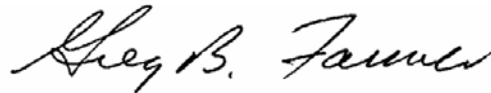


SECOND QUARTER 2008

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Greg B. Farmer
Chief Executive Officer



Terri E. Branch
Chief Financial Officer



Clarke E. Fox
Chairman of the Board

July 25, 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 *Colonial Farm Credit, ACA* (Association) for the period ended June 30, 2008. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2007 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 including livestock operations such as beef cattle, horses, poultry, swine, and dairy farms and various field crops such as soybeans, peanuts, tobacco, cotton, and corn. Other predominant commodities in the portfolio are timber 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, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of June 30, 2008, was \$688,863, an increase of \$49,402, as compared to \$639,461 at December 31, 2007. Net loans outstanding at June 30, 2008, were \$686,091 as compared to \$636,837 at December 31, 2007. Net loans accounted for 96.38 percent of total assets at June 30, 2008, as compared to 95.59 percent of total assets at December 31, 2007. The increase in gross and net loan volume during the reporting period is attributed to the normal seasonal disbursement of farm operating loans and the purchase of several large participation 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 \$857 at December 31, 2007, to \$1,049 at June 30, 2008. This increase is primarily the result of a delinquency on one account.

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 June 30, 2008, was \$2,772 compared to \$2,624 at December 31, 2007, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2008

Net income for the three months ended June 30, 2008, totaled \$3,029, as compared to \$3,262 for the same period in 2007. Net interest income increased \$34 for the three months ended June 30, 2008, as compared to the same period in 2007. Higher volume and spreads are the primary reasons for this increase in net interest income.

Noninterest income for the three months ended June 30, 2008, totaled \$1,437, as compared to \$1,446 for the same period of 2007, a decrease of \$9. The decrease is the result of decreases in other noninterest income of \$47, gains from the sale of rural homes loans of \$41, and fees for financially related services of \$11 offset by an increase in patronage of \$72 and loan fees of \$18. Noninterest expense for the three months ended June 30, 2008, increased \$77 compared to the same period of 2007. This increase is the result of an increase in other operating expenses of \$79, FCSIC insurance premium of \$19, and salaries and benefits of \$3 offset by a decrease in occupancy and equipment of \$24.

For the six months ended June 30, 2008

Net income for the six months ended June 30, 2008, totaled \$6,450, as compared to \$6,666 for the same period in 2007. At June 30, 2008, net interest income increased by \$204 or 2.30 percent compared to June 30, 2007. Interest income on loans decreased by \$639 and interest expense decreased by \$843. This change in net interest income is the result of higher volume and spreads offset by lower return on the Association's free cash investment.

Nonaccrual income was \$32 for the six months ended June 30, 2008, as compared to \$5 for the same period in 2007. The Association recorded a provision for loan losses of \$142 for the six months ended June 30, 2008, and a loan loss allowance reversal of \$107 for the same period in 2007.

Noninterest income for the six months ended June 30, 2008, totaled \$2,832, as compared to \$2,834 for the same period of 2007, a decrease of \$2. The decrease is the result of a decrease in gains from the sale of rural home loans of \$87

and other noninterest income of \$69 offset by an increase in patronage of \$123, loan fees of \$30, and financially related service fees of \$1. Noninterest expense for the six months ended June 30, 2008, decreased \$36 compared to the same period of 2007. The decrease in noninterest expense is attributable to a decrease in salaries and benefits of \$146 and occupancy and equipment of \$35 offset by an increase in other operating expense of \$114 and FCSIC insurance premium of \$31.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (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 Bank advances funds 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 June 30, 2008, was \$577,034 as compared to \$532,003 at December 31, 2007.

CAPITAL RESOURCES

Total members' equity at June 30, 2008, increased to \$124,470 from the December 31, 2007, total of \$118,254. The increase is attributed to current year's earnings less net retirements of member stock.

Total capital stock and participation certificates were \$5,333 on June 30, 2008, compared to \$5,505 on December 31, 2007. This decrease is attributed to the retirement of inactive Class C stock.

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 June 30, 2008, the Association's total surplus ratio and core surplus ratio were 15.60 percent and 15.60 percent, respectively, and the permanent capital ratio was 16.37 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 1-804-746-1252, or writing Terri E. Branch, Executive Vice President and Chief Financial Officer, Colonial Farm Credit, ACA, P.O. Box 727, Mechanicsville, VA 23111, or accessing the website, www.colonialfarmcredit.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.

