

SECOND QUARTER 2007

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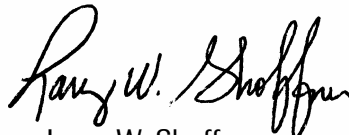
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Larry W. Shoffner
Chief Executive Officer



Clark M. Newlin
Chairman of the Board

July 27, 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 Carolina Farm Credit, ACA (Association) for the period ended June 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 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, has an impact on the level of dependency on a given agricultural commodity.

The gross loan volume of the Association as of June 30, 2007, was \$1,248,361, an increase of \$61,783 as compared to \$1,186,578 at December 31, 2006. Net loans outstanding at June 30, 2007, were \$1,243,954 as compared to \$1,183,086 at December 31, 2006. Net loans accounted for 90.31 percent of total assets at June 30, 2007, as compared to 89.48 percent of total assets at December 31, 2006.

The increase in gross and net loan volume during the reporting period is attributed primarily to seasonal lending. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and rapidly declines in the fall months as farm commodities are marketed and proceeds are applied to the operating loans.

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 \$8,974 at December 31, 2006, to \$12,521 at June 30, 2007. This increase is primarily the result of transferring loans into nonaccrual status in excess of repayments and restatements 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 June 30, 2007, was \$4,407 compared to \$3,492 at December 31, 2006, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2007

Net income for the three months ended June 30, 2007, totaled \$4,893, as compared to \$5,660 for the same period in 2006. Net interest income increased \$459, for the three months ended June 30, 2007, as compared to the same period in 2006.

At June 30, 2007, interest income on loans increased \$3,616 compared to June 30, 2006. Nonaccrual income was \$39 for the three months ended June 30, 2007, as compared to \$98 for the same period in 2006. Interest expense increased \$3,157 for the three months ended June 30, 2007, as compared to the comparable period of 2006.

The Association recorded a provision for loan losses of \$907 for the three months ended June 30, 2007 as compared to no provision for the same period of 2006.

Noninterest income for the three months ended June 30, 2007, totaled \$3,183, as compared to \$2,976 for the same period of 2006, an increase of \$207. This rise in earnings is attributed to an increase of \$144 in loans fees, \$288 in earnings of AgFirst Farm Credit Bank and \$82 in gains on other property owned when compared to the same period in 2006. These increases were offset by a decrease of \$18 in fees for financially related services and \$289 in other noninterest income when compared for the same period of 2006.

Noninterest expense for the three months ended June 30, 2007, increased \$680 compared to the same period of 2006. This rise in noninterest expense is attributed to an increase of \$562 in salaries and employee benefits, \$60 in occupancy and equipment, \$57 in the insurance fund premium, and \$1 in other operating expenses when compared to the same period in 2006.

The Association recorded a benefit for income taxes of \$132 for the three months ended June 30, 2007 as compared to a provision of \$22 for the same period of 2006.

For the six months ended June 30, 2007

Net income for the six months ended June 30, 2007, totaled \$12,012, as compared to \$11,634 for the same period in 2006. This increase of \$378, or 3.25 percent, is attributed to an increase in the outstanding loan volume.

At June 30, 2007, interest income on accruing loans increased \$6,639 compared to June 30, 2006. Nonaccrual income was \$110 for the six months ended June 30, 2007, as compared to \$233 for the same period in 2006. Interest expense increased \$6,003 for the six months ended June 30, 2007, as compared to the same period in 2006. This change was primarily due to an increase in outstanding interest bearing liabilities.

The Association recorded a provision for loan losses of \$907 for the six months ended June 30, 2007 as compared to no provision for the same period of 2006.

Noninterest income for the six months ended June 30, 2007, totaled \$6,987, as compared to \$5,482 for the same period of 2006, an increase of \$1,505. The rise in earnings is attributed to an increase of \$265 in loan fees, \$593 in equity in earnings of other Farm Credit institutions, \$58 in the gain on other property owned and \$592 in other noninterest income when compared to the same period in 2006. These increases were offset by a decrease of \$3 in fees for financially related services when compared to the same period in 2006.

Noninterest expense for the six months ended June 30, 2007, increased \$1,019 compared to the same period of 2006. The rise in noninterest expense is attributed to an increase of \$816 in salaries and employee benefits, \$102 in occupancy and equipment, \$94 in the insurance fund premium and \$7 in other operating expenses when compared to the same period in 2006.

The Association recorded a benefit for income taxes of \$133 for the six months ended June 30, 2007 as compared to a provision of \$30 for the same period of 2006.

ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

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 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 balance sheet.

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 June 30, 2007, was \$1,146,420 as compared to \$1,098,329 at December 31, 2006. The increase during the period is attributable to new borrowing by the Association for funds advanced to its borrowers.

The Association has no lines of credit outstanding with third parties as of June 30, 2007.

CAPITAL RESOURCES

Total members’ equity at June 30, 2007, increased to \$206,450 from the December 31, 2006, total of \$194,550. The change in capital is primarily attributed to net earnings for the six months ending June 30, 2007.

