

THIRD QUARTER 2007

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J. Charles Thompson
Chief Executive Officer



Henry M. Frazee
Chairman of the Board

October 25, 2007

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 North Florida, ACA* (Association) for the period ended September 30, 2007. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2006 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 forestry, livestock, equine, horticulture/nurseries, dairy, potatoes, and poultry. 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, helps to reduce the level of dependency on a given commodity.

The gross loan volume of the Association as of September 30, 2007, was \$456,140, an increase of \$6,304, as compared to \$449,836 at December 31, 2006. Net loans outstanding at September 30, 2007, were \$454,198 as compared to \$448,207 at December 31, 2006. Net loans accounted for 92.19 percent of total assets at September 30, 2007, as compared to 92.04 percent of total assets at December 31, 2006.

The increase in gross and net loan volume during the reporting period is attributed primarily to the results of our continuously focused marketing program involving both large and small farmers, ranchers and part-time farmers.

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 from \$1,091 at December 31, 2006, to \$1,607 at September 30, 2007. This increase is primarily the result of transfers to nonaccrual status in excess of liquidations, normal payments and upgrading to performing status. 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. After a provision to the allowance for loan losses of \$312 in September 2007, the allowance for loan losses was \$1,942 compared to \$1,629 at December 31, 2006. This was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2007

Net income for the three months ended September 30, 2007, totaled \$2,437, as compared to \$2,667 for the same period in 2006. Net interest income increased \$45 for the three months ended September 30, 2007, as compared to the same period in 2006.

At September 30, 2007, interest income on accruing loans increased \$441 compared to the same period in 2006. This was attributed to an increase in average accruing volume coupled with a higher interest rate environment. Nonaccrual income was \$7 for the three months ended September 30, 2007, as compared to \$5 for the same period in 2006. The interest expense increase of \$406 for the three months ended September 30, 2007, as compared to the same period in 2006, is attributed to the increased average notes payable to AgFirst Farm Credit Bank (the Bank) coupled with the higher interest rate environment.

Noninterest income for the three months ended September 30, 2007, totaled \$1,435, as compared to \$1,343 for the same period of 2006, an increase of \$92. Loan fees increased \$28, to \$318, up from \$290 for the same period in 2006. Equity in earnings of other Farm Credit institutions increased \$82, primarily a result of an increase in estimated patronage from AgFirst. Gains on the sale of rural home loans increased \$6, and fees from miscellaneous income decreased \$24.

Noninterest expense for the same three months ended September 30, 2007, increased \$55 compared to the same period of 2006. The increase is due to increase in salaries and employee benefits of \$49, a decrease in occupancy and equipment of \$5, an increase in insurance fund premiums of \$10 and an increase in other operating expense of \$1.

For the nine months ended September 30, 2007

Net income for the nine months ended September 30, 2007, totaled \$8,063, as compared to \$7,953 for the same period in 2006. Net interest income increased \$411 for the nine months ended September 30, 2007, as compared to the same period in 2006.

At September 30, 2007, interest income on accruing loans increased \$2,820 compared to the same period in 2006. This was attributed to an increase in average accruing volume coupled with a higher interest rate environment. Nonaccrual income for the nine months ended September 30, 2007, as compared to the same period in 2006 was down \$25. The interest expense increase of \$2,830 for the nine months ended September 30, 2007, as compared to the same period in 2006, is attributed to the increased average notes payable to AgFirst Farm Credit Bank (the Bank) coupled with the higher interest rate environment.

Noninterest income for the nine months ended September 30, 2007, totaled \$4,346, as compared to \$4,120 for the same period of 2006, an increase of \$226. Loan fees decreased \$2, to \$1,068, down from \$1,070 for the same period in 2006. Equity in earnings of other Farm Credit institutions increased \$396, primarily a result of an increase in estimated patronage from AgFirst. Gains on the sale of rural home loans decreased \$27, and fees from miscellaneous income decreased \$141.

Noninterest expense for the same nine months ended September 30, 2007, increased \$220 compared to the same period of 2006. The increase is due to increase in salaries and employee benefits of \$133, an increase in occupancy and equipment of \$19, an increase in insurance fund premiums of \$40 and an increase in other operating expense of \$28.

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 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 September 30, 2007, was \$397,183 as compared to \$395,346 at December 31, 2006. The increase is primarily attributed to increased loan activity during the nine-month period offset by repayments made by the Association from funds generated by collections from borrowers.

CAPITAL RESOURCES

Total members' equity at September 30, 2007, increased to \$73,304 from the December 31, 2006, total of \$67,810. The increase is primarily attributed to retained earnings in excess of the revolvment of allocated retained earnings.

The combined protected borrower capital, unprotected stock and participation certificates were \$1,785 on September 30, 2007, compared to \$1,935 on December 31, 2006. This decrease is attributed to more protected borrower equity being retired than capital stock issued during the period.

