

SECOND QUARTER 2008

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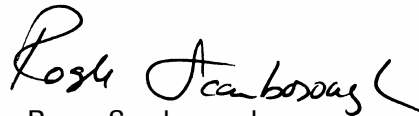
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J. Charles Thompson
Chief Executive Officer



Roger Scarborough
Chief Financial Officer



Henry M. Frazee
Chairman of the Board

August 5, 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 North Florida, ACA* (Association) for the period ended 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. 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 June 30, 2008, was \$489,298, an increase of \$19,112, as compared to \$470,186 at December 31, 2007. Net loans outstanding at June 30, 2008, were \$485,073 as compared to \$468,040 at December 31, 2007. Net loans accounted for 93.27 percent of total assets at June 30, 2008, as compared to 92.33 percent of total assets at December 31, 2007.

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 \$2,128 at December 31, 2007, to \$7,048 at June 30, 2008. This increase is primarily the result of loan 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. Management

decided to increase the allowance for loan loss on selected nonaccrual loans based on current real estate market conditions. After a provision to the allowance for loan losses of \$1,450 in June 2008, the allowance for loan losses was \$4,225 compared to \$2,146 at December 31, 2007. This was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2008

Net income for the three months ended June 30, 2008, totaled \$683 as compared to \$2,844 for the same period in 2007. Net interest income decreased \$485 for the three months ended June 30, 2008, as compared to the same period in 2007.

At June 30, 2008, interest income on accruing loans decreased \$1,879 compared to the same period in 2007. Nonaccrual income was \$21 for the three months ended June 30, 2008, as compared to \$5 for the same period in 2007. Interest expense decreased \$1,369 for the three months ended June 30, 2008, as compared to the same period in 2007. Both interest income and interest expense have decreased due to the lower interest rate environment.

Upon analyzing our loan portfolio for possible losses, we determined it was necessary to make an additional provision in the 2nd quarter to the allowance for loan loss of \$1,450. This reduces net income but increases reserves to offset potential future losses.

Noninterest income for the three months ended June 30, 2008, totaled \$1,449, as compared to \$1,552 for the same period of 2007, a decrease of \$103. Loan fees decreased \$90, to \$391, down from \$481 for the same period in 2007. Equity in earnings of other Farm Credit institutions decreased \$79, primarily a result of a decrease in estimated patronage income from other associations. Gains on the sale of rural home loans increased \$34. Fees from miscellaneous income increased \$33 primarily the result of recapturing \$89 in legal fees paid in prior years related to a tax refund settlement.

Noninterest expense for the same three months ended June 30, 2008, increased \$103 compared to the same period of 2007. The increase is due to an increase in salaries and employee benefits of \$32, an increase in occupancy and equipment of \$5, an increase in insurance fund premiums of \$11 and an increase in other operating expense of \$55. The majority of the increase in other operating expense is due to

advertising expense increasing \$14, training increasing \$22 and travel expense for company vehicles increasing \$11 as compared to the same period of 2007.

For the six months ended June 30, 2008

Net income for the six months ended June 30, 2008, totaled \$2,521 as compared to \$5,625 for the same period in 2007. The decrease is mostly a result of making the \$2,250 provision to the allowance for loan loss. Net interest income decreased \$648 for the six months ended June 30, 2008, as compared to the same period in 2007.

At June 30, 2008, interest income on accruing loans decreased \$2,557 compared to the same period in 2007. Nonaccrual income was \$111 for the six months ended June 30, 2008, as compared to \$17 for the same period in 2007. Interest expense decreased \$1,828 for the six months ended June 30, 2008, as compared to the same period in 2007. Both interest income and interest expense have decreased due to the lower interest rate environment.

Noninterest income for the six months ended June 30, 2008, totaled \$2,962, as compared to \$2,910 for the same period of 2007, an increase of \$52. Loan fees increased \$30, to \$780, up from \$750 for the same period in 2007. Equity in earnings of other Farm Credit Institutions decreased \$38, primarily a result of a decrease in estimated patronage income from other associations. Gains on the sale of rural home loans increased \$50, and fees from miscellaneous income increased \$14.

Noninterest expense for the same six months ended June 30, 2008, increased \$238 compared to the same period of 2007. The increase is due to the increase in salaries and employee benefits of \$45, an increase in occupancy and equipment of \$26, an increase in insurance fund premiums of \$21 and an increase in other operating expense of \$146. The majority of the increase in other operating expense is due to advertising expense increasing \$27, data processing expense increasing \$12, public and member relations expense increasing \$27, training expense increasing \$42 and travel expense for company vehicles increasing \$13 as compared to the same period of 2007.

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 June 30, 2008, was \$431,590 as compared to \$408,613 at December 31, 2007. The increase is primarily attributed to increased loan activity during the six-month period offset by repayments made by the Association from funds generated by collections from borrowers.

