*Farm Credit of Central Florida, ACA*

# FIRST QUARTER 2009

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## CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2009 quarterly report of Farm Credit of Central 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.

Reginald T. Holt
Chief Executive Officer

Gregory D. Ellis
Chief Financial Officer

Lewis S. Stidham
Chairman of the Audit Committee

April 29, 2009

*Farm Credit of Central Florida, ACA*

# Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2009. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of March 31, 2009 the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2009.

Reginald T. Holt
Chief Executive Officer

Gregory D. Ellis
Chief Financial Officer

April 29, 2009

# 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 Central Florida, ACA, (Association) for the period ended March 31, 2009. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2008 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## 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 horticulture, fruits/vegetables, 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, reduces the level of dependency on a given commodity.

Loan volume of the Association as of March 31, 2009, was $401,615, a decrease of $20,816 as compared to $422,431 at December 31, 208. Net loans outstanding at March 31, 2009, were $395,077 as compared to $417,188 at December 31, 208. The Association has investment securities that are classified as held to maturity in the amount of $51,810 at March 31, 2009, as compared to $50,376 at December 31, 208. Net loans and investment securities accounted for 94.94 percent of total assets at March 31, 2009, as compared to 94.09 percent of total assets at December 31, 208.

The decrease in gross and net loan volume is primarily due to seasonal lending. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between September and December and declines in the first quarter as strawberry and other winter vegetable growers pay down their loans using proceeds from the sale of their crops.

There is an inherent risk in the extension of any type of credit. While credit administration remains satisfactory, portfolio credit quality has weakened as compared to prior periods, primarily in those loans secured by real estate. Nonaccrual loans increased $7,811 to $19,773 at March 31, 2009, compared to $11,962 at December 31, 208, the majority being due to the weaknesses associated with residential lot loans, a large vegetable grower loan, several agricultural real estate loans, and several loans in the nursery industry.

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, 2009, was $6,538 compared to $5,243 at December 31, 208, and is considered by management to be adequate to cover possible losses. The increase in allowance for loan loss was a direct result of the mentioned increases in nonaccrual assets and the overall decline in credit quality of other performing assets. This increase in allowance was funded through an increase in the provision for loan losses, which significantly reduced current period final net income.

## RESULTS OF OPERATIONS

***For the three months ended March, 2009***

Net income for the three months ended March 31, 2009, totaled $390, as compared to $2,575 for the same period in 2008. Net interest income decreased $185 for the three months ended March 31, 2009, as compared to the same period in 2008. The primary reason for this decrease in net interest income is the reduced interest rate environment partially offset with the increase in loan volume as compared to the same time last year.

At March 31, 2009, interest income on loans decreased $1,473 to $5,619 as compared to $7,092 at March 31, 2008. Nonaccrual income was $7 for the three months ended March 31, 2009, as compared to $9 for the same period in 2008. Interest income on investment securities was $290 for the three months ended March 31, 2009 as compared to $350 for the same period in 2008. Interest expense decreased $1,348 for the three months ended March 31, 2009, as compared to the same period in 2008. Provisions for loan losses for the quarter totaled $1,890, as compared to $600 for the same period last year. The increase in provisions was necessary to fund the increase required in the Association's allowance for loan losses.

Noninterest income for the three months ended March 31, 2009, totaled $1,680, as compared to $2,214 for the same period of 2008, a decrease of $534. The decrease is primarily the result of the decreases in equity in earnings of the Bank ($498), loan fees ($89) and reduction in noninterest income other ($11) being partially offset by increased fees for financially related services ($64). The reduction in equity in earnings from the Bank is the result of reduced patronage distributions to be received on loans that have been participated with the Bank. Noninterest expense for the three months ended March 31, 2009, increased $176 compared to the same period of 2008. The primary reasons for the increase in Noninterest expense were increases in salary and employee benefits expenses ($140), Insurance Fund premium

($33) and occupancy and equipment expense ($12) being partially offset by the decrease in other operating expenses ($9).

## 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 funds are advanced by the Bank 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, 2009, was $385,638 as compared to $412,134 at December 31, 208. The decrease is attributable to paydowns on loans received during the normal course of business being greater than borrowings to fund new loan advances.

## CAPITAL RESOURCES

Total members' equity at March 31, 2009, increased to $77,228 from the December 31, 208, total of $76,339. The increase is primarily attributed to the increase in surplus along with a small decrease in capital stock and participation certificates.

Total capital stock and participation certificates were $1,278 on March 31, 2009, compared to $1,298 on December 31, 208. This decrease is attributed to the retirement of stock and participation certificates on loans liquidated in the normal course of business.

Farm Credit Administration 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, 2009, the Association's total surplus ratio and core surplus ratio were 15.08 percent and 10.75 percent, respectively, and the permanent capital ratio was 15.68 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.

