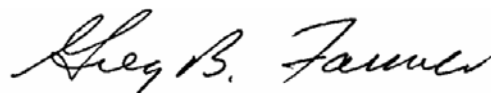


SECOND QUARTER 2007

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Greg B. Farmer
Chief Executive Officer



Clarke E. Fox
Chairman of the Board

July 27, 2007

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, 2007. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2006 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, 2007, was \$629,712, an increase of \$15,030, as compared to \$614,682 at December 31, 2006. Net loans outstanding at June 30, 2007, were \$627,161 as compared to \$611,954 at December 31, 2006. Net loans accounted for 95.86 percent of total assets at June 30, 2007, as compared to 95.21 percent of total assets at December 31, 2006. The increase in gross and net loan volume during the reporting period is attributed primarily to the normal seasonal disbursement of farm 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 \$1,191 at December 31, 2006, to \$1,575 at June 30, 2007. This increase is primarily the result of delinquencies on five 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 June 30, 2007, was \$2,551 compared to \$2,728 at December 31, 2006, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2007

Net income for the three months ended June 30, 2007, totaled \$3,262, as compared to \$2,550 for the same period in 2006. Net interest income increased \$236 for the three months ended June 30, 2007, as compared to the same period in 2006. Higher volume and a higher return on the Association's free cash investment are the primary reasons for this increase in net interest income.

Noninterest income for the three months ended June 30, 2007, totaled \$1,446, as compared to \$1,325 for the same period of 2006, an increase of \$121. The increase is the result of an increase in other noninterest income of \$62, patronage of \$45, gains from the sale of rural home loans of \$41, and financially related service fees of \$9 offset by a decrease in loan fees of \$36. Noninterest expense for the three months ended June 30, 2007, decreased \$116 compared to the same period of 2006. This decrease is the result of a decrease in other operating expenses of \$111 and occupancy and equipment of \$27 offset by an increase in salaries and benefits of \$11 and FCSIC insurance premium of \$11.

For the six months ended June 30, 2007

Net income for the six months ended June 30, 2007, totaled \$6,666, as compared to \$5,605 for the same period in 2006. At June 30, 2007, net interest income increased by \$528 or 6.32 percent compared to June 30, 2006. Interest income on loans increased by \$2,394 and interest expense increased by \$1,866. This change in net interest income is the result of higher volume and a higher return on the Association's free cash investment.

Nonaccrual income was \$5 for the six months ended June 30, 2007, as compared to \$76 for the same period in 2006. The Association recorded a loan loss reversal of \$107 for the six months ended June 30, 2007, and a provision for loan losses of \$3 for the same period in 2006.

Noninterest income for the six months ended June 30, 2007, totaled \$2,834, as compared to \$2,633 for the same period of 2006, an increase of \$201. The increase is the result of an increase in patronage of \$116, other noninterest income of \$72, gains from the sale of rural home loans of \$11, and financially related service fees of \$6 offset by a decrease in loan fees of \$4. Noninterest expense for the six months ended June 30, 2007, decreased \$72 compared to the same period of 2006. The decrease in noninterest expense is attributable to a decrease in other operating expense of \$134 offset by an increase in salaries and benefits of \$28, FCSIC insurance premium of \$27, and occupancy and equipment of \$7.

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, 2007, was \$525,906 as compared to \$514,861 at December 31, 2006.

CAPITAL RESOURCES

Total members' equity at June 30, 2007, increased to \$118,019 from the December 31, 2006, total of \$111,729. The increase is attributed to current year's earnings less net retirements of member stock.

Total capital stock and participation certificates were \$5,504 on June 30, 2007, compared to \$5,728 on December 31, 2006. 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, 2007, the Association's total surplus ratio and core surplus ratio were 15.69 percent and 15.69 percent, respectively, and the permanent capital ratio was 16.54 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.

ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

On September 29, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (FAS 158). FAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize through comprehensive income changes in that funded status in the year in which the changes occur. FAS 158 also provides guidance relating to the discount rate, which may require the Bank and its related associations to adjust its basis for selecting the discount rate for its pension and non-pension postretirement benefit plans. The Bank and its related associations will be required to implement FAS 158 for the year ended December 31, 2007. In addition, FAS 158 requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Bank and its related associations use a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Bank and its related associations are currently evaluating the impact of implementing FAS 158.

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. 316, or writing Wanda Martin, 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 45 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, 2007 <i>(unaudited)</i>	December 31, 2006 <i>(audited)</i>
Assets		
Cash	\$ 218	\$ 208
Loans	629,712	614,682
Less: allowance for loan losses	2,551	2,728
Net loans	627,161	611,954
Other investments, held to maturity	2,110	1,990
Accrued interest receivable	7,102	6,742
Investment in other Farm Credit institutions	8,491	8,491
Premises and equipment, net	2,415	2,531
Prepaid retirement expense	3,353	3,683
Due from AgFirst Farm Credit Bank	1,906	4,481
Other assets	1,487	2,683
Total assets	<u>\$ 654,243</u>	<u>\$ 642,763</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 525,906	\$ 514,861
Accrued interest payable	2,443	2,389
Patronage refund payable	157	6,459
Other liabilities	7,718	7,325
Total liabilities	<u>536,224</u>	<u>531,034</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	5,504	5,728
Retained earnings		
Unallocated	112,515	106,001
Total members' equity	<u>118,019</u>	<u>111,729</u>
Total liabilities and members' equity	<u>\$ 654,243</u>	<u>\$ 642,763</u>

