

SECOND QUARTER 2005

Management's Discussion and Analysis of
Financial Condition and Results of Operations.....2

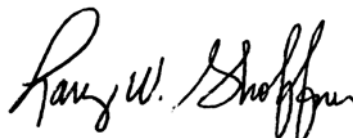
Consolidated Financial Statements

Consolidated Balance Sheets.....4

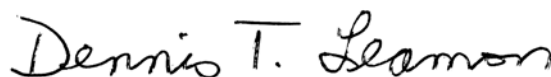
Consolidated Statements of Income.....5

Consolidated Statements of Changes in Members' Equity.....6

Notes to the Consolidated Financial Statements.....7



Larry W. Shoffner
Chief Executive Officer



Dennis T. Leamon
Chairman of the Board

July 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 June 30, 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 June 30, 2005, was \$1,108,085, an increase of \$24,333 as compared to \$1,083,752 at December 31, 2004. Net loans outstanding at June 30, 2005, were \$1,105,419 as compared to \$1,081,180 at December 31, 2004. Net loans accounted for 94.51 percent of total assets at June 30, 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 \$4,555 at June 30, 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 June 30, 2005, was \$2,666 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 June 30, 2005

Net income for the three months ended June 30, 2005, totaled \$5,287, as compared to \$4,272 for the same period in 2004. Net interest income increased \$1,054, for the three months ended June 30, 2005, as compared to the same period in 2004.

At June 30, 2005, interest income on loans increased \$2,439 compared to June 30, 2004. Nonaccrual income was \$96 for the three months ended June 30, 2005, as compared to \$118 for the same period in 2004. Interest expense increased \$1,385 for the three months ended June 30, 2005, as compared to the comparable period of 2004.

Noninterest income for the three months ended June 30, 2005, totaled \$2,436, as compared to \$2,279 for the same period of 2004, an increase of \$157. This increase in earnings is attributed to an increase of \$24 in fees for financially related services, \$157 in earnings of AgFirst Farm Credit Bank, and a decrease of \$65 in losses on other property owned when compared to the same period in 2004. These increases were offset by decreases of \$41 in loans fees and \$48 in other noninterest income when compared to the same period in 2004.

Noninterest expense for the three months ended June 30, 2005, decreased \$136 compared to the same period of 2004. This decline in noninterest expense is attributed to a decrease of \$46 in salaries and employee benefits, \$147 in the insurance fund premium when compared to the same period in 2004. These decreases were offset by an increase of \$44 in occupancy and equipment and \$13 in other operating expenses for the same period of 2004.

Carolina Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2005 <i>(unaudited)</i>	December 31, 2004 <i>(audited)</i>
Assets		
Cash	\$ 2,161	\$ 3,489
Loans	1,108,085	1,083,752
Less: allowance for loan losses	2,666	2,572
Net loans	1,105,419	1,081,180
Accrued interest receivable	14,765	10,634
Investment in other Farm Credit institutions	13,864	13,815
Premises and equipment, net	11,087	9,125
Other property owned	1,349	1,785
Deferred tax asset, net	1,557	1,549
Other assets	19,425	27,053
Total assets	\$ 1,169,627	\$ 1,148,630
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 955,401	\$ 941,109
Accrued interest payable	3,673	3,286
Patronage refund payable	428	4,708
Postretirement benefits other than pensions	9,474	8,971
Other liabilities	7,218	7,474
Total liabilities	976,194	965,548
Commitments and contingencies		
Members' Equity		
Protected borrower equity	816	996
Capital stock and participation certificates	8,380	8,456
Retained earnings		
Allocated	85,422	85,136
Unallocated	98,815	88,494
Total members' equity	193,433	183,082
Total liabilities and members' equity	\$ 1,169,627	\$ 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 June 30,		For the six months ended June 30,	
	2005	2004	2005	2004
Interest Income				
Loans	\$ 19,375	\$ 16,936	\$ 37,928	\$ 33,666
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	10,803	9,418	20,979	18,692
Net interest income	8,572	7,518	16,949	14,974
Provision for (reversal of) loan losses	350	—	350	—
Net interest income after provision for (reversal of) loan losses	8,222	7,518	16,599	14,974
Noninterest Income				
Loan fees	470	511	887	1,008
Fees for financially related services	102	78	209	211
Equity in earnings of other Farm Credit institutions	1,899	1,742	3,671	3,452
Gains (losses) on other property owned, net	(1)	(66)	(109)	(17)
Other noninterest income	(34)	14	76	45
Total noninterest income	2,436	2,279	4,734	4,699
Noninterest Expense				
Salaries and employee benefits	3,759	3,805	7,433	7,189
Occupancy and equipment	476	432	923	842
Insurance Fund premium	104	251	205	504
Other operating expenses	1,045	1,032	1,999	2,024
Total noninterest expense	5,384	5,520	10,560	10,559
Income before income taxes	5,274	4,277	10,773	9,114
Provision (benefit) for income taxes	(13)	5	21	9
Net income	\$ 5,287	\$ 4,272	\$ 10,752	\$ 9,105

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				9,105		9,105
Protected borrower equity retired	(263)					(263)
Capital stock/participation certificates issued		430				430
Capital stock/participation certificates retired		(469)				(469)
Distribution adjustment			117	(173)		(56)
Balance at June 30, 2004	\$ 1,025	\$ 8,578	\$ 87,116	\$ 69,515	\$ (11,201)	\$ 155,033
Balance at December 31, 2004	\$ 996	\$ 8,456	\$ 85,136	\$ 88,494	\$ —	\$ 183,082
Net income				10,752		10,752
Protected borrower equity retired	(180)					(180)
Capital stock/participation certificates issued		438				438
Capital stock/participation certificates retired		(514)				(514)
Distribution adjustment			286	(431)		(145)
Balance at June 30, 2005	\$ 816	\$ 8,380	\$ 85,422	\$ 98,815	\$ —	\$ 193,433

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

