

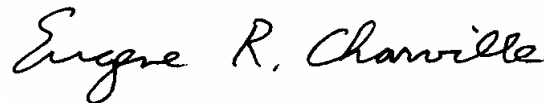
THIRD QUARTER 2008

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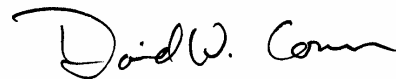
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CERTIFICATION

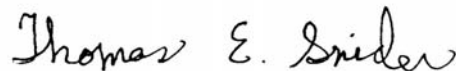
The undersigned certify that we have reviewed the September 30, 2008 quarterly report of AgCarolina Financial, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Eugene R. Charville
Chief Executive Officer



David W. Corum
Chief Financial Officer



Thomas E. Snider
Chairman of Board Audit Committee

November 11, 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 (Association) for the nine months ended September 30, 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 \$442,292, or 49 percent, of the loan portfolio as of September 30, 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 September 30, 2008, was \$892,628, an increase of \$114,303 or 14.69 percent as compared to \$778,325 at December 31, 2007. Net loans accounted for 88.04 percent of total assets at September 30, 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 \$8,538 at September 30, 2008, for an increase of 284.59 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. During the quarter the Association recognized net loan losses of \$767 and subsequently increased the allowance for loan losses by \$750 through a provision for loan losses. The allowance for loan losses at September 30, 2008 was \$6,866 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 September 30, 2008 was 0.76 percent.

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 September 30, 2008 the Association held tobacco buyout SIIC of \$65,572, a decrease of \$367, or 0.55%, as compared to \$66,939 as of December 31, 2007.

RESULTS OF OPERATIONS

For the three months ended September 30, 2008

Net income for the three months ended September 30, 2008 totaled \$4,465, a decrease of \$636, or 1.25 percent, as compared to the same period of 2007. The primary reason for the decrease in net income is due to an increase in the provision for loan losses of \$750 over the same period. At September 30, 2008, total interest income decreased by \$2,412 compared to September 30, 2007. The decrease in interest income is due to the general decrease in interest rates as compared to the same period in 2007.

Interest income from nonaccrual loans was \$33 for the three months ended September 30, 2008, a decrease of \$84 from the same period of 2007. Interest expense decreased \$2,389 for the three months ended September 30, 2008, as compared to the comparable period of 2007. The decrease in interest expense is primarily attributed to the general decline in interest rates.

Noninterest income for the three months ended September 30, 2008 totaled \$2,781 as compared to \$2,507 for the same period of 2007, an increase of \$274. The increase is primarily due to an increase in equity in earnings of other Farm Credit institutions.

Noninterest expense for the three months ended September 30, 2008 was \$3,395, an increase of \$139 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 \$2,076 for the three months ended September 30, 2008, for a decrease of \$1, or 0.05 percent, as compared to the same period of 2007.

For the nine months ended September 30, 2008

Net income for the nine months ended September 30, 2008 totaled \$13,925, an increase of \$10, or 0.07 percent, as compared to the same period of 2007. The primary reason for

the increase in net income is due to an increase in noninterest income. At September 30, 2008, total interest income decreased by \$3,850 compared to the same period in 2007. The decrease in interest income is due to the general decrease in market interest rates as compared to the same period in 2007.

Interest income from nonaccrual loans was \$136 as of September 30, 2008, a decrease of \$203 from the same period of 2007. Interest expense decreased \$4,177 for the first nine months in 2008, as compared to the comparable period of 2007. The decrease in interest expense is primarily attributed to the decrease in interest rates.

Noninterest income for the nine months ended September 30, 2008 totaled \$8,401 as compared to \$7,338 for the same period of 2007, an increase of \$1,063. The increase is primarily due to increases in loan fees and equity in earnings of other Farm Credit institutions.

Noninterest expense for the nine months ended September 30, 2008 was \$10,552, an increase of \$630 as compared to the same period of 2007. The major component of noninterest expense is salaries and employee benefits. Salaries and employee benefits totaled \$6,624 for the nine months ended September 30, 2008, for an increase of \$188, or 2.92 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 AgFirst Farm Credit Bank (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 September 30, 2008 was \$856,685 as compared to \$745,813 at December 31, 2007. The 14.87 percent increase during the period is primarily attributed to seasonal lending.

The Association has no lines of credit outstanding with third parties as of September 30, 2008.

