

THIRD QUARTER 2008

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CERTIFICATION

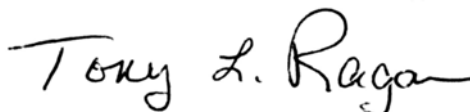
The undersigned certify that we have reviewed the September 30, 2008 quarterly report of Carolina Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that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



Michael R. Morton
Chief Executive Officer



Steven L. Cobb
Chief Information and Technology Officer



Tony L. Ragan
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 Carolina Farm Credit, ACA (Association) for the period ended 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. 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 part-time farm, poultry, and rural home loans. 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 dependency on a single agricultural commodity.

The gross loan volume of the Association as of September 30, 2008, was \$1,296,498, an increase of \$6,532 as compared to \$1,289,966 at December 31, 2007. Net loans outstanding at September 30, 2008, were \$1,286,536 as compared to \$1,285,679 at December 31, 2007. Net loans accounted for 89.58 percent of total assets at September 30, 2008, as compared to 89.66 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 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, however, and credit administration remains satisfactory. Nonaccrual loans increased from \$15,909 at December 31, 2007, to \$40,247 at September 30, 2008. This increase is primarily the result of transfers of loan volume to nonaccrual being more than regular payments made on nonaccrual loans, along with nonaccrual loans liquidated or reinstated to accrual 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. The allowance for loan losses at September 30, 2008, was \$9,962 compared to \$4,287 at December 31, 2007, and was considered by management to be adequate to cover possible losses. This doubling of the allowance for loan loss account is related to the increase in the volume of nonaccrual loans.

RESULTS OF OPERATIONS

For the three months ended September 30, 2008

Net income for the three months ended September 30, 2008, totaled \$6,655, as compared to \$6,586 for the same period in 2007. Net interest income decreased \$691, for the three months ended September 30, 2008, as compared to the same period in 2007.

At September 30, 2008, total interest income decreased \$4,288 compared to September 30, 2007. Nonaccrual income was \$80 for the three months ended September 30, 2008, as compared to \$103 for the same period in 2007. Interest expense decreased \$3,597 for the three months ended September 30, 2008, as compared to the comparable period of 2007.

The Association recorded a provision for loan losses of \$1,160 for the three months ended September 30, 2008 as compared to a provision of \$195 for the same period of 2007.

Noninterest income for the three months ended September 30, 2008, totaled \$4,383, as compared to \$3,351 for the same period of 2007, an increase of \$1,032. This rise in earnings is attributed to an increase of \$851 in equity in earnings of other Farm Credit institutions, \$83 in gains on other property owned, \$223 in gains on sale of rural home loans and \$110 in other noninterest income when compared to the same period in 2007. These increases were offset by decreases of \$225 in loans fees and \$10 in fees for financially related services when compared for the same period of 2007.

Noninterest expense for the three months ended September 30, 2008, increased \$20 compared to the same period of 2007. This rise in noninterest expense is attributed to an increase of \$23 in occupancy and equipment and \$122 in other operating expenses when compared to the same period in 2007. The increase was offset by decreases of \$76 in salaries and employee benefits and \$49 in the insurance fund premium when compared for the same period of 2007.

The Association recorded a benefit for income taxes of \$709 for the three months ended September 30, 2008 as compared to a provision of \$4 for the same period of 2007.

For the nine months ended September 30, 2008

Net income for the nine months ended September 30, 2008, totaled \$18,085, as compared to \$18,598 for the same period in 2007. This decrease of \$513, or 2.76 percent, is attributed to a sizable provision to the allowance for loan loss account, partially offset by increases in net interest income and noninterest income.

At September 30, 2008, interest income on accruing loans decreased \$6,163 compared to September 30, 2007. Nonaccrual income was \$344 for the nine months ended September 30, 2008,

as compared to \$213 for the same period in 2007. Interest expense decreased \$6,890 for the nine months ended September 30, 2008, as compared to the same period in 2007. Overall, net interest income increased \$727 during this period because of improvement in net interest margins.