CAPITAL RESOURCES

Total members' equity at June 30, 2008, decreased to \$72,174 from the December 31, 2007, total of \$72,519. The decrease is primarily attributed to the revolvement of allocated retained earnings in excess of retained earnings.

The combined protected borrower capital, unprotected stock and participation certificates were \$1,652 on June 30, 2008, compared to \$1,809 on December 31, 2007. 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 June 30, 2008, the Association's total surplus ratio and core surplus ratio were 13.19 percent and 10.24 percent, respectively, and the permanent capital ratio was 13.53 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 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 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 North Florida, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
Assets		
Cash	\$ 13	\$ 13
Loans	489,298	470,186
Less: allowance for loan losses	4,225	2,146
Net loans	485,073	468,040
Other investments	12,189	14,199
Accrued interest receivable	4,264	4,167
Investment in other Farm Credit institutions	9,585	9,741
Premises and equipment, net	3,027	2,984
Other property owned	810	—
Due from AgFirst Farm Credit Bank	1,816	4,051
Other assets	3,308	3,699
Total assets	\$ 520,085	\$ 506,894
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 431,590	\$ 408,613
Accrued interest payable	1,583	1,991
Patronage refund payable	63	3,313
Advanced conditional payments	10,649	14,444
Other liabilities	4,026	6,014
Total liabilities	447,911	434,375
Commitments and contingencies		
Members' Equity		
Protected borrower equity	76	96
Capital stock and participation certificates	1,576	1,713
Retained earnings		
Allocated	39,955	42,708
Unallocated	30,567	28,002
Total members' equity	72,174	72,519
Total liabilities and members' equity	\$ 520,085	\$ 506,894

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 June 30,		For the six months ended June 30,	
	2008	2007	2008	2007
Interest Income				
Loans	\$ 7,575	\$ 9,437	\$ 16,246	\$ 18,708
Other	184	176	336	350
Total interest income	7,759	9,613	16,582	19,058
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	4,892	6,170	10,449	12,180
Other	69	160	210	307
Total interest expense	4,961	6,330	10,659	12,487
Net interest income	2,798	3,283	5,923	6,571
Provision for (reversal of allowance for) loan losses	1,450	—	2,250	—
Net interest income after provision for (reversal of allowance for) loan losses	1,348	3,283	3,673	6,571
Noninterest Income				
Loan fees	391	481	780	750
Equity in earnings of other Farm Credit institutions	979	1,058	2,042	2,080
Gains (losses) on other property owned, net	(1)	—	(4)	—
Gains (losses) on sale of rural home loans, net	33	(1)	56	6
Other noninterest income	47	14	88	74
Total noninterest income	1,449	1,552	2,962	2,910
Noninterest Expense				
Salaries and employee benefits	1,194	1,162	2,355	2,310
Occupancy and equipment	162	157	319	293
Insurance Fund premium	181	170	356	335
Other operating expenses	557	502	1,064	918
Total noninterest expense	2,094	1,991	4,094	3,856
Income before income taxes	703	2,844	2,541	5,625
Provision (benefit) for income taxes	20	—	20	—
Net income	\$ 683	\$ 2,844	\$ 2,521	\$ 5,625

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, 2006	\$ 143	\$ 1,792	\$ 39,158	\$ 26,717	\$ 67,810
Net income				5,625	5,625
Protected borrower equity retired	(40)				(40)
Capital stock/participation certificates issued/(retired), net		(141)			(141)
Retained earnings retired			(2,455)		(2,455)
Patronage distribution adjustment			(343)	380	37
Balance at June 30, 2007	<u>\$ 103</u>	<u>\$ 1,651</u>	<u>\$ 36,360</u>	<u>\$ 32,722</u>	<u>\$ 70,836</u>
Balance at December 31, 2007	\$ 96	\$ 1,713	\$ 42,708	\$ 28,002	\$ 72,519
Net income				2,521	2,521
Protected borrower equity retired	(20)				(20)
Capital stock/participation certificates issued/(retired), net		(137)			(137)
Retained earnings retired			(2,455)		(2,455)
Patronage distribution adjustment			(298)	44	(254)
Balance at June 30, 2008	<u>\$ 76</u>	<u>\$ 1,576</u>	<u>\$ 39,955</u>	<u>\$ 30,567</u>	<u>\$ 72,174</u>

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

Farm Credit of North 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 North 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 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 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	\$ 2,146	\$ 1,629
Provision for (reversal of) loan losses	2,250	–
Loans (charged off), net of recoveries	(171)	–
Balance at end of period	<u>\$ 4,225</u>	<u>\$ 1,629</u>

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	\$ 140	\$ 222
401(k)	57	49
Other postretirement benefits	78	82
Total	<u>\$ 275</u>	<u>\$ 353</u>

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	53	55	108
Total	<u>\$ 53</u>	<u>\$ 55</u>	<u>\$ 108</u>

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.