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**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 1-800-533-2773, or writing Greg Ellis, CFO, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802, or accessing the website, *www.farmcreditcfl.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 of Central Florida, ACA

# Consolidated Balance Sheets

| (dollars in thousands) | March 31, 2009 (unaudited) | December 31, 2008 (audited) |
|---|---|---|
| **Assets** | | |
| Cash | $ 11 | $ 36 |
| Investment securities: | | |
| Held to maturity (fair value of $51,994 and $50,540 respectively) | 51,810 | 50,376 |
| Total investment securities | 51,810 | 50,376 |
| Loans | 401,615 | 422,431 |
| Less: allowance for loan losses | 6,538 | 5,243 |
| Net loans | 395,077 | 417,188 |
| Accrued interest receivable | 2,345 | 2,624 |
| Investment in other Farm Credit institutions | 13,736 | 14,043 |
| Premises and equipment, net | 1,091 | 1,032 |
| Other property owned | 637 | 504 |
| Due from AgFirst Farm Credit Bank | 1,067 | 6,017 |
| Other assets | 4,944 | 5,128 |
| Total assets | $ 470,718 | $ 496,948 |
| **Liabilities** | | |
| Notes payable to AgFirst Farm Credit Bank | $ 385,638 | $ 412,134 |
| Accrued interest payable | 1,064 | 1,253 |
| Patronage refund payable | 83 | 2,648 |
| Other liabilities | 6,705 | 4,574 |
| Total liabilities | 393,490 | 420,609 |
| Commitments and contingencies | | |
| **Members' Equity** | | |
| Protected borrower equity | 33 | 39 |
| Capital stock and participation certificates | 1,245 | 1,259 |
| Retained earnings | | |
| Allocated | 34,325 | 34,758 |
| Unallocated | 41,595 | 40,252 |
| Accumulated other comprehensive income (loss) | 30 | 31 |
| Total members' equity | 77,228 | 76,339 |
| Total liabilities and members' equity | $ 470,718 | $ 496,948 |

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

Farm Credit of Central Florida, ACA

# Consolidated Statements of Income

*(unaudited)*

| *(dollars in thousands)* | For the three months ended March 31, 2009 | 2008 |
|---|---|---|
| **Interest Income** | | |
| Investment securities | $ 290 | $ 350 |
| Loans | 5,619 | 7,092 |
| Total interest income | 5,909 | 7,442 |
| **Interest Expense** | | |
| Notes payable to AgFirst Farm Credit Bank | 3,302 | 4,650 |
| Net interest income | 2,607 | 2,792 |
| Provision for (reversal of allowance for) loan losses | 1,890 | 600 |
| Net interest income after provision for (reversal of allowance for) loan losses | 717 | 2,192 |
| **Noninterest Income** | | |
| Loan fees | 273 | 362 |
| Fees for financially related services | 164 | 100 |
| Equity in earnings of other Farm Credit institutions | 1,140 | 1,638 |
| Gains (losses) on other property owned, net | — | (2) |
| Gains (losses) on sale of rural home loans, net | 47 | 75 |
| Other noninterest income | 56 | 41 |
| Total noninterest income | 1,680 | 2,214 |
| **Noninterest Expense** | | |
| Salaries and employee benefits | 1,260 | 1,120 |
| Occupancy and equipment | 171 | 159 |
| Insurance Fund premium | 172 | 139 |
| Other operating expenses | 404 | 413 |
| Total noninterest expense | 2,007 | 1,831 |
| Income before income taxes | 390 | 2,575 |
| Provision (benefit) for income taxes | — | — |
| Net income | $ 390 | $ 2,575 |

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

Farm Credit of Central 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 | Accumulated Other Comprehensive Income | Total Members' Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2007 | $ 64 | $ 1,267 | $ 33,511 | $ 39,214 | $ (303) | $ 73,753 |
| Comprehensive income | | | | | | |
| Net income | | | | 2,575 | | 2,575 |
| Employee benefit plans adjustments | | | | (25) | 70 | 45 |
| Total comprehensive income | | | | | | 2,620 |
| Protected borrower equity retired | (8) | | | | | (8) |
| Capital stock/participation certificates issued/(retired), net | | (2) | | | | (2) |
| Patronage distribution adjustment | | | (164) | 288 | | 124 |
| Balance at March 31, 2008 | $ 56 | $ 1,265 | $ 33,347 | $ 42,052 | $ (233) | $ 76,487 |
| | | | | | | |
| Balance at December 31, 2008 | $ 39 | $ 1,259 | $ 34,758 | $ 40,252 | $ 31 | $ 76,339 |
| Comprehensive income | | | | | | |
| Net income | | | | 390 | | 390 |
| Employee benefit plans adjustments | | | | | (1) | (1) |
| Total comprehensive income | | | | | | 389 |
| Protected borrower equity retired | (6) | | | | | (6) |
| Capital stock/participation certificates issued/(retired), net | | (14) | | | | (14) |
| Patronage distribution adjustment | | | (433) | 953 | | 520 |
| Balance at March 31, 2009 | $ 33 | $ 1,245 | $ 34,325 | $ 41,595 | $ 30 | $ 77,228 |

