*Farm Credit of Central Florida, ACA*

# FIRST QUARTER 2008



Reginald T. Holt
Chief Executive Officer

Gregory D. Ellis
Chief Financial Officer

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Chairman of the Board

April 28, 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 Central Florida, ACA, (Association) for the period ended March 31, 2008. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2007 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 citrus, fruits/vegetables, horticulture, 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.

The gross loan volume of the Association as of March 31, 2008, was $374,034, an increase of $4,371 as compared to $369,663 at December 31, 2007. Net loans outstanding at March 31, 2008, were $371,961 as compared to $368,190 at December 31, 2007. The Association has investment securities that are classified as held to maturity in the amount of $34,885 at March 31, 2008 as compared to $30,247 at December 31, 2007. Net loans and investment securities accounted for 94.05 percent of total assets at March 31, 2008, as compared to 92.65 percent of total assets at December 31, 2007.

The increase in gross loan volume for March 31, 2008, is primarily attributed to increased loan participations purchased from the Bank. The Association has been fortunate to regain several large, former accounts and has attracted some large real estate loans in addition to normal business. Also, there is increased interest in intermediate-term loans for equipment purchases.

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 increased $2,473 to $7,283 at March 31, 2008, from $4,810 at December 31, 2007, the majority being due to the weaknesses associated with three loans in the nursery industry and several smaller real estate loans.

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, 2008, was $2,073 compared to $1,473 at December 31, 2007. The $600 increase was considered necessary by management to cover possible losses given the recent increase in nonaccrual loans and the downturn in the real estate markets.

**RESULTS OF OPERATIONS**

***For the three months ended March 31, 2008***

Net income for the three months ended March 31, 2008, totaled $2,575, as compared to $2,845 for the same period in 2007. Net interest income increased $126 for the three months ended March 31, 2008, as compared to the same period in 2007. The primary reasons for this increase in net interest income are that the volume of net accruing loans and investments are greater as compared to the same time last year.

At March 31, 2008, interest income on accruing loans decreased $61 to $7,092 as compared to $7,153 at March 31, 2007. Nonaccrual income was $9 for the three months ended March 31, 2008, as compared to $12 for the same period in 2007. Interest income on investment securities was $350 for the three months ended March 31, 2008 as compared to $516 for the same period in 2007. Interest expense decreased $353 for the three months ended March 31, 2008 as compared to the same period in 2007.

Noninterest income for the three months ended March 31, 2008, totaled $2,214, as compared to $1,968 for the same period of 2007, an increase of $246. The increase is primarily the result of the increases in loan fees ($139), and fees for financially related services ($84) and other noninterest income ($55) being partially offset by the reduction in equity in earnings of the bank ($32). Noninterest expense for the three months ended March 31, 2008, increased $42 compared to the same period of 2007. The primary reasons for the increase in noninterest expense were increases in other operating expenses ($42), and salary and employee benefits expenses ($5) insurance fund premium expense ($9) being partially offset by the reduction occupancy and equipment expense ($14).

## 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, 2008, was $344,211 as compared to $343,677 at December 31, 2007. The increase is attributable to increased borrowings to fund new loan advances.

## CAPITAL RESOURCES

Total members' equity at March 31, 2008, increased to $76,487 from the December 31, 2007, total of $73,753. The increase is primarily attributed to the increase in surplus being partially offset by the small decrease in capital stock and participation certificates.

Total capital stock and participation certificates were $1,321 on March 31, 2008, compared to $1,331 on December 31, 2007. This decrease is attributed to the retirement of protected 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, 2008, the Association's total surplus ratio and core surplus ratio were 15.09 percent and 11.59 percent, respectively, and the permanent capital ratio was 16.03 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, 2008 | December 31, 2007 |
|---|---|---|
| | *(unaudited)* | *(audited)* |
| **Assets** | | |
| Cash | $ 12 | $ 72 |
| Investment securities: | | |
| Held to maturity (fair value of $34,815 and $30,148 respectively) | 34,885 | 30,247 |
| Total investment securities | 34,885 | 30,247 |
| Loans | 374,034 | 369,663 |
| Less: allowance for loan losses | 2,073 | 1,473 |
| Net loans | 371,961 | 368,190 |
| Accrued interest receivable | 2,898 | 2,699 |
| Investment in other Farm Credit institutions | 14,840 | 15,114 |
| Premises and equipment, net | 957 | 999 |
| Other property owned | 1,061 | 1,061 |
| Due from AgFirst Farm Credit Bank | 1,638 | 7,360 |
| Other assets | 4,321 | 4,297 |
| Total assets | $ 432,573 | $ 430,039 |
| **Liabilities** | | |
| Notes payable to AgFirst Farm Credit Bank | $ 344,211 | $ 343,677 |
| Accrued interest payable | 1,589 | 1,688 |
| Patronage refund payable | 102 | 4,703 |
| Other liabilities | 10,184 | 6,218 |
| Total liabilities | 356,086 | 356,286 |
| Commitments and contingencies | | |
| **Members' Equity** | | |
| Protected borrower equity | 56 | 64 |
| Capital stock and participation certificates | 1,265 | 1,267 |
| Retained earnings | | |
| Allocated | 33,347 | 33,511 |
| Unallocated | 42,052 | 39,214 |
| Accumulated other comprehensive income (loss) | (233) | (303) |
| Total members' equity | 76,487 | 73,753 |
| Total liabilities and members' equity | $ 432,573 | $ 430,039 |

