

THIRD QUARTER 2005

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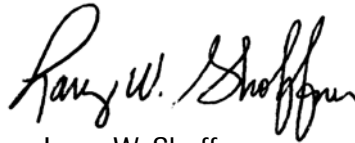
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Larry W. Shoffner
Chief Executive Officer



Dennis T. Leamon
Chairman of the Board

October 28, 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 September 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 September 30, 2005, was \$1,122,840, an increase of \$39,088 as compared to \$1,083,752 at December 31, 2004. Net loans outstanding at September 30, 2005, were \$1,120,104 as compared to \$1,081,180 at December 31, 2004. Net loans accounted for 94.01 percent of total assets at September 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 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 decreased from \$5,682 at December 31, 2004, to \$4,775 at September 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 September 30, 2005, was \$2,736 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 September 30, 2005

Net income for the three months ended September 30, 2005, totaled \$6,150, as compared to \$5,519 for the same period in 2004. Net interest income increased \$631, for the three months ended September 30, 2005, as compared to the same period in 2004.

At September 30, 2005, interest income on loans increased \$2,949 compared to September 30, 2004. Nonaccrual income was \$280 for the three months ended September 30, 2005, as compared to \$109 for the same period in 2004. Interest expense increased \$1,647 for the three months ended September 30, 2005, as compared to the comparable period of 2004.

Noninterest income for the three months ended September 30, 2005, totaled \$2,862, as compared to \$2,574 for the same period of 2004, an increase of \$288. This rise in earnings is attributed to an increase of \$256 in loans fees, \$1 in fees for financially related services, \$102 in earnings of AgFirst Farm Credit Bank (the Bank) and \$45 in gains on other property owned when compared to the same period in 2004. These increases were offset by a decrease of \$116 in other noninterest income when compared to the same period in 2004.

Noninterest expense for the three months ended September 30, 2005, increased \$649 compared to the same period of 2004. This rise in noninterest expense is attributed to an increase of \$245 in salaries and employee benefits, \$46 in occupancy and equipment, \$298 in the insurance fund premium and \$60 in other operating expenses when compared to the same period in 2004.

The Association did not record a provision for income taxes for the three months ended September 30, 2005 as compared to a benefit of \$202 for the same period of 2004.

For the nine months ended September 30, 2005

Net income for the nine months ended September 30, 2005, totaled \$16,902, as compared to \$14,624 for the same period in 2004. This increase of \$2,278, or 15.58 percent, is attributed to changes in net interest income. At September 30, 2005, interest income on accruing loans increased \$7,211 compared to September 30, 2004. Nonaccrual income was \$469 for the nine months ended September 30, 2005, as compared to \$350 for the same period in 2004. Interest expense increased \$3,934 for the nine months ended September 30, 2005, as compared to the same period in 2004. This change was primarily due to an increase in our average cost of debt.

Noninterest income for the nine months ended September 30, 2005, totaled \$7,596, as compared to \$7,273 for the same period of 2004, an increase of \$323. The rise in earnings is attributed to an increase of \$135 in loan fees and \$321 in earnings of the Bank when compared to the same period in 2004. These increases were offset by a decrease of \$1 in fees for financially related services, \$47 in the gain on other property owned and \$85 in other noninterest income when compared to the same period in 2004.

Noninterest expense for the nine months ended September 30, 2005, increased \$650 compared to the same period of 2004. The rise in noninterest expense is attributed to an increase of \$489 in salaries and employee benefits, \$127 in occupancy and equipment and \$35 in other operating expenses when compared to the same period in 2004. These increases were offset by a decrease of \$1 in the insurance fund premium when compared for the same period of 2004.

The Association recorded a provision for income taxes of \$21 for the nine months ended September 30, 2005 as compared to a benefit of \$193 for the same period of 2004.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with 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, 2005, was \$970,321 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 September 30, 2005.

CAPITAL RESOURCES

Total members' equity at September 30, 2005, increased to \$189,921 from the December 31, 2004, total of \$183,082. The change in capital is attributed to net earnings for the nine months ending September 30, 2005 being in excess of the revolvment of the 1999 qualified allocated surplus, the 1994 non-qualified surplus in September of 2005 and the reduction in capital stock and participation certificates.