Colonial Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
Assets		
Cash	\$ 197	\$ 215
Loans	688,863	639,461
Less: allowance for loan losses	2,772	2,624
Net loans	686,091	636,837
Loans held for sale	—	421
Other investments	1,868	2,179
Accrued interest receivable	6,570	6,811
Investment in other Farm Credit institutions	9,003	9,003
Premises and equipment, net	2,266	2,335
Due from AgFirst Farm Credit Bank	2,029	4,629
Other assets	3,819	3,802
Total assets	\$ 711,843	\$ 666,232
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 577,034	\$ 532,003
Accrued interest payable	2,209	2,494
Patronage refund payable	140	7,101
Other liabilities	7,990	6,380
Total liabilities	587,373	547,978
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	5,333	5,505
Retained earnings		
Unallocated	119,250	112,871
Accumulated other comprehensive income (loss)	(113)	(122)
Total members' equity	124,470	118,254
Total liabilities and members' equity	\$ 711,843	\$ 666,232

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

Colonial Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	2008	2007
Interest Income				
Loans	\$ 11,107	\$ 11,789	\$ 22,593	\$ 23,226
Other	29	33	59	65
Total interest income	11,136	11,822	22,652	23,291
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,590	7,310	13,563	14,406
Net interest income	4,546	4,512	9,089	8,885
Provision for (reversal of allowance for) loan losses	142	141	142	(107)
Net interest income after provision for (reversal of allowance for) loan losses	4,404	4,371	8,947	8,992
Noninterest Income				
Loan fees	152	134	334	304
Fees for financially related services	15	26	36	35
Equity in earnings of other Farm Credit institutions	1,040	968	2,029	1,906
Gains (losses) on other property owned, net	4	4	7	7
Gains (losses) on sale of rural home loans, net	172	213	278	365
Other noninterest income	54	101	148	217
Total noninterest income	1,437	1,446	2,832	2,834
Noninterest Expense				
Salaries and employee benefits	1,778	1,775	3,380	3,526
Occupancy and equipment	184	208	352	387
Insurance Fund premium	248	229	485	454
Other operating expenses	572	493	1,057	943
Total noninterest expense	2,782	2,705	5,274	5,310
Income before income taxes	3,059	3,112	6,505	6,516
Provision (benefit) for income taxes	30	(150)	55	(150)
Net income	\$ 3,029	\$ 3,262	\$ 6,450	\$ 6,666

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

Colonial Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	Capital Stock and Participation Certificates	Retained Earning Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2006	\$ 5,728	\$ 106,001	\$ —	\$ 111,729
Net income		6,666		6,666
Capital stock/participation certificates issued/(retired), net	(224)			(224)
Patronage distribution adjustment		(152)		(152)
Balance at June 30, 2007	<u>\$ 5,504</u>	<u>\$ 112,515</u>	<u>\$ —</u>	<u>\$ 118,019</u>
Balance at December 31, 2007	\$ 5,505	\$ 112,871	\$ (122)	\$ 118,254
Net income		6,450		6,450
Capital stock/participation certificates issued/(retired), net	(172)			(172)
Patronage distribution adjustment		(63)		(63)
Employee benefit plans adjustments		(8)	9	1
Balance at June 30, 2008	<u>\$ 5,333</u>	<u>\$ 119,250</u>	<u>\$ (113)</u>	<u>\$ 124,470</u>

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

Colonial 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 Colonial 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 second 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 six months ended June 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 June 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 six months ended June 30,	
	2008	2007
Balance at beginning of period	\$ 2,624	\$ 2,728
Provision for (reversal of) loan losses	142	(107)
Loans (charged off), net of recoveries	6	(70)
Balance at end of period	<u>\$ 2,772</u>	<u>\$ 2,551</u>

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	2008	2007
Pension	\$ 215	\$ 335
401(k)	105	104
Other postretirement benefits	189	217
Total	<u>\$ 509</u>	<u>\$ 656</u>

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

	Actual YTD Through 6/30/08	Projected Contributions For Remainder of 2008	Projected Total Contributions 2008
Pension	\$ -	\$ -	\$ -
Other postretirement benefits	52	107	159
Total	<u>\$ 52</u>	<u>\$ 107</u>	<u>\$ 159</u>

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.

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 \$8 thousand.

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 six months of 2008, \$9 thousand has been recognized as a credit to accumulated other comprehensive income 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.