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,	
	2007	2006	2007	2006
Interest Income				
Loans	\$ 11,789	\$ 10,814	\$ 23,226	\$ 20,872
Other	33	16	65	25
Total interest income	11,822	10,830	23,291	20,897
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	7,310	6,554	14,406	12,540
Net interest income	4,512	4,276	8,885	8,357
Provision for (reversal of allowance for) loan losses	141	230	(107)	3
Net interest income after provision for (reversal of allowance for) loan losses	4,371	4,046	8,992	8,354
Noninterest Income				
Loan fees	134	170	304	308
Fees for financially related services	26	17	35	29
Equity in earnings of other Farm Credit institutions	968	923	1,906	1,790
Gains (losses) on other property owned, net	4	4	7	7
Gains (losses) on sale of rural home loans	213	172	365	354
Other noninterest income	101	39	217	145
Total noninterest income	1,446	1,325	2,834	2,633
Noninterest Expense				
Salaries and employee benefits	1,775	1,764	3,526	3,498
Occupancy and equipment	208	235	387	380
Insurance Fund premium	229	218	454	427
Other operating expenses	493	604	943	1,077
Total noninterest expense	2,705	2,821	5,310	5,382
Income before income taxes	3,112	2,550	6,516	5,605
Provision (benefit) for income taxes	(150)	—	(150)	—
Net income	\$ 3,262	\$ 2,550	\$ 6,666	\$ 5,605

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		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2005	\$ 6,921	\$ 3,135	\$ 98,491	\$ 108,547
Net income			5,605	5,605
Capital stock/participation certificates issued	264			264
Capital stock/participation certificates retired	(1,458)			(1,458)
Patronage distribution				
Cash			(2,879)	(2,879)
Retained earnings retired		(223)		(223)
Distribution adjustment		—	(64)	(64)
Balance at June 30, 2006	<u>\$ 5,727</u>	<u>\$ 2,912</u>	<u>\$ 101,153</u>	<u>\$ 109,792</u>
Balance at December 31, 2006	\$ 5,728	\$ —	\$ 106,001	\$ 111,729
Net income			6,666	6,666
Capital stock/participation certificates issued	248			248
Capital stock/participation certificates retired	(472)			(472)
Distribution adjustment		—	(152)	(152)
Balance at June 30, 2007	<u>\$ 5,504</u>	<u>\$ —</u>	<u>\$ 112,515</u>	<u>\$ 118,019</u>

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

A description of the organization and operations of Colonial Farm Credit, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2006, are contained in the 2006 Annual Report to Shareholders. These unaudited second quarter 2007 consolidated financial statements should be read in conjunction with the 2006 Annual Report to Shareholders.

On September 29, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Association will be required to implement the Standard for the year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Association uses a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Association is currently evaluating the impact of implementing this Standard. It is anticipated that the impact from the implementation of this Standard will have no impact on the consolidated income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the consolidated balance sheet.

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. The results for the six months ended June 30, 2007, are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

Certain amounts in prior period consolidated financial statements may have been reclassified to conform to current 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 generally accepted accounting principles. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2007, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the six months ended June 30,	
	2007	2006
Balance at beginning of period	\$ 2,728	\$ 2,726
Provision for (reversal of) loan losses	(107)	3
Loans (charged off), net of recoveries	(70)	(19)
Balance at end of period	<u>\$ 2,551</u>	<u>\$ 2,710</u>

NOTE 3 – EMPLOYEE BENEFIT PLANS

The Association participates in a Districtwide defined benefit retirement plan. The costs of the plan are not segregated by participating entities but are allocated among the participating entities. Pension costs are allocated by multiplying the District's net pension expense times each institution's salary expense as a percentage of the District's salary expense. The Association also participates in a Districtwide Thrift Plan.

The Association sponsors a plan providing certain benefits (primarily health care) to its retirees. The following table sets forth the components of net periodic benefit costs of the other postretirement benefits plan:

	For the six months ended June 30,	
	<u>2007</u>	<u>2006</u>
Service cost	\$ 43	\$ 55
Interest cost	120	110
Amortization of prior service cost	(21)	(21)
Recognized net actuarial (gain) loss	75	86
Net periodic benefit cost	<u>\$ 217</u>	<u>\$ 230</u>

The following is a table of retirement and postretirement benefit expense:

	For the six months ended June 30,	
	<u>2007</u>	<u>2006</u>
Pension	\$ 335	\$ 408
Thrift/deferred compensation	104	93
Other postretirement benefits	217	230
Total	<u>\$ 656</u>	<u>\$ 731</u>

As of June 30, 2007, no contributions have been made to the pension plan for 2007. Actuarial projections as of the last plan measurement date (September 30, 2006) did not anticipate any contributions for 2007; however, market conditions could impact discount rates and return on plan assets which could change this expectation, making contributions necessary before the next plan measurement date.