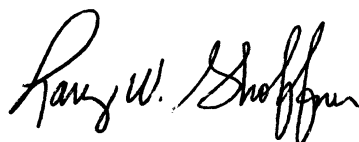


THIRD QUARTER 2006

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Larry W. Shoffner
Chief Executive Officer



J. Carroll Goodman
Chairman of the Board

October 27, 2006

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, 2006. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2005 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 September 30, 2006, was \$1,128,112, an increase of \$11,242 as compared to \$1,116,870 at December 31, 2005. Net loans outstanding at September 30, 2006, were \$1,125,220 as compared to \$1,114,164 at December 31, 2005. Net loans accounted for 89.58 percent of total assets at September 30, 2006, as compared to 91.60 percent of total assets at December 31, 2005.

The increase in gross and net loan volume during the reporting period is attributed to a general increase in lending activity including 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 \$4,720 at December 31, 2005, to \$9,546 at September 30, 2006. This increase is primarily the result of transferring loans into nonaccrual status in excess of repayments.

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, 2006, was \$2,892 compared to \$2,706 at December 31, 2005, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2006

Net income for the three months ended September 30, 2006, totaled \$5,866, as compared to \$6,150 for the same period in 2005. Net interest income decreased \$159, for the three months ended September 30, 2006, as compared to the same period in 2005.

At September 30, 2006, interest income increased \$2,948 compared to September 30, 2005. Nonaccrual income was \$17 for the three months ended September 30, 2006, as compared to \$280 for the same period in 2005. Interest expense increased \$3,107 for the three months ended September 30, 2006, as compared to the comparable period of 2005.

Noninterest income for the three months ended September 30, 2006, totaled \$2,853, as compared to \$2,862 for the same period of 2005, a decrease of \$9. This fall in earnings is attributed to a decrease of \$221 in loans fees and \$85 in losses on other property owned when compared to the same period in 2005. These decreases were offset by an increase \$130 in fees for financially related services, \$122 in earnings of AgFirst Farm Credit Bank and \$45 in other noninterest income when compared to the same period in 2005.

Noninterest expense for the three months ended September 30, 2006, increased \$110 compared to the same period of 2005. This rise in noninterest expense is attributed to an increase of \$85 in occupancy and equipment, \$209 in the insurance fund premium and \$67 in other operating expenses when compared to the same period in 2005. These increases were offset by a decrease of \$251 in salaries and employee benefits when compared for the same period of 2005.

The Association recorded a provision for income taxes of \$14 for the three months ended September 30, 2006 as compared to a provision of \$0 for the same period of 2005.

For the nine months ended September 30, 2006

Net income for the nine months ended September 30, 2006, totaled \$17,500, as compared to \$16,902 for the same period in 2005. This increase of \$598, or 3.54 percent, is attributed to changes in noninterest income. At September 30, 2006, interest income increased \$9,055 compared to September 30, 2005. Nonaccrual income was \$250 for the nine months ended September 30, 2006, as compared to \$469 for the same period in 2005. Interest expense increased \$8,569 for the nine months ended September 30, 2006, as compared to the same period in 2005. This change was primarily due to an increase in our average earning assets.

Noninterest income for the nine months ended September 30, 2006, totaled \$8,335, as compared to \$7,596 for the same period of 2005, an increase of \$739. The rise in earnings is attributed to an increase of \$38 in loan fees, \$180 in fees for financially related services, \$164 in earnings of AgFirst Farm Credit Bank, \$2 in the gain on other property owned and \$355 in other noninterest income when compared to the same period in 2005.

Noninterest expense for the nine months ended September 30, 2006, increased \$962 compared to the same period of 2005. The rise in noninterest expense is attributed to an increase of \$306 in occupancy and equipment, \$756 in the insurance fund premium and \$252 in other operating expenses when compared to the same period in 2005. These increases were offset by a decrease of \$352 in salaries and employee benefits when compared for the same period of 2005.

The Association recorded a provision for income taxes of \$44 for the nine months ended September 30, 2006 as compared to a provision of \$21 for the same period of 2005.

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 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, 2006, was \$1,022,305 as compared to \$994,284 at December 31, 2005. 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 September 30, 2006.

CAPITAL RESOURCES

Total members’ equity at September 30, 2006, increased to \$196,490 from the December 31, 2005, total of \$192,955. The change in capital is attributed to net earnings for the nine months ending September 30, 2006 being in excess of the revolvment of the 2000 qualified allocated surplus, the 1995 non-qualified surplus in September of 2006 and the reduction in capital stock and participation certificates.

Total capital stock and participation certificates were \$8,729 on September 30, 2006, compared to \$9,017 on December 31, 2005. This decrease is attributable to the retirement of protected and at-risk stock and participation certificates on loans liquidated in the normal course of business and new loans being capitalized at new lower regulatory levels.

