AgCarolina Financial, ACA

FIRST QUARTER 2008

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

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April 28, 2008

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 AgCarolina Financial, ACA (Association) for the three months ended March 31, 2008. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2007 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 leases and long-term real estate mortgage loans. Predominant commodities in the portfolio are tobacco, cotton, and hogs, which constitute $370,676, or 47 percent, of the loan portfolio as of March 31, 2008. Other major farm commodities include forestry, poultry, landlords, and farm services. 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, somewhat reduces the level of dependency on a given commodity.

The net loan volume of the Association as of March 31, 2008, was $783,831, an increase of $5,506 or .71 percent as compared to $778,325 at December 31, 2007. Net loans accounted for 88.30 percent of total assets at March 31, 2008 as compared to 86.04 percent of total assets at December 31, 2007. The increase in net loan volume during the reporting period is primarily attributed to an increased demand for loans and from seasonal lending. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak in August and 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 $2,220 at December 31, 2007 to $3,032 at March 31, 2008, for an increase of 36.58 percent. 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, 2008 was $6,880 as compared to $6,877 at December 31, 2007 and was considered by management to be adequate to cover possible losses. The ratio of the allowance for loan losses to loans at March 31, 2008 was 0.88 percent.

OTHER INVESTMENTS

Other investments include tobacco buyout Successor-in-Interest Contracts (SIIC) which come under the FCA's Mission Related Investments. Under the SIIC, the tobacco quota holders and producers may assign their rights to receive tobacco buyout contract payments to a third party. The third party, or successor, purchases the entire contract and all related rights and obligations associated with the contract. As of March 31, 2008 the Association held tobacco buyout SIIC of $61,118, a decrease of $5,821, or 8.70%, as compared to $66,939 as of December 31, 2007.

RESULTS OF OPERATIONS

For the three months ended March 31, 2008

Net income for the three months ended March 31, 2008 totaled $4,827, an increase of $500, or 11.56 percent, as compared to the same period of 2007. The primary reason for the increase in net income is due to an increase in loan fee income. Loan fees were $415 higher in the current period than the comparable period in 2007. At March 31, 2008, total interest income increased by $300 compared to March 31, 2007. The increase in interest income is due to the general increase in loan volume from the same period in 2007.

Interest income from nonaccrual loans was $54 for the three months ended March 31, 2008, an increase of $4 over the same period of 2007. Interest expense decreased $75 for the three months ended March 31, 2008, as compared to the comparable period of 2007. The decrease in interest expense is attributed to the increase in preferred stock as an alternative source of funding.

Noninterest income for the three months ended March 31, 2008 totaled $3,125 as compared to $2,564 for the same period of 2007, an increase of $561. The increase is primarily due to an increase in loan fees.

Noninterest expense for the three months ended March 31, 2008 was $3,706, an increase of $436 as compared to the same period of 2007. The major components of noninterest expense are salaries and employee benefits, occupancy and equipment expenses, and general operating expenses. Salaries and employee benefits totaled $2,281 for the three months ended March 31, 2008, for an increase of $178, or 8.46 percent, as compared to the same period of 2007.

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

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 March 31, 2008 was $728,468 as compared to $745,813 at December 31, 2007. The 2.33 percent decrease during the period is primarily attributed to seasonal lending and from increases in preferred stock.

The Association has no lines of credit outstanding with third parties as of March 31, 2008.

CAPITAL RESOURCES

Total members' equity at March 31, 2008, increased 7.65 percent to $136,913 from the December 31, 2007, total of $127,182. The increase is attributed to the increase in retained earnings and capital stock. Total capital stock and participation certificates were $17,123 on March 31, 2008, as compared to $12,092 on December 31, 2007. The increase in capital stock resulted primarily from an increase in preferred stock during the quarter. As of March 31, 2008 the Association had $14,132 of preferred stock outstanding as compared to $9,115 as of December 31, 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 March 31, 2008, the Association's total surplus ratio and core surplus ratio were 13.80 percent and 13.15 percent, respectively, and the permanent capital ratio was 15.68 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.

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, 2007 and for employers without publicly traded securities for the fiscal year ending after June 15, 2008. The Association will be required to implement the Standard for the year ended December 31, 2008. 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.

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 Stephen Gilbert, 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 1-919-250-9500, writing Linda Strickland, AgCarolina Financial, ACA, P. 0. Box 14789, Raleigh, NC 27620, or accessing the website, ***www.agcarolina.com***. The Association prepares a quarterly report within 40 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.