CAPITAL RESOURCES

Total members' equity at September 30, 2008, increased 12.49 percent to \$143,064 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 \$14,347 on September 30, 2008, as compared to \$12,092 on December 31, 2007. The increase in capital stock resulted primarily from an increase in preferred stock. As of September 30, 2008 the Association had \$11,318 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 September 30, 2008, the Association's total surplus ratio and core surplus ratio were 12.38 percent and 11.83 percent, respectively, and the permanent capital ratio was 13.97 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 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. O. 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

<i>(dollars in thousands)</i>	September 30, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
Assets		
Cash	\$ 1,294	\$ 2,675
Loans	899,494	785,202
Less: allowance for loan losses	6,866	6,877
Net loans	892,628	778,325
Other investments	66,572	66,939
Accrued interest receivable	19,080	19,897
Investment in other Farm Credit institutions	12,391	12,391
Premises and equipment, net	8,274	8,734
Other property owned	290	—
Due from AgFirst Farm Credit Bank	4,639	6,813
Other assets	8,720	8,785
Total assets	\$ 1,013,888	\$ 904,559
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 856,685	\$ 745,813
Accrued interest payable	3,133	3,649
Patronage refund payable	90	7,318
Other liabilities	10,916	20,597
Total liabilities	870,824	777,377
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	14,347	12,092
Retained earnings		
Allocated	56,670	56,644
Unallocated	72,047	58,446
Total members' equity	143,064	127,182
Total liabilities and members' equity	\$ 1,013,888	\$ 904,559

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

AgCarolina Financial, 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,	
	2008	2007	2008	2007
Interest Income				
Loans	\$ 14,398	\$ 16,775	\$ 42,179	\$ 46,092
Other	921	956	2,756	2,693
Total interest income	15,319	17,731	44,935	48,785
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	9,498	11,887	28,115	32,292
Net interest income	5,821	5,844	16,820	16,493
Provision for (reversal of allowance for) loan losses	750	—	750	—
Net interest income after provision for (reversal of allowance for) loan losses	5,071	5,844	16,070	16,493
Noninterest Income				
Loan fees	612	520	2,949	2,301
Fees for financially related services	489	370	724	639
Equity in earnings of other Farm Credit institutions	1,714	1,589	4,639	4,276
Gains (losses) on sale of rural home loans, net	6	(3)	30	(7)
Other noninterest income	(40)	31	59	129
Total noninterest income	2,781	2,507	8,401	7,338
Noninterest Expense				
Salaries and employee benefits	2,076	2,077	6,624	6,436
Occupancy and equipment	257	265	798	782
Insurance Fund premium	299	306	892	850
Other operating expenses	763	608	2,238	1,854
Total noninterest expense	3,395	3,256	10,552	9,922
Income before income taxes	4,457	5,095	13,919	13,909
Provision (benefit) for income taxes	(8)	(6)	(6)	(6)
Net income	\$ 4,465	\$ 5,101	\$ 13,925	\$ 13,915

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		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2006	\$ 2,981	\$ 51,993	\$ 53,816	\$ 108,790
Net income			13,915	13,915
Capital stock/participation certificates issued/(retired), net	9,827			9,827
Dividends declared/paid	200		(200)	–
Retained earnings retired		(1)		(1)
Patronage distribution adjustment		176	(295)	(119)
Balance at September 30, 2007	\$ 13,008	\$ 52,168	\$ 67,236	\$ 132,412
Balance at December 31, 2007	\$ 12,092	\$ 56,644	\$ 58,446	\$ 127,182
Net income			13,925	13,925
Capital stock/participation certificates issued/(retired), net	1,975			1,975
Dividends declared/paid	280		(280)	–
Patronage distribution adjustment		26	(44)	(18)
Balance at September 30, 2008	\$ 14,347	\$ 56,670	\$ 72,047	\$ 143,064

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 third 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 nine months ended September 30, 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 September 30, 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 141R). SFAS 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 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 SFAS 141R, but believes that its adoption will significantly impact its accounting for combinations/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 nine months ended September 30,	
	2008	2007
Balance at beginning of period	\$ 6,877	\$11,046
Provision for (reversal of) loan losses	750	-
Loans (charged off), net of recoveries	(761)	15
Balance at end of period	<u>\$ 6,866</u>	<u>\$11,063</u>

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the nine months ended June 30,	
	2008	2007
Pension	\$ 336	\$ 530
401(k)	270	254
Other postretirement benefits	300	322
Total	<u>\$ 906</u>	<u>\$1,106</u>

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

	Actual YTD Through 9/30/08	Projected Contributions For Remainder of 2008	Projected Total Contributions 2008
Pension	\$ -	\$ -	\$ -
Other postretirement benefits	233	107	340
Total	<u>\$ 233</u>	<u>\$ 107</u>	<u>\$ 340</u>

As of September 30, 2008, no contributions have been made to the pension plan for 2008. Actuarial projections as of the last plan measurement date (September 30, 2007) did not anticipate any contributions for 2008. However, a new funding policy adopted during 2008 and a declining investment market, which has impacted the discount rate and the return on plan assets, will require an additional contribution to be made prior to the next plan measurement date at December 31, 2008. The contribution amount will be determined by the plan's Sponsor Committee.