*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, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

The accompanying financial statements include the accounts of Farm Credit of Central 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, 2008, are contained in the 2008 Annual Report to Shareholders. These unaudited first quarter 2009 consolidated financial statements should be read in conjunction with the 2008 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 three months ended March 31, 2009, are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

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 March 31, 2009, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In addition to the recently issued accounting pronouncements discussed in the 2008 Annual Report to Shareholders, effective January 1, 2009, the Association adopted Financial Accounting Standards Board (FASB) Statement of Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. The impact of adoption requires additional fair value disclosures, if applicable, but does not have an impact on the Association's financial condition or results of operations.

**NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS**

An analysis of the allowance for loan losses follows:

| | For the three months ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| Balance at beginning of period | $ 5,243 | $ 1,473 |
| Provision for (reversal of) loan losses | 1,890 | 600 |
| Charge-offs | (595) | – |
| Recoveries | – | – |
| Balance at end of period | $ 6,538 | $ 2,073 |

The following table presents information concerning impaired loans as of March 31,

| | **2009** | **2008** |
|---|---|---|
| Impaired loans with related allowance | $ 13,475 | $ 1,872 |
| Impaired loans with no related allowance | 9,179 | 5,586 |
| Total impaired loans | $ 22,654 | $ 7,458 |
| Allowance on impaired loans | $ 4,870 | $ 445 |

The following table summarizes impaired loan information for the three months ended March 31,

| | **2009** | **2008** |
|---|---|---|
| Average impaired loans | $ 13,298 | $ 5,168 |
| Interest income recognized on impaired loans | 16 | 9 |

**NOTE 3 – EMPLOYEE BENEFIT PLANS**

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

| | For the three months ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| Pension | $ 353 | $ 148 |
| 401(k) | 33 | 42 |
| Other postretirement benefits | 44 | 42 |
| Total | $ 430 | $ 232 |

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

| | Actual YTD Through 3/31/09 | Projected Contributions For Remainder of 2009 | Projected Total Contributions 2009 |
|---|---|---|---|
| Pension | $ 5 | $ 17 | $ 22 |
| Other postretirement benefits | 31 | 85 | 116 |
| Total | $ 36 | $ 102 | $ 138 |

Actuarial calculations as of the last plan measurement date (December 31, 2008) projected contributions of $22 to the pension plan for 2009. However, market conditions could impact discount rates and return on plan assets which could make additional contributions necessary before the next plan measurement date of December 31, 2009.

Further details regarding employee benefit plans are contained in the 2008 Annual Report to Shareholders.

## NOTE 4 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities primarily consist of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

SFAS No. 157 establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the Association's financial instruments within the fair value hierarchy are as follows:

### Level 1

Level 1inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at March 31, 2009 consist of assets held in trust funds related to a supplemental retirement plan. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

### Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at March 31, 2009.

### Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing. Level 3 assets at March 31, 2009 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under SFAS No. 114. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Other property owned is classified as a level 3 asset at March 31, 2009. The fair value for other property owned is based upon the collateral less estimated costs to sell. Level 3 liabilities at March 31, 2009 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at March 31, 2009 for each of the fair value hierarchy levels:

| | March 31, 2009 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| **Assets:** | | | | |
| Assets held in trust funds | $ 126 | $ – | $ – | $ 126 |
| Total Assets | $ 126 | $ – | $ – | $ 126 |
| **Liabilities:** | | | | |
| Standby letters of credit | $ – | $ – | $ 107 | $ 107 |
| Total Liabilities | $ – | $ – | $ 107 | $ 107 |

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

| | Standby Letters Of Credit |
|---|---|
| Balance at January 1, 2009 | $ 110 |
| **Total gains or (losses) realized/unrealized:** | |
| Included in earnings | - |
| Included in other comprehensive loss | - |
| Purchases, sales, issuances and settlements, net | (3) |
| Transfers in and/or out of level 3 | - |
| Balance at March 31, 2009 | $ 107 |

**Assets and Liabilities Measured at Fair Value on a Non-recurring Basis**

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2009 for each of the fair value hierarchy values are summarized below:

| | March 31, 2009 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value | YTD Total Gains (Losses) |
| **Assets:** | | | | | |
| Impaired loans | $ – | $ – | $ 8,605 | $ 8,605 | $ (1,296) |
| Other property owned | $ – | $ – | $ 637 | $ 637 | $ – |