

FIRST QUARTER 2009

TABLE OF CONTENTS


Report On Internal Control Over Financial Reporting.....	2
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	3
Consolidated Financial Statements	
Consolidated Balance Sheets.....	5
Consolidated Statements of Income.....	6
Consolidated Statements of Changes in Members' Equity.....	7
Notes to the Consolidated Financial Statements.....	8

CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2009 quarterly report of Cape Fear Farm Credit, 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.



Richard A. Eason
Chief Executive Officer



Matthew J. Currin
Chief Financial Officer



Ronald J. Allen
Chairman of the Board

May 4, 2009

Cape Fear Farm Credit, ACA

Report on Internal Control Over Financial Reporting


The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2009. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of March 31, 2009 the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2009.



Richard A. Eason
Chief Executive Officer



Matthew J. Currin
Chief Financial officer

May 4, 2009

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 Cape Fear Farm Credit ACA, (Association) for the period ended March 31, 2009. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2008 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

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 tobacco, swine, poultry, and row-crop operations. 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, lessens the level of dependency on any single given commodity. Concentration risk is further mitigated by a substantial portfolio of participation loans purchased or originated and sold.

The gross loan volume of the Association as of March 31, 2009 was \$761,058, a decrease of \$1,443 as compared to \$762,501 at December 31, 2008. Net loans outstanding at March 31, 2009, were \$754,119 as compared to \$756,515 at December 31, 2008. Net loans accounted for 93.21 percent of total assets at March 31, 2009, as compared to 91.72 percent of total assets at December 31, 2008.

The decrease in gross and net loan volume during the reporting period is attributed to a general decrease in lending activity including seasonal lending and pay downs from assignments on contract grower loans. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak 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 increased from \$11,980 at December 31, 2008 to \$13,830 at March 31, 2009. This increase is due to the transfer of one large loan into nonaccrual in the first quarter.

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, 2009 was \$6,939, an increase of \$954 from the December 31, 2008 amount of \$5,986. The allowance was increased to keep pace with continued growth in loan volume and deterioration in credit quality was also increased due to provide appropriate reserves on one large loan. This allowance was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2009

Net income for the three months ended March 31, 2009 totaled \$3,912 as compared to \$6,320 for the same period in 2008. The decrease of \$2,408 or 38.10 percent is attributed to a decrease in net interest income and non interest income coupled with an increase in total noninterest expense.

Net interest income for the three months ended March 31, 2009 decreased \$519 or 8.72 percent compared to March 31, 2008. Interest income on loans decreased by \$2,206 and interest income from other sources decreased by \$13, while interest expense decreased \$1,768 compared to the same period last year. The decrease in net interest income was a result of decrease in earnings on our free cash in 2009 as well as decreased earnings from nonaccrual loans. Nonaccrual income was \$86 for the three months ended March 31, 2009, as compared to \$125 for the same period in 2008. This entire amount of nonaccrual income for the quarter was due to the liquidation of several small nonaccrual loans.

Noninterest income for the three months ended March 31, 2009 totaled \$2,555 as compared to \$2,971 for the same period of 2008, a decrease of \$429. The decrease resulted from a decrease of \$549 in Operating Income Fees and a decrease in fees for financially related services of \$2. These decreases were offset by increases of \$67 in other noninterest income, \$59 in equity earnings in other Farm Credit Institutions and \$9 in Gains/Losses for other property owned.

Noninterest expense for the three months ended March 31, 2009 increased \$467 compared to the same period of 2008. This increase resulted from increases of \$465 in salaries and benefits, \$45 in the Insurance Fund premium and \$12 in occupancy and equipment. These increases were offset by a decrease in other operating expenses of \$55.

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, 2009, were \$682,235 as compared to \$695,160 at December 31, 2008.

CAPITAL RESOURCES

Total members' equity at March 31, 2009 decreased to \$257 from the December 31, 2008 total of \$105,974. The decrease is primarily due to a reduction in net income due to items mentioned above as well as the retirement of surplus allocated in the first quarter of 2009.