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, 2006, the Association’s total surplus ratio and core surplus ratio were 16.60 percent and 13.62 percent, respectively, and the permanent capital ratio was 17.36 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 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>	September 30, 2006 <i>(unaudited)</i>	December 31, 2005 <i>(audited)</i>
Assets		
Cash	\$ 3,205	\$ 4,583
Loans	1,128,112	1,116,870
Less: allowance for loan losses	2,892	2,706
Net loans	1,125,220	1,114,164
Other investments	58,987	27,512
Accrued interest receivable	18,669	13,893
Investment in other Farm Credit institutions	13,620	13,621
Premises and equipment, net	12,651	13,111
Other property owned	—	359
Deferred tax asset, net	651	632
Prepaid retirement expense	13,356	14,627
Due from AgFirst Farm Credit Bank	5,710	10,593
Other assets	4,038	3,196
Total assets	\$ 1,256,107	\$ 1,216,291
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,022,305	\$ 994,284
Accrued interest payable	4,880	4,222
Patronage refund payable	488	5,946
Postretirement benefits other than pensions	10,461	10,078
Minimum pension liability	—	38
Other liabilities	21,483	8,768
Total liabilities	1,059,617	1,023,336
Commitments and contingencies		
Members' Equity		
Protected borrower equity	481	763
Capital stock and participation certificates	8,248	8,254
Retained earnings		
Allocated	79,617	93,647
Unallocated	108,144	90,291
Total members' equity	196,490	192,955
Total liabilities and members' equity	\$ 1,256,107	\$ 1,216,291

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,	
	2006	2005	2006	2005
Interest Income				
Loans	\$ 22,492	\$ 20,355	\$ 65,119	\$ 58,283
Other	811	—	2,219	—
Total interest income	23,303	20,355	67,338	58,283
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	14,473	11,366	40,914	32,345
Net interest income	8,830	8,989	26,424	25,938
Provision for (reversal of) loan losses	100	108	100	458
Net interest income after provision for (reversal of) loan losses	8,730	8,881	26,324	25,480
Noninterest Income				
Loan fees	511	732	1,657	1,619
Fees for financially related services	366	236	625	445
Equity in earnings of other Farm Credit institutions	1,988	1,866	5,701	5,537
Gains (losses) on other property owned, net	(23)	62	(45)	(47)
Other noninterest income	11	(34)	397	42
Total noninterest income	2,853	2,862	8,335	7,596
Noninterest Expense				
Salaries and employee benefits	3,571	3,822	10,903	11,255
Occupancy and equipment	594	509	1,738	1,432
Insurance Fund premium	389	180	1,141	385
Other operating expenses	1,149	1,082	3,333	3,081
Total noninterest expense	5,703	5,593	17,115	16,153
Income before income taxes	5,880	6,150	17,544	16,923
Provision (benefit) for income taxes	14	—	44	21
Net income	\$ 5,866	\$ 6,150	\$ 17,500	\$ 16,902

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, 2004	\$ 996	\$ 8,456	\$ 85,136	\$ 88,494	\$ 183,082
Net income				16,902	16,902
Protected borrower equity retired	(219)				(219)
Capital stock/participation certificates issued		639			639
Capital stock/participation certificates retired		(541)			(541)
Retained earnings retired			(9,797)		(9,797)
Distribution adjustment			286	(431)	(145)
Balance at September 30, 2005	\$ 777	\$ 8,554	\$ 75,625	\$ 104,965	\$ 189,921
Balance at December 31, 2005	\$ 763	\$ 8,254	\$ 93,647	\$ 90,291	\$ 192,955
Net income				17,500	17,500
Protected borrower equity retired	(282)				(282)
Capital stock/participation certificates issued		631			631
Capital stock/participation certificates retired		(637)			(637)
Retained earnings retired			(13,759)		(13,759)
Distribution adjustment			(271)	353	82
Balance at September 30, 2006	\$ 481	\$ 8,248	\$ 79,617	\$ 108,144	\$ 196,490

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, 2005, are contained in the 2005 Annual Report to Shareholders. These unaudited third quarter 2006 consolidated financial statements should be read in conjunction with the 2005 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, 2006, are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

Certain amounts in prior period consolidated financial statements 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, 2006, 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,	
	2006	2005
Balance at beginning of period	\$ 2,706	\$ 2,572
Provision for (reversal of) loan losses	100	458
Loans (charged off), net of recoveries	86	(294)
Balance at end of period	<u>\$ 2,892</u>	<u>\$ 2,736</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, 2006:

	For the nine months ended September 30,	
	2006	2005
Pension	\$ 1,300	\$ 1,259
Thrift/deferred compensation	244	235
Other postretirement benefits	748	1,210
Total	<u>\$ 2,292</u>	<u>\$ 2,704</u>

As of September 30, 2006, no contributions have been made to the pension plan for 2006. The Association does not anticipate making additional contributions for the remainder of 2006.