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, 2007, the Association’s total surplus ratio and core surplus ratio were 14.58 percent and 11.95 percent, respectively, and the permanent capital ratio was 15.23 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 1-800-521-9952, or writing Larry W. Shoffner, 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 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.

Carolina Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2007 <i>(unaudited)</i>	December 31, 2006 <i>(audited)</i>
Assets		
Cash	\$ 4,226	\$ 3,670
Loans	1,248,361	1,186,578
Less: allowance for loan losses	4,407	3,492
Net loans	1,243,954	1,183,086
Other investments, held to maturity	60,828	62,091
Accrued interest receivable	18,217	16,411
Investment in other Farm Credit institutions	17,730	17,693
Premises and equipment, net	13,509	13,139
Other property owned	—	247
Prepaid retirement expense	12,238	12,933
Due from AgFirst Farm Credit Bank	4,233	9,331
Other assets	2,466	3,609
Total assets	\$ 1,377,401	\$ 1,322,210
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,146,420	\$ 1,098,329
Accrued interest payable	5,623	5,309
Patronage refund payable	262	5,388
Postretirement benefits other than pensions	10,854	10,617
Minimum pension liability	97	76
Other liabilities	7,695	7,941
Total liabilities	1,170,951	1,127,660
Commitments and contingencies		
Members' Equity		
Protected borrower equity	335	446
Capital stock and participation certificates	7,948	7,963
Retained earnings		
Allocated	94,844	93,567
Unallocated	103,323	92,574
Total members' equity	206,450	194,550
Total liabilities and members' equity	\$ 1,377,401	\$ 1,322,210

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 June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
Interest Income				
Loans	\$ 25,105	\$ 21,528	\$ 49,104	\$ 42,627
Other	835	796	1,570	1,408
Total interest income	25,940	22,324	50,674	44,035
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	16,664	13,507	32,444	26,441
Net interest income	9,276	8,817	18,230	17,594
Provision for (reversal of allowance for) loan losses	907	—	907	—
Net interest income after provision for (reversal of allowance for) loan losses	8,369	8,817	17,323	17,594
Noninterest Income				
Loan fees	746	602	1,411	1,146
Fees for financially related services	125	143	256	259
Equity in earnings of other Farm Credit institutions	2,216	1,928	4,306	3,713
Gains (losses) on other property owned, net	85	3	36	(22)
Other noninterest income	11	300	978	386
Total noninterest income	3,183	2,976	6,987	5,482
Noninterest Expense				
Salaries and employee benefits	4,530	3,968	8,148	7,332
Occupancy and equipment	616	556	1,246	1,144
Insurance Fund premium	434	377	846	752
Other operating expenses	1,211	1,210	2,191	2,184
Total noninterest expense	6,791	6,111	12,431	11,412
Income before income taxes	4,761	5,682	11,879	11,664
Provision (benefit) for income taxes	(132)	22	(133)	30
Net income	\$ 4,893	\$ 5,660	\$ 12,012	\$ 11,634

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		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2005	\$ 763	\$ 8,254	\$ 93,647	\$ 90,291	\$ 192,955
Net income				11,634	11,634
Protected borrower equity retired	(273)				(273)
Capital stock/participation certificates issued		426			426
Capital stock/participation certificates retired		(633)			(633)
Retained earnings retired			(4)		(4)
Distribution adjustment			(271)	353	82
Balance at June 30, 2006	\$ 490	\$ 8,047	\$ 93,372	\$ 102,278	\$ 204,187
Balance at December 31, 2006	\$ 446	\$ 7,963	\$ 93,567	\$ 92,574	\$ 194,550
Net income				12,012	12,012
Protected borrower equity retired	(111)				(111)
Capital stock/participation certificates issued		484			484
Capital stock/participation certificates retired		(499)			(499)
Distribution adjustment			1,277	(1,263)	14
Balance at June 30, 2007	\$ 335	\$ 7,948	\$ 94,844	\$ 103,323	\$ 206,450

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 Carolina Farm Credit, 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 second 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 six months ended June 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 June 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 six months ended June 30,	
	2007	2006
Balance at beginning of period	\$ 3,492	\$ 2,706
Provision for (reversal of) loan losses	907	–
Recoveries, net of loans charged off	8	16
Balance at end of period	<u>\$ 4,407</u>	<u>\$ 2,722</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 six months ended June 30,	
	2007	2006
Pension	\$ 717	\$ 866
Thrift/deferred compensation	183	163
Other postretirement benefits	486	499
Total	<u>\$ 1,386</u>	<u>\$ 1,528</u>

As of June 30, 2007, no contributions have been made to the pension plan for 2007. Actuarial projections as of the last plan measurement date (September 30, 2006) did not anticipate any contributions for 2007; however, market conditions could impact discount rates and return on plan assets which could change this expectation, making contributions necessary before the next plan measurement date.