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, 2009, the Association's total surplus ratio and core surplus ratio were 11.86 percent and 11.77 percent, respectively, and the permanent capital ratio was 12.20 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 1-800-368-5819 ext. 3243, writing Matthew J. Currin, Cape Fear Farm Credit, P. O. Box 2405, Fayetteville, NC 28302, or accessing the website, www.capefearfarmcredit.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.

Cape Fear Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2009 <i>(unaudited)</i>	December 31, 2008 <i>(audited)</i>
Assets		
Cash	\$ 1,332	\$ 1,819
Loans	761,058	762,501
Less: allowance for loan losses	6,939	5,986
Net loans	754,119	756,515
Loans held for sale		
Other investments	23,678	28,847
Accrued interest receivable	7,474	9,826
Investment in other Farm Credit institutions	11,682	11,682
Premises and equipment, net	3,345	3,453
Other property owned	268	313
Due from AgFirst Farm Credit Bank	1,628	6,482
Other assets	5,537	5,832
Total assets	<u>\$ 809,063</u>	<u>\$ 824,769</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 682,235	\$ 695,160
Accrued interest payable	2,175	2,524
Patronage refund payable	952	11,400
Other liabilities	17,984	9,711
Total liabilities	<u>703,346</u>	<u>718,795</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	59	73
Capital stock and participation certificates	2,632	2,634
Retained earnings		
Allocated	13,444	17,699
Unallocated	89,903	85,891
Accumulated other comprehensive income (loss)	(321)	(323)
Total members' equity	<u>105,717</u>	<u>105,974</u>
Total liabilities and members' equity	<u>\$ 809,063</u>	<u>\$ 824,769</u>

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

Cape Fear Farm Credit, ACA
Consolidated Statements of Income

(unaudited)

For the three months
 ended March 31,

(dollars in thousands)

	2009	2008
Interest Income		
Loans	\$ 11,706	\$ 13,952
Other	354	395
Total interest income	12,060	14,347
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	6,628	8,396
Net interest income	5,432	5,951
Provision for (reversal of allowance for) loan losses	1,006	—
Net interest income after provision for (reversal of allowance for) loan losses	4,426	5,951
Noninterest Income		
Loan fees	821	1,370
Fees for financially related services	55	57
Equity in earnings of other Farm Credit institutions	1,620	1,561
Gains (losses) on other property owned, net	7	(2)
Other noninterest income	52	(15)
Total noninterest income	2,555	2,971
Noninterest Expense		
Salaries and employee benefits	1,977	1,512
Occupancy and equipment	210	198
Insurance Fund premium	304	259
Other operating expenses	578	633
Total noninterest expense	3,069	2,602
Income before income taxes	3,912	6,320
Provision (benefit) for income taxes	—	—
Net income	\$ 3,912	\$ 6,320

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

Cape Fear Farm Credit, ACA
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

<i>(dollars in thousands)</i>	Protected Borrower Capital	Capital Stock and Participation	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2007	\$ 124	\$ 2,542	\$ 16,631	\$ 83,542	\$ (337)	\$ 102,502
Comprehensive income						
Net income				6,320		6,320
Employee benefit plans adjustments				(9)	4	(5)
Total comprehensive income						6,315
Protected borrower equity retired	(36)					(36)
Capital stock/participation certificates issued/(retired), net		29				29
Retained earnings retired			(5,650)			(5,650)
Patronage distribution adjustment			383	(317)		66
Balance at March 31, 2008	\$ 88	\$ 2,571	\$ 11,364	\$ 89,536	\$ (333)	\$ 103,226
Balance at December 31, 2008	\$ 73	\$ 2,634	\$ 17,699	\$ 85,891	\$ (323)	\$ 105,974
Comprehensive income						
Net income				3,912		3,912
Employee benefit plans adjustments					2	2
Total comprehensive income						3,914
Protected borrower equity retired	(14)					(14)
Capital stock/participation certificates issued/(retired), net		(2)				(2)
Retained earnings retired			(4,234)			(4,234)
Patronage distribution adjustment			(21)	100		79
Balance at March 31, 2009	\$ 59	\$ 2,632	\$ 13,444	\$ 89,903	\$ (321)	\$ 105,717

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