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, 2007, the Association's total surplus ratio and core surplus ratio were 13.70 percent and 11.01 percent, respectively, and the permanent capital ratio was 14.08 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. 316, or writing Wanda Martin, 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 1-800-342-3795, writing Roger Scarborough, CFO, Farm Credit of North Florida, ACA, 12300 NW US HWY 441, Alachua, FL 32615, or accessing the website, www.fcnf.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 North Florida, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2007 <i>(unaudited)</i>	December 31, 2006 <i>(audited)</i>
Assets		
Cash	\$ 639	\$ 940
Loans	456,140	449,836
Less: allowance for loan losses	1,942	1,629
Net loans	454,198	448,207
Other investments, held to maturity	14,004	14,054
Accrued interest receivable	5,367	4,050
Investment in other Farm Credit institutions	9,152	9,084
Premises and equipment, net	3,053	3,009
Prepaid retirement expense	3,159	3,492
Due from AgFirst Farm Credit Bank	2,561	3,642
Other assets	543	511
Total assets	<u>\$ 492,676</u>	<u>\$ 486,989</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 397,183	\$ 395,346
Accrued interest payable	2,039	1,990
Patronage refund payable	50	3,300
Other liabilities	20,100	18,543
Total liabilities	<u>419,372</u>	<u>419,179</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	101	143
Capital stock and participation certificates	1,684	1,792
Retained earnings		
Allocated	36,360	39,158
Unallocated	35,159	26,717
Total members' equity	<u>73,304</u>	<u>67,810</u>
Total liabilities and members' equity	<u>\$ 492,676</u>	<u>\$ 486,989</u>

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

Farm Credit of North 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,	
	2007	2006	2007	2006
Interest Income				
Loans	\$ 9,464	\$ 9,021	\$ 28,172	\$ 25,377
Other	194	186	544	520
Total interest income	9,658	9,207	28,716	25,897
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,225	5,840	18,405	16,066
Other	184	163	491	422
Total interest expense	6,409	6,003	18,896	16,488
Net interest income	3,249	3,204	9,820	9,409
Provision for (reversal of allowance for) loan losses	312	—	312	—
Net interest income after provision for (reversal of allowance for) loan losses	2,937	3,204	9,508	9,409
Noninterest Income				
Loan fees	318	290	1,068	1,070
Equity in earnings of other Farm Credit institutions	1,155	1,013	3,235	2,780
Other noninterest income	22	40	102	270
Total noninterest income	1,495	1,343	4,405	4,120
Noninterest Expense				
Salaries and employee benefits	1,170	1,121	3,480	3,347
Occupancy and equipment	150	155	443	424
Insurance Fund premium	173	163	508	468
Other operating expenses	442	441	1,360	1,332
Total noninterest expense	1,935	1,880	5,791	5,571
Income before income taxes	2,497	2,667	8,122	7,958
Provision (benefit) for income taxes	—	—	—	5
Net income	\$ 2,497	\$ 2,667	\$ 8,122	\$ 7,953

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

Farm Credit of North 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, 2005	\$ 191	\$ 1,910	\$ 33,938	\$ 26,504	\$ 62,543
Net income				7,953	7,953
Protected borrower equity retired	(32)				(32)
Capital stock/participation certificates issued		133			133
Capital stock/participation certificates retired		(288)			(288)
Retained earnings retired			(2,193)		(2,193)
Distribution adjustment			43	(89)	(46)
Balance at September 30, 2006	\$ 159	\$ 1,755	\$ 31,788	\$ 34,368	\$ 68,070
Balance at December 31, 2006	\$ 143	\$ 1,792	\$ 39,158	\$ 26,717	\$ 67,810
Net income				8,122	8,122
Protected borrower equity retired	(42)				(42)
Capital stock/participation certificates issued		120			120
Capital stock/participation certificates retired		(228)			(228)
Retained earnings retired			(2,455)		(2,455)
Distribution adjustment			(343)	320	(23)
Balance at September 30, 2007	\$ 101	\$ 1,684	\$ 36,360	\$ 35,159	\$ 73,304

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 North 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, 2006, are contained in the 2006 Annual Report to Shareholders. These unaudited third quarter 2007 consolidated financial statements should be read in conjunction with the 2006 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, 2007, are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

Certain amounts in prior period consolidated financial statements may 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, 2007, the allowance for losses is adequate in management’s opinion to provide for possible losses on existing loans.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30,	
	2007	2006
Balance at beginning of period	\$ 1,629	\$ 1,622
Provision for (reversal of) loan losses	312	–
Recoveries, net of loans charged off	1	4
Balance at end of period	<u>\$ 1,942</u>	<u>\$ 1,626</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,	
	2007	2006
Pension	\$ 333	\$ 394
Thrift/deferred compensation	78	67
Other postretirement benefits	122	125
Total	<u>\$ 533</u>	<u>\$ 586</u>

As of September 30, 2007, no contributions have been made to the pension plan for 2007. The Association does not anticipate making additional contributions for the remainder of 2007.