

THIRD QUARTER 2008

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2008 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

November 3, 2008

Cape Fear Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
Assets		
Cash	\$ 2,582	\$ 2,102
Loans	772,164	703,680
Less: allowance for loan losses	4,584	3,993
Net loans	767,580	699,687
Other investments	28,173	29,430
Accrued interest receivable	11,969	12,057
Investment in other Farm Credit institutions	10,259	10,259
Premises and equipment, net	3,557	3,490
Other property owned	182	95
Due from AgFirst Farm Credit Bank	4,842	6,799
Other assets	5,027	5,308
Total assets	<u>\$ 834,171</u>	<u>\$ 769,227</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 708,467	\$ 641,059
Accrued interest payable	2,683	3,084
Patronage refund payable	103	11,579
Other liabilities	9,313	11,003
Total liabilities	<u>720,566</u>	<u>666,725</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	81	124
Capital stock and participation certificates	2,643	2,542
Retained earnings		
Allocated	11,367	16,631
Unallocated	99,840	83,542
Accumulated other comprehensive income (loss)	(326)	(337)
Total members' equity	<u>113,605</u>	<u>102,502</u>
Total liabilities and members' equity	<u>\$ 834,171</u>	<u>\$ 769,227</u>

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

Cape Fear 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,	
	2008	2007	2008	2007
Interest Income				
Loans	\$ 14,039	\$ 14,982	\$ 41,576	\$ 42,255
Other	409	418	1,221	1,207
Total interest income	14,448	15,400	42,797	43,462
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	8,247	9,643	24,703	26,868
Net interest income	6,201	5,757	18,094	16,594
Provision for (reversal of allowance for) loan losses	230	285	615	537
Net interest income after provision for (reversal of allowance for) loan losses	5,971	5,472	17,479	16,057
Noninterest Income				
Loan fees	558	638	2,638	2,217
Fees for financially related services	60	53	159	148
Equity in earnings of other Farm Credit institutions	1,634	1,449	4,855	4,228
Gains (losses) on other property owned, net	(10)	1	(11)	4
Other noninterest income	(12)	5	55	105
Total noninterest income	2,230	2,146	7,696	6,702
Noninterest Expense				
Salaries and employee benefits	1,642	1,794	5,302	5,469
Occupancy and equipment	270	247	662	603
Insurance Fund premium	248	256	779	726
Other operating expenses	543	480	1,758	1,506
Total noninterest expense	2,703	2,777	8,501	8,304
Income before income taxes	5,498	4,841	16,674	14,455
Provision (benefit) for income taxes	39	—	39	—
Net income	\$ 5,459	\$ 4,841	\$ 16,635	\$ 14,455

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

Cape Fear 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, 2006	\$ 204	\$ 2,333	\$ 15,881	\$ 81,145	\$ (358)	\$ 99,205
Net income				14,455		14,455
Protected borrower equity retired Capital stock/participation	(72)					(72)
certificates issued/(retired), net		188				188
Retained earnings retired			(5,991)			(5,991)
Patronage distribution adjustment			—	8		8
Balance at September 30, 2007	\$ 132	\$ 2,521	\$ 9,890	\$ 95,608	\$ (358)	\$ 107,793
Balance at December 31, 2007	\$ 124	\$ 2,542	\$ 16,631	\$ 83,542	\$ (337)	\$ 102,502
Net income				16,635		16,635
Protected borrower equity retired Capital stock/participation	(43)					(43)
certificates issued/(retired), net		101				101
Retained earnings retired			(5,651)			(5,651)
Patronage distribution adjustment			387	(328)		59
Employee benefit plans adjustments				(9)	11	2
Balance at September 30, 2008	\$ 81	\$ 2,643	\$ 11,367	\$ 99,840	\$ (326)	\$ 113,605

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

Cape Fear Farm Credit, ACA

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 Cape Fear Farm Credit, 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	\$ 3,993	\$ 3,607
Provision for (reversal of) loan losses	615	537
Loans (charged off), net of recoveries	(24)	19
Balance at end of period	<u>\$ 4,584</u>	<u>\$ 4,163</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 September 30,	
	2008	2007
Pension	\$ 290	\$ 437
401(k)	136	137
Other postretirement benefits	255	290
Total	<u>\$ 681</u>	<u>\$ 864</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	\$ 21	\$ 7	\$ 28
Other postretirement benefits	183	49	232
Total	<u>\$ 204</u>	<u>\$ 56</u>	<u>\$ 260</u>

As of September 30, 2008, contributions of \$21 have been made to the pension plan for 2008. Actuarial projections as of the last plan measurement date (September 30, 2007) anticipated total contributions of \$28 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 additional contribution amount will be determined by the plan's Sponsor Committee.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158)*, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007 by the Association.

SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Association allows for the use of the measurements determined for the prior year end. Under this alternative, pension and other postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 30, 2007 measurement date) is reflected as an adjustment to beginning 2008 unallocated retained earnings. As a result, the Association decreased unallocated retained earnings and increased the pension liability by \$9.

Upon adoption, SFAS 158 further required the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income (AOCI). These amounts are subsequently recognized as components of net periodic benefit costs. For the first nine months of 2008, \$11 has been recognized as a credit to AOCI and a debit to pension expense to reflect the amortization of the components previously recognized in AOCI.

Further details regarding employee benefit plans and adoption of SFAS 158 are contained in the 2007 Annual Report to Shareholders.