The Association recorded a provision for loan losses of \$5,610 for the nine months ended September 30, 2008 as compared to a provision of \$1,102 for the same period of 2007. This increased provision for loan losses is related to the increase in nonaccrual loans.

Noninterest income for the nine months ended September 30, 2008, totaled \$12,582, as compared to \$10,338 for the same period of 2007, an increase of \$2,244. The rise in earnings is attributed to an increase of \$8 in fees for financially related services, \$2,129 in equity in earnings of other Farm Credit institutions and \$682 in gains on sale of rural home loans, when compared to the same period in 2007. These increases were offset by a decrease of \$303 in loan fees, \$26 in gains on other property owned and \$246 in other noninterest income when compared to the same period in 2007.

Noninterest expense for the nine months ended September 30, 2008, decreased \$450 compared to the same period of 2007. This decline in noninterest expense is attributed to a decrease of \$853 in salaries and employee benefits and \$47 in the insurance fund premium when compared to the same period in 2007. The decrease was offset by increases of \$49 in occupancy and equipment and \$356 in other operating expenses when compared for the same period of 2007.

The Association recorded a benefit for income taxes of \$703 for the nine months ended September 30, 2008 as compared to a benefit of \$129 for 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 is 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 \$1,191,455 as compared to \$1,197,840 at December 31, 2007. The decrease in notes payable is the result of significant sales of loans to the AgFirst Farm Credit Bank (AgFirst) during the first half of 2008.

The Association has no lines of credit outstanding with third parties as of September 30, 2008.

CAPITAL RESOURCES

Total members' equity at September 30, 2008, increased to \$211,156 from the December 31, 2007, total of \$203,371. The change in capital is attributed to net earnings for the nine

months ending September 30, 2008 being in excess of the revolvment of the 2002 qualified and non-qualified allocated surplus in September of 2008 and the reduction in capital stock and participation certificates.

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 13.51 percent and 10.45 percent, respectively, and the permanent capital ratio was 14.14 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 1-800-521-9952, or writing Michael R. Morton, CEO, Carolina Farm Credit, ACA, P.O. Box 1827, Statesville NC 28687-1827, or accessing the website, www.carolinafarmcredit.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.

Carolina Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
Assets		
Cash	\$ 2,664	\$ 4,080
Loans	1,296,498	1,289,966
Less: allowance for loan losses	9,962	4,287
Net loans	1,286,536	1,285,679
Other investments	62,168	66,226
Accrued interest receivable	17,679	16,840
Investment in other Farm Credit institutions	28,904	21,856
Premises and equipment, net	15,611	14,101
Other property owned	87	140
Due from AgFirst Farm Credit Bank	8,712	10,590
Other assets	13,857	14,414
Total assets	\$ 1,436,218	\$ 1,433,926
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,191,455	\$ 1,197,840
Accrued interest payable	4,572	5,764
Patronage refund payable	514	5,806
Other liabilities	28,521	21,145
Total liabilities	1,225,062	1,230,555
Commitments and contingencies		
Members' Equity		
Protected borrower equity	237	327
Capital stock and participation certificates	8,036	7,899
Retained earnings		
Allocated	90,630	100,372
Unallocated	112,459	95,087
Accumulated other comprehensive income (loss)	(206)	(314)
Total members' equity	211,156	203,371
Total liabilities and members' equity	\$ 1,436,218	\$ 1,433,926

