
Colonial Farm Credit, ACA

FIRST QUARTER 2008

Management's Discussion and Analysis of
Financial Condition and Results of Operations 2

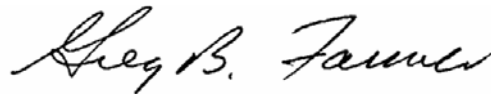
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Greg B. Farmer
Chief Executive Officer



Terri E. Branch
Chief Financial Officer



Clarke E. Fox
Chairman of the Board

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 Colonial Farm Credit, ACA (Association) for the period ended March 31, 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 March 31, 2008, was \$656,877, an increase of \$17,416, as compared to \$639,461 at December 31, 2007. Net loans outstanding at March 31, 2008, were \$654,272 as compared to \$636,837 at December 31, 2007. Net loans accounted for 96.41 percent of total assets at March 31, 2007, 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 decreased from \$857 at December 31, 2007, to \$762 at March 31, 2008. This decrease is primarily the result of payments on four accounts.

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 \$2,605 compared to \$2,624 at December 31, 2007, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2008, totaled \$3,421, as compared to \$3,404 for the same period in 2007. Net interest income increased \$170 for the three months ended March 31, 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 March 31, 2008, totaled \$1,395, as compared to \$1,388 for the same period of 2007, an increase of \$7. The increase is the result of an increase in patronage of \$51, financially related service fees of \$12, and loan fees of \$12 offset by a decrease in gains from the sale of rural home loans of \$46 and other noninterest income of \$22. Noninterest expense for the three months ended March 31, 2008, decreased \$113 compared to the same period of 2007. This decrease is the result of a decrease in salaries and benefits of \$149 and occupancy and equipment of \$11 offset by an increase in other operating expenses of \$35 and FCSIC insurance premium of \$12.

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 March 31, 2008, was \$542,209 as compared to \$532,003 at December 31, 2007.

CAPITAL RESOURCES

Total members' equity at March 31, 2008, increased to \$121,423 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 \$5,320 on March 31, 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 March 31, 2008, the Association's total surplus ratio and core surplus ratio were 15.93 percent and 15.88 percent, respectively, and the permanent capital ratio was 16.75 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, "Organization and Significant Accounting Policies," in the Notes to the Financial Statements, and the 2007 Annual Report of the Association for recently issued accounting pronouncements.

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>	March 31, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
Assets		
Cash	\$ 214	\$ 215
Loans	656,877	639,461
Less: allowance for loan losses	2,605	2,624
Net loans	654,272	636,837
Loans held for sale	—	421
Other investments	1,838	2,179
Accrued interest receivable	6,146	6,811
Investment in other Farm Credit institutions	9,003	9,003
Premises and equipment, net	2,293	2,335
Due from AgFirst Farm Credit Bank	988	4,629
Other assets	3,848	3,802
Total assets	<u>\$ 678,602</u>	<u>\$ 666,232</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 542,209	\$ 532,003
Accrued interest payable	2,245	2,494
Patronage refund payable	525	7,101
Other liabilities	12,200	6,380
Total liabilities	<u>557,179</u>	<u>547,978</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	5,320	5,505
Retained earnings		
Unallocated	116,220	112,871
Accumulated other comprehensive income (loss)	(117)	(122)
Total members' equity	<u>121,423</u>	<u>118,254</u>
Total liabilities and members' equity	<u>\$ 678,602</u>	<u>\$ 666,232</u>

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

Colonial Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

**For the three months
ended March 31,**

(dollars in thousands)

	2008	2007
Interest Income		
Loans	\$ 11,486	\$ 11,437
Other	30	32
Total interest income	11,516	11,469
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	6,973	7,096
Net interest income	4,543	4,373
Provision for (reversal of allowance for) loan losses	—	(248)
Net interest income after provision for (reversal of allowance for) loan losses	4,543	4,621
Noninterest Income		
Loan fees	182	170
Fees for financially related services	21	9
Equity in earnings of other Farm Credit institutions	989	938
Gains (losses) on other property owned, net	3	3
Gains (losses) on sale of rural home loans, net	106	152
Other noninterest income	94	116
Total noninterest income	1,395	1,388
Noninterest Expense		
Salaries and employee benefits	1,602	1,751
Occupancy and equipment	168	179
Insurance Fund premium	237	225
Other operating expenses	485	450
Total noninterest expense	2,492	2,605
Income before income taxes	3,446	3,404
Provision (benefit) for income taxes	25	—
Net income	\$ 3,421	\$ 3,404

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 Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2006	\$ 5,728	\$ 106,001	\$ —	\$ 111,729
Net income		3,404		3,404
Capital stock/participation certificates issued/retired, net	(255)			(255)
Patronage distribution adjustment		(148)		(148)
Balance at March 31, 2007	<u>\$ 5,473</u>	<u>\$ 109,257</u>	<u>\$ —</u>	<u>\$ 114,730</u>
Balance at December 31, 2007	\$ 5,505	\$ 112,871	\$ (122)	\$ 118,254
Net income		3,421		3,421
Capital stock/participation certificates issued/retired, net	(185)			(185)
Patronage distribution adjustment		(64)		(64)
Employee benefit plans adjustments		(8)	5	(3)
Balance at March 31, 2008	<u>\$ 5,320</u>	<u>\$ 116,220</u>	<u>\$ (117)</u>	<u>\$ 121,423</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 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	\$ 2,624	\$ 2,728
Provision for (reversal of) loan losses	–	(248)
Loans (charged off), net of recoveries	(19)	(76)
Balance at end of period	<u>\$ 2,605</u>	<u>\$ 2,404</u>

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	\$ 108	\$ 165
401(k)	59	61
Other postretirement benefits	94	109
Total	<u>\$ 261</u>	<u>\$ 335</u>

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	34	159	193
Total	<u>\$ 34</u>	<u>\$ 159</u>	<u>\$ 193</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 for 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 2007 measurement date) was debited to beginning 2008 unallocated retained earnings. As a result, the Association decreased unallocated retained earnings and increased the pension or other postretirement benefit liability by \$8.

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. These amounts are subsequently recognized as components of net periodic benefit costs. \$5 has been recognized for the first three months of 2008 as a credit to accumulated other comprehensive income and a debit to pension or other postretirement benefit expense.

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