*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, 2008 | 2007 |
|---|---|---|
| **Interest Income** | | |
| Investment securities | $ 350 | $ 516 |
| Loans | 7,092 | 7,153 |
| Total interest income | 7,442 | 7,669 |
| **Interest Expense** | | |
| Notes payable to AgFirst Farm Credit Bank | 4,650 | 5,003 |
| Net interest income | 2,792 | 2,666 |
| Provision for (reversal of allowance for) loan losses | 600 | — |
| Net interest income after provision for (reversal of allowance for) loan losses | 2,192 | 2,666 |
| **Noninterest Income** | | |
| Loan fees | 362 | 223 |
| Fees for financially related services | 100 | 16 |
| Equity in earnings of other Farm Credit institutions | 1,638 | 1,670 |
| Gains (losses) on other property owned, net | (2) | — |
| Gains (losses) on sale of rural home loans, net | 75 | — |
| Other noninterest income | 41 | 59 |
| Total noninterest income | 2,214 | 1,968 |
| **Noninterest Expense** | | |
| Salaries and employee benefits | 1,120 | 1,115 |
| Occupancy and equipment | 159 | 173 |
| Insurance Fund premium | 139 | 130 |
| Other operating expenses | 413 | 371 |
| Total noninterest expense | 1,831 | 1,789 |
| Income before income taxes | 2,575 | 2,845 |
| Provision (benefit) for income taxes | — | — |
| Net income | $ 2,575 | $ 2,845 |

*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, 2006 | $ 97 | $ 1,209 | $ 28,995 | $ 38,799 | $ – | $ 69,100 |
| Net income | | | | 2,845 | | 2,845 |
| Protected borrower equity retired | (17) | | | | | (17) |
| Capital stock/participation certificates issued/retired | | 24 | | | | 24 |
| Patronage distribution adjustment | | | (305) | (321) | | (626) |
| Balance at March 31, 2007 | $ 80 | $ 1,233 | $ 28,690 | $ 41,323 | $ – | $ 71,326 |
| | | | | | | |
| Balance at December 31, 2007 | $ 64 | $ 1,267 | $ 33,511 | $ 39,214 | $ (303) | $ 73,753 |
| Net income | | | | 2,575 | | 2,575 |
| Protected borrower equity retired | (8) | | | | | (8) |
| Capital stock/participation certificates issued/retired | | (2) | | | | (2) |
| Patronage distribution adjustment | | | (164) | 288 | | 124 |
| Employee benefit plans adjustments | | | | (25) | 70 | 45 |
| Balance at March 31, 2008 | $ 56 | $ 1,265 | $ 33,347 | $ 42,052 | $ (233) | $ 76,487 |

*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

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, 2007, are contained in the 2007 Annual Report to Shareholders. These unaudited first 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 three months ended March 31, 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 March 31, 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 No. 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 No. 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 the Standard, but believes that its adoption will significantly impact its accounting for 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 three months ended March 31, | |
|---|---|---|
| | **2008** | **2007** |
| Balance at beginning of period | $ 1,473 | $ 1,639 |
| Provision for (reversal of) loan losses | 600 | – |
| Loans (charged off), net of recoveries | – | – |
| Balance at end of period | $ 2,073 | $ 1,639 |

## 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, | |
|---|---|---|
| | **2008** | **2007** |
| Pension | $ 148 | $ 116 |
| 401(k) | 42 | 25 |
| Other postretirement benefits | 42 | 41 |
| Total | $ 232 | $ 182 |

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

| | Actual YTD Through 3/31/08 | Projected Contributions For Remainder of 2008 | Projected Total Contributions 2008 |
|---|---|---|---|
| Pension | $ – | $ 19 | $ 19 |
| Other postretirement benefits | 24 | 81 | 105 |
| Total | $ 24 | $ 100 | $ 124 |

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.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007 for the Association.

SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Association allows for the use of the measurements determined for the prior year end. Under this alternative, pension and other postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was debited to beginning 2008 unallocated retained earnings. As a result, the Association decreased unallocated retained earnings and increased the pension or other postretirement benefit liability by $25.

SFAS 158 further required the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income. These amounts are subsequently recognized as components of net periodic benefit costs. $70 has been recognized for the first three months of 2008 as a credit to accumulated other comprehensive income and a debit to pension or other postretirement benefit expense.

Further details regarding employee benefit plans and application of SFAS 158 are contained in the 2007 Annual Report to Shareholders.