AgCarolina Financial, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2008 *(unaudited)*	December 31, 2007 *(audited)*
Assets		
Cash	$ 300	$ 2,675
Loans	790,711	785,202
Less: allowance for loan losses	6,880	6,877
Net loans	783,831	778,325
Other investments	61,118	66,939
Accrued interest receivable	10,906	19,897
Investment in other Farm Credit institutions	12,391	12,391
Premises and equipment, net	8,397	8,734
Due from AgFirst Farm Credit Bank	1,395	6,813
Other assets	9,345	8,785
Total assets	$ 887,683	$ 904,559
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 728,468	$ 745,813
Accrued interest payable	3,044	3,649
Patronage refund payable	262	7,318
Other liabilities	18,996	20,597
Total liabilities	750,770	777,377
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	17,123	12,092
Retained earnings		
Allocated	56,644	56,644
Unallocated	63,146	58,446
Total members' equity	136,913	127,182
Total liabilities and members' equity	$ 887,683	$ 904,559

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

AgCarolina Financial, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2008	2007
Interest Income		
Loans	$ 14,213	$ 13,961
Other	889	841
Total interest income	15,102	14,802
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	9,694	9,769
Net interest income	5,408	5,033
Provision for (reversal of allowance for) loan losses	—	—
Net interest income after provision for (reversal of allowance for) loan losses	5,408	5,033
Noninterest Income		
Loan fees	1,447	1,032
Fees for financially related services	173	211
Equity in earnings of other Farm Credit institutions	1,395	1,283
Gains (losses) on sale of rural home loans, net	7	1
Other noninterest income	103	37
Total noninterest income	3,125	2,564
Noninterest Expense		
Salaries and employee benefits	2,281	2,103
Occupancy and equipment	288	263
Insurance Fund premium	284	262
Other operating expenses	853	642
Total noninterest expense	3,706	3,270
Income before income taxes	4,827	4,327
Provision (benefit) for income taxes	—	—
Net income	$ 4,827	$ 4,327

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

AgCarolina Financial, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings: Allocated	Retained Earnings: Unallocated	Total Members' Equity
Balance at December 31, 2006	$ 2,981	$ 51,993	$ 53,816	$ 108,790
Net income			4,327	4,327
Capital stock/participation certificates issued/retired, net	4,177			4,177
Dividends declared/paid	23		(23)	–
Retained earnings retired		(1)		(1)
Patronage distribution adjustment		176	(294)	(118)
Balance at March 31, 2007	$ 7,181	$ 52,168	$ 57,826	$ 117,175
Balance at December 31, 2007	$ 12,092	$ 56,644	$ 58,446	$ 127,182
Net income			4,827	4,827
Capital stock/participation certificates issued/retired, net	4,905			4,905
Dividends declared/paid	126		(126)	–
Patronage distribution adjustment		–	(1)	(1)
Balance at March 31, 2008	$ 17,123	$ 56,644	$ 63,146	$ 136,913

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

The accompanying financial statements include the accounts of AgCarolina Financial, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2007, are contained in the 2007 Annual Report to Shareholders. These unaudited first quarter 2008 consolidated financial statements should be read in conjunction with the 2007 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 (GAAP) and prevailing practices within the banking industry. The results for the three months ended March 31, 2008, are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's 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 GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2008, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In December 2007, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141R, "Business Combinations." SFAS No. 141R requires business combinations to be accounted for under the acquisition method of accounting (previously called the purchase method). The acquisition method requires (a) identifying the acquirer, (b) determining the acquisition date, (c) recognizing and measuring the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, at their acquisition date fair values, and (d) recognizing and measuring goodwill or a gain from a bargain purchase. SFAS No. 141R should be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Association is still evaluating the provisions of the Standard, but believes that its adoption will significantly impact its accounting for acquisitions that may occur in 2009 and beyond.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the three months ended March 31,	
	2008	**2007**
Balance at beginning of period	$ 6,877	$11,046
Provision for (reversal of) loan losses	–	–
Loans (charged off), net of recoveries	3	4
Balance at end of period	$ 6,880	$11,050

NOTE 3 — EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the Association:

	For the three months ended March 31,	
	2008	**2007**
Pension	$ 112	$ 177
401(k)	105	98
Other postretirement benefits	100	107
Total	$ 317	$ 382

The following is a table of retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 3/31/08	**Projected Contributions For Remainder of 2008**	**Projected Total Contributions 2008**
Pension	$ –	$ –	$ –
Other postretirement benefits	76	264	340
Total	$ 76	$ 264	$ 340

Market conditions could impact discount rates and return on plan assets which could change the above contribution projections by making additional contributions necessary before the next plan measurement date.