Total capital stock and participation certificates were \$9,331 on September 30, 2005, compared to \$9,452 on December 31, 2004. 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, 2005, the Association's total surplus ratio and core surplus ratio were 16.01 percent and 11.88 percent, respectively, and the permanent capital ratio was 16.82 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 Jay Wise, 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, 2005 <i>(unaudited)</i>	December 31, 2004 <i>(audited)</i>
Assets		
Cash	\$ 3,049	\$ 3,489
Loans	1,122,840	1,083,752
Less: allowance for loan losses	2,736	2,572
Net loans	1,120,104	1,081,180
Accrued interest receivable	17,135	10,634
Investment in other Farm Credit institutions	13,889	13,815
Premises and equipment, net	12,057	9,125
Other property owned	552	1,785
Deferred tax asset, net	1,557	1,549
Other assets	23,168	27,053
Total assets	<u>\$ 1,191,511</u>	<u>\$ 1,148,630</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 970,321	\$ 941,109
Accrued interest payable	3,839	3,286
Patronage refund payable	562	4,708
Postretirement benefits other than pensions	9,726	8,971
Other liabilities	17,142	7,474
Total liabilities	<u>1,001,590</u>	<u>965,548</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	777	996
Capital stock and participation certificates	8,554	8,456
Retained earnings		
Allocated	75,625	85,136
Unallocated	104,965	88,494
Total members' equity	<u>189,921</u>	<u>183,082</u>
Total liabilities and members' equity	<u>\$ 1,191,511</u>	<u>\$ 1,148,630</u>

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,	
	2005	2004	2005	2004
Interest Income				
Loans	\$ 20,355	\$ 17,406	\$ 58,283	\$ 51,072
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	11,366	9,719	32,345	28,411
Net interest income	8,989	7,687	25,938	22,661
Provision for (reversal of) loan losses	108	—	458	—
Net interest income after provision for (reversal of) loan losses	8,881	7,687	25,480	22,661
Noninterest Income				
Loan fees	732	476	1,619	1,484
Fees for financially related services	236	235	445	446
Equity in earnings of other Farm Credit institutions	1,866	1,764	5,537	5,216
Gains (losses) on other property owned, net	62	17	(47)	—
Other noninterest income	(34)	82	42	127
Total noninterest income	2,862	2,574	7,596	7,273
Noninterest Expense				
Salaries and employee benefits	3,822	3,577	11,255	10,766
Occupancy and equipment	509	463	1,432	1,305
Insurance Fund premium	180	(118)	385	386
Other operating expenses	1,082	1,022	3,081	3,046
Total noninterest expense	5,593	4,944	16,153	15,503
Income before income taxes	6,150	5,317	16,923	14,431
Provision (benefit) for income taxes	—	(202)	21	(193)
Net income	\$ 6,150	\$ 5,519	\$ 16,902	\$ 14,624

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				14,624		14,624
Protected borrower equity retired	(273)					(273)
Capital stock/participation certificates issued		649				649
Capital stock/participation certificates retired		(477)				(477)
Retained earnings retired			(12,310)			(12,310)
Distribution adjustment			117	(174)		(57)
Balance at September 30, 2004	\$ 1,015	\$ 8,789	\$ 74,806	\$ 75,033	\$ (11,201)	\$ 148,442
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

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 Shareholders. These unaudited third quarter 2005 consolidated financial statements should be read in conjunction with the 2004 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. The results for the nine months ended September 30, 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 September 30, 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>(615)</u>
Balance at 9-30-04	<u>\$ 21,333</u>
Balance at 12-31-04	\$ 2,572
(Reversal of) provision for loan losses	458
Loans (charged off), net of recoveries	<u>(294)</u>
Balance at 9-30-05	<u>\$ 2,736</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 nine months ended September 30, 2005:

	For the nine months ended September 30,	
	2005	2004
Pension	\$ 1,259	\$ 1,474
Thrift/deferred compensation	235	210
Other postretirement benefits	<u>1,210</u>	<u>1,470</u>
Total	<u>\$ 2,704</u>	<u>\$ 3,154</u>

The Association had not previously anticipated making a contribution in 2005 to the defined benefit retirement plan based upon actuarial projections as of the last plan measurement date (September 30, 2004). However, due to market conditions affecting discount rates and return on plan assets, current actuarial projections indicated that a contribution was needed to meet the expected accumulated benefit obligation at September 30, 2005. During the third quarter of 2005, the Association contributed \$2,348 to the defined benefit retirement plan. The Association does not anticipate making additional contributions for the remainder of 2005.