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

Carolina Farm Credit, 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
Interest Income				
Loans	\$ 21,775	\$ 26,009	\$ 68,934	\$ 75,113
Other	827	881	2,467	2,451
Total interest income	22,602	26,890	71,401	77,564
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	13,679	17,276	42,830	49,720
Net interest income	8,923	9,614	28,571	27,844
Provision for (reversal of allowance for) loan losses	1,160	195	5,610	1,102
Net interest income after provision for (reversal of allowance for) loan losses	7,763	9,419	22,961	26,742
Noninterest Income				
Loan fees	533	758	1,866	2,169
Fees for financially related services	181	191	455	447
Equity in earnings of other Farm Credit institutions	3,185	2,334	8,769	6,640
Gains (losses) on other property owned, net	65	(18)	(8)	18
Gains (losses) on sale of rural home loans, net	175	(48)	531	(151)
Other noninterest income	244	134	969	1,215
Total noninterest income	4,383	3,351	12,582	10,338
Noninterest Expense				
Salaries and employee benefits	3,976	4,052	11,347	12,200
Occupancy and equipment	604	581	1,876	1,827
Insurance Fund premium	399	448	1,292	1,294
Other operating expenses	1,221	1,099	3,646	3,290
Total noninterest expense	6,200	6,180	18,161	18,611
Income before income taxes	5,946	6,590	17,382	18,469
Provision (benefit) for income taxes	(709)	4	(703)	(129)
Net income	\$ 6,655	\$ 6,586	\$ 18,085	\$ 18,598

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

Carolina Farm Credit, ACA
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

(dollars in thousands)

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2006	\$ 446	\$ 7,963	\$ 93,567	\$ 92,574	\$ —	\$ 194,550
Net income				18,598		18,598
Protected borrower equity retired	(114)					(114)
Capital stock/participation certificates issued/(retired), net		194				194
Retained earnings retired			(11,677)			(11,677)
Patronage distribution adjustment			1,284	(1,263)		21
Balance at September 30, 2007	\$ 332	\$ 8,157	\$ 83,174	\$ 109,909	\$ —	\$ 201,572
Balance at December 31, 2007	\$ 327	\$ 7,899	\$ 100,372	\$ 95,087	\$ (314)	\$ 203,371
Net income				18,085		18,085
Protected borrower equity retired	(90)					(90)
Capital stock/participation certificates issued/(retired), net		137				137
Retained earnings retired			(10,361)			(10,361)
Patronage distribution adjustment			619	(670)		(51)
Employee benefit plans adjustments				(43)	108	65
Balance at September 30, 2008	\$ 237	\$ 8,036	\$ 90,630	\$ 112,459	\$ (206)	\$ 211,156

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 Carolina Farm Credit, 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:

	For the nine months ended September 30,	
	2008	2007
Balance at beginning of period	\$ 4,287	\$ 3,492
Provision for (reversal of) loan losses	5,610	1,102
Loans (charged off), net of recoveries	65	(334)
Balance at end of period	<u>\$ 9,962</u>	<u>\$ 4,260</u>

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the nine months ended September 30,	
	2008	2007
Pension	\$ 776	\$ 1,075
401(k)	293	277
Other postretirement benefits	629	728
Total	<u>\$ 1,698</u>	<u>\$ 2,080</u>

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

	Actual YTD Through 9/30/08	Projected Contributions For Remainder of 2008	Projected Total Contributions 2008
Pension	\$ 27	\$ 9	\$ 36
Other postretirement benefits	427	146	573
Total	<u>\$ 454</u>	<u>\$ 155</u>	<u>\$ 609</u>

As of September 30, 2008, contributions of \$27 have been made to the pension plan for 2008. Actuarial projections as of the last plan measurement date (September 30, 2007) anticipated total contributions of \$36 for 2008. However, a new funding policy 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.

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 by 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 30, 2007 measurement date) is reflected as an adjustment to beginning 2008 unallocated retained earnings. As a result, the Association decreased unallocated retained earnings and increased the pension liability by \$43.

Upon adoption, 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 (AOCI). These amounts are subsequently recognized as components of net periodic benefit costs. For the first nine months of 2008, \$108 has been recognized as a credit to AOCI and a debit to pension expense to reflect the amortization of the components previously recognized in AOCI.

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