

FIRST QUARTER 2005

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Financial Condition and Results of Operations.....2

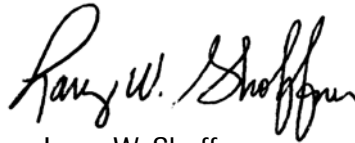
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Larry W. Shoffner
Chief Executive Officer



Dennis T. Leamon
Chairman of the Board

April 29, 2005

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 March 31, 2005. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2004 Annual Report of the Association.

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 March 31, 2005, was \$1,101,657, an increase of \$17,905 as compared to \$1,083,752 at December 31, 2004. Net loans outstanding at March 31, 2005, were \$1,099,202 as compared to \$1,081,180 at December 31, 2004. Net loans accounted for 94.89 percent of total assets at March 31, 2005, as compared to 94.13 percent of total assets at December 31, 2004.

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 decreased from \$5,682 at December 31, 2004, to \$4,685 at March 31, 2005. This decrease is primarily the result of repayments and transfer to other property owned in excess of transferring loans into nonaccrual 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 March 31, 2005, was \$2,455 compared to \$2,572 at December 31, 2004, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2005

Net income for the three months ended March 31, 2005, totaled \$5,465, as compared to \$4,833 for the same period in 2004. Net interest income increased \$921, for the three months ended March 31, 2005, as compared to the same period in 2004.

At March 31, 2005, interest income on loans increased \$1,823 compared to March 31, 2004. Nonaccrual income was \$93 for the three months ended March 31, 2005, as compared to \$123 for the same period in 2004. Interest expense increased \$902 for the three months ended March 31, 2005, as compared to the comparable period of 2004.

Noninterest income for the three months ended March 31, 2005, totaled \$2,298, as compared to \$2,420 for the same period of 2004, a decrease of \$122. This decline in earning is attributed to an increase of \$157 in losses on other property owned and a decrease of \$80 in loans fees and \$26 in fees for financially related services when compared to the same period in 2004.

These declines were offset by an increase of \$62 in earnings of AgFirst Farm Credit Bank and, \$79 in noninterest income when compared to the same period in 2004.

Noninterest expense for the three months ended March 31, 2005, increased \$137 compared to the same period of 2004. The rise in noninterest expense is attributed to an increase of \$290 in salaries and employee benefits and \$37 in occupancy and equipment when compared to the same period in 2004. This increase was offset by a decrease of \$152 in the insurance fund premium and \$38 in other operating expenses for the same period of 2004.

The provision for income taxes for the three months ended March 31, 2005 increased \$30 compared to the same period of 2004.

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 March 31, 2005, was \$947,243 as compared to \$941,109 at December 31, 2004. 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 March 31, 2005.

CAPITAL RESOURCES

Total members' equity at March 31, 2005, increased to \$188,442 from the December 31, 2004, total of \$183,082. The change in capital is attributed to net earnings for the three months ending March 31, 2005.

Total capital stock and participation certificates were \$9,491 on March 31, 2005, compared to \$9,452 on December 31, 2004. This increase is attributable to the capitalization of new loans in excess of the retirement of protected and at-risk stock and participation certificates on loans liquidated in the normal course of business.

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 March 31, 2005, the Association's total surplus ratio and core surplus ratio were 15.73 percent and 12.90 percent, respectively, and the permanent capital ratio was 16.56 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.

Carolina Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2005	December 31, 2004
	<i>(unaudited)</i>	
Assets		
Cash	\$ 1,283	\$ 3,489
Loans	1,101,657	1,083,752
Less: allowance for loan losses	2,455	2,572
Net loans	1,099,202	1,081,180
Accrued interest receivable	12,830	10,634
Investment in other Farm Credit institutions	13,818	13,815
Premises and equipment, net	9,935	9,125
Other property owned	1,625	1,785
Deferred tax asset, net	1,549	1,549
Other assets	18,116	27,053
Total assets	\$ 1,158,358	\$ 1,148,630
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 947,243	\$ 941,109
Accrued interest payable	3,499	3,286
Patronage refund payable	604	4,708
Postretirement benefits other than pensions	9,222	8,971
Other liabilities	9,348	7,474
Total liabilities	969,916	965,548
Commitments and contingencies		
Members' Equity		
Protected borrower equity	829	996
Capital stock and participation certificates	8,662	8,456
Retained earnings		
Allocated	85,423	85,136
Unallocated	93,528	88,494
Total members' equity	188,442	183,082
Total liabilities and members' equity	\$ 1,158,358	\$ 1,148,630

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 March 31,	
	2005	2004
Interest Income		
Loans	\$ 18,553	\$ 16,730
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	10,176	9,274
Net interest income	8,377	7,456
Provision for (reversal of) loan losses	—	—
Net interest income after provision for (reversal of) loan losses	8,377	7,456
Noninterest Income		
Loan fees	417	497
Fees for financially related services	107	133
Equity in earnings of other Farm Credit institutions	1,772	1,710
Gains (losses) on other property owned, net	(108)	49
Other noninterest income	110	31
Total noninterest income	2,298	2,420
Noninterest Expense		
Salaries and employee benefits	3,674	3,384
Occupancy and equipment	447	410
Insurance Fund premium	101	253
Other operating expenses	954	992
Total noninterest expense	5,176	5,039
Income before income taxes	5,499	4,837
Provision (benefit) for income taxes	34	4
Net income	\$ 5,465	\$ 4,833

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, 2003	\$ 1,288	\$ 8,617	\$ 86,999	\$ 60,583	\$ (11,201)	\$ 146,286
Net income				4,833		4,833
Protected borrower equity retired	(219)					(219)
Capital stock/participation certificates issued		195				195
Capital stock/participation certificates retired		(3)				(3)
Distribution adjustment			117	(185)		(68)
Balance at March 31, 2004	\$ 1,069	\$ 8,809	\$ 87,116	\$ 65,231	\$ (11,201)	\$ 151,024
Balance at December 31, 2004	\$ 996	\$ 8,456	\$ 85,136	\$ 88,494	\$ —	\$ 183,082
Net income				5,465		5,465
Protected borrower equity retired	(167)					(167)
Capital stock/participation certificates issued		208				208
Capital stock/participation certificates retired		(2)				(2)
Distribution adjustment			287	(431)		(144)
Balance at March 31, 2005	\$ 829	\$ 8,662	\$ 85,423	\$ 93,528	\$ —	\$ 188,442

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, 2004, are contained in the 2004 Annual Report to Stockholders. These unaudited first quarter 2005 consolidated financial statements should be read in conjunction with the 2004 Annual Report to Stockholders.

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 three months ended March 31, 2005, are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

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 March 31, 2005, 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:

Balance at 12-31-03	\$ 21,948
(Reversal of) provision for loan losses	—
Loans (charged off), net of recoveries	<u>(311)</u>
Balance at 3-31-04	<u>\$ 21,637</u>
Balance at 12-31-04	\$ 2,572
(Reversal of) provision for loan losses	—
Loans (charged off), net of recoveries	<u>(117)</u>
Balance at 3-31-05	<u>\$ 2,455</u>

As discussed in the 2004 Annual Report, the Association recorded a loan loss reversal of \$18,429 in the fourth quarter of 2004 that resulted in a decrease in the allowance for loan losses.

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 three months ended March 31, 2005:

	For the three months ended March 31,	
	2005	2004
Pension	\$ 420	\$ 491
Thrift/deferred compensation	75	62
Other postretirement benefits	<u>403</u>	<u>490</u>
Total	<u>\$ 898</u>	<u>\$ 1,043</u>

As of March 31, 2005, the Association had made no contributions to the Districtwide defined benefit retirement plan. Actuarial projections as of the last plan measurement date (September 30, 2004) did not anticipate any contributions for 2005; 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.