

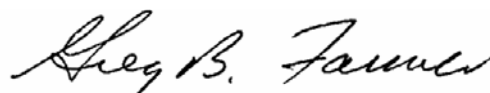
THIRD QUARTER 2008

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CERTIFICATION

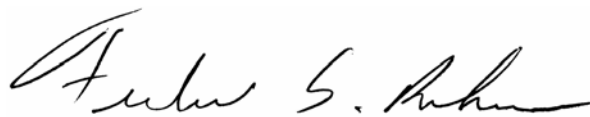
The undersigned certify that we have reviewed the September 30, 2008 quarterly report of Colonial Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Greg B. Farmer
Chief Executive Officer



Terri E. Branch
Chief Financial Officer



Frederick S. Richardson
Chairman of the Audit Committee

October 23, 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 September 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 September 30, 2008, was \$700,589, an increase of \$61,128, as compared to \$639,461 at December 31, 2007. Net loans outstanding at September 30, 2008, were \$696,359 as compared to \$636,837 at December 31, 2007. Net loans accounted for 96.01 percent of total assets at September 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 \$6,094 at September 30, 2008. This increase is primarily the result of four loans being transferred to nonaccrual status as a result of the general economic downturn.

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 September 30, 2008, was \$4,230 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 September 30, 2008

Net income for the three months ended September 30, 2008, totaled \$1,846, as compared to \$3,536 for the same period in 2007. Net interest income increased \$87 for the three months ended September 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 September 30, 2008, totaled \$1,532, as compared to \$1,927 for the same period of 2007, a decrease of \$395. The decrease is the result of a decrease in other noninterest income of \$575 offset by an increase in patronage of \$99, gains from the sale of rural homes loans of \$50, loan fees of \$18, and fees for financially related services of \$13. Noninterest expense for the three months ended September 30, 2008, increased \$177 compared to the same period of 2007. This increase is the result of an increase in salaries and benefits of \$128, occupancy and equipment of \$57, and other operating expenses of \$11 offset by a decrease in FCSIC insurance premium of \$19.

For the nine months ended September 30, 2008

Net income for the nine months ended September 30, 2008, totaled \$8,296, as compared to \$10,202 for the same period in 2007. At September 30, 2008, net interest income increased by \$291 or 2.17 percent compared to September 30, 2007. Interest income on loans decreased by \$1,431 and interest expense decreased by \$1,722. 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 \$45 for the nine months ended September 30, 2008, as compared to \$16 for the same period in 2007. The Association recorded a provision for loan losses of \$1,542 for the nine months ended September 30, 2008, and a provision for loan losses of \$70 for the same period in 2007.

Noninterest income for the nine months ended September 30, 2008, totaled \$4,364, as compared to \$4,761 for the same period of 2007, a decrease of \$397. The decrease is the result of a decrease other noninterest income of \$644 and gains from the sale of rural home loans of \$37 offset by an increase in patronage of \$222, loan fees of \$48, and financially related service fees of \$14. Noninterest expense for the nine months ended September 30, 2008, increased \$141 compared to the same period of 2007. The increase in noninterest expense is attributable to an increase in other operating expense of \$125, occupancy and equipment of \$22, and FCSIC insurance premium of \$12 offset by a decrease in salaries and benefits of \$18.

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 September 30, 2008, was \$590,053 as compared to \$532,003 at December 31, 2007.

CAPITAL RESOURCES

Total members' equity at September 30, 2008, increased to \$126,329 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 \$5,341 on September 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 September 30, 2008, the Association's total surplus ratio and core surplus ratio were 15.15 percent and 15.15 percent, respectively, and the permanent capital ratio was 15.89 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> | September 30, 2008 <i>(unaudited)</i> | December 31, 2007 <i>(audited)</i> |
|---|---|--|
| Assets | | |
| Cash | \$ 214 | \$ 215 |
| Loans | 700,589 | 639,461 |
| Less: allowance for loan losses | 4,230 | 2,624 |
| Net loans | 696,359 | 636,837 |
| Loans held for sale | 499 | 421 |
| Other investments | 1,897 | 2,179 |
| Accrued interest receivable | 8,168 | 6,811 |
| Investment in other Farm Credit institutions | 9,003 | 9,003 |
| Premises and equipment, net | 2,398 | 2,335 |
| Due from AgFirst Farm Credit Bank | 3,131 | 4,629 |
| Other assets | 3,631 | 3,802 |
| Total assets | \$ 725,300 | \$ 666,232 |
| Liabilities | | |
