, 2007. This decrease is attributed to capital stock and participation certificates issuances of \$52 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 September 30, 2008, the Association's total surplus ratio and core surplus ratio were 12.39 percent and 11.88 percent, respectively, and the permanent capital ratio was 12.62 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.

## 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](http://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](http://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**

<i>(dollars in thousands)</i>	<b>September 30, 2008</b> <i>(unaudited)</i>	<b>December 31, 2007</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 150	\$ 1,375
Loans	507,320	516,104
Less: allowance for loan losses	4,512	4,396
Net loans	502,808	511,708
Accrued interest receivable	5,080	4,926
Investment in other Farm Credit institutions	10,341	10,372
Premises and equipment, net	1,605	1,727
Other property owned	1,278	—
Due from AgFirst Farm Credit Bank	3,337	5,229
Other assets	2,066	2,385
Total assets	\$ 526,665	\$ 537,722
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 444,407	\$ 455,811
Accrued interest payable	1,644	2,216
Patronage refund payable	41	5,025
Other liabilities	3,549	3,812
Total liabilities	449,641	466,864
Commitments and contingencies		
<b>Members' Equity</b>		
Protected borrower equity	16	24
Capital stock and participation certificates	1,230	1,349
Retained earnings		
Allocated	49,043	49,411
Unallocated	26,735	20,074
Total members' equity	77,024	70,858
Total liabilities and members' equity	\$ 526,665	\$ 537,722

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

*Farm Credit of Northwest 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,	
	2008	2007	2008	2007
<b>Interest Income</b>				
Loans	\$ 8,343	\$ 10,693	\$ 26,501	\$ 31,364
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	5,059	6,998	15,972	20,172
Other	64	140	221	296
Total interest expense	5,123	7,138	16,193	20,468
Net interest income	3,220	3,555	10,308	10,896
Provision for (reversal of allowance for) loan losses	1,648	599	2,737	599
Net interest income after provision for (reversal of allowance for) loan losses	1,572	2,956	7,571	10,297
<b>Noninterest Income</b>				
Loan fees	22	24	164	132
Equity in earnings of other Farm Credit institutions	1,119	1,132	3,297	3,403
Other noninterest income	2	2	40	47
Total noninterest income	1,143	1,158	3,501	3,582
<b>Noninterest Expense</b>				
Salaries and employee benefits	859	811	2,566	2,188
Occupancy and equipment	85	90	274	253
Insurance Fund premium	172	197	544	570
Other operating expenses	318	287	906	900
Total noninterest expense	1,434	1,385	4,290	3,911
Income before income taxes	1,281	2,729	6,782	9,968
Provision (benefit) for income taxes	118	108	166	242
Net income	\$ 1,163	\$ 2,621	\$ 6,616	\$ 9,726

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

*Farm Credit of Northwest 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, 2006	\$ 33	\$ 1,382	\$ 43,299	\$ 19,558	\$ 64,272
Net income				9,726	9,726
Protected borrower equity retired	(9)				(9)
Capital stock/participation certificates issued/(retired), net		(50)			(50)
Retained earnings retired			(632)		(632)
Patronage distribution adjustment			89	352	441
Balance at September 30, 2007	\$ 24	\$ 1,332	\$ 42,756	\$ 29,636	\$ 73,748
Balance at December 31, 2007	\$ 24	\$ 1,349	\$ 49,411	\$ 20,074	\$ 70,858
Net income				6,616	6,616
Protected borrower equity retired	(8)				(8)
Capital stock/participation certificates issued/(retired), net		(119)			(119)
Retained earnings retired			(96)		(96)
Patronage distribution adjustment			(272)	45	(227)
Balance at September 30, 2008	\$ 16	\$ 1,230	\$ 49,043	\$ 26,735	\$ 77,024

*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 third 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 nine months ended September 30, 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 September 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:

	<b>For the nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Balance at beginning of period	\$ 4,396	\$ 1,574
Provision for (reversal of) loan losses	2,737	599
Loans (charged off), net of recoveries	(2,621)	—
Balance at end of period	<u>\$ 4,512</u>	<u>\$ 2,173</u>

**NOTE 3 – EMPLOYEE BENEFIT PLANS**

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

	<b>For the nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Pension	\$ 139	\$ 205
401(k)	76	63
Other postretirement benefits	63	58
Total	<u>\$ 278</u>	<u>\$ 326</u>

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

	<b>Actual YTD Through 9/30/08</b>	<b>Projected Contributions For Remainder of 2008</b>	<b>Projected Total Contributions 2008</b>
Pension	\$ -	\$ -	\$ -
Other postretirement benefits	68	32	100
Total	<u>\$ 68</u>	<u>\$ 32</u>	<u>\$ 100</u>

As of September 30, 2008, no contributions have been made to the pension plan for 2008. Actuarial projections as of the last plan measurement date (September 30, 2007) did not anticipate any contributions for 2008. However, a new funding policy

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adopted during 2008 and a declining investment market, which has impacted the discount rate and the return on plan assets, will require an additional contribution to be made prior to the next plan measurement date at December 31, 2008. The additional contribution amount will be determined by the plan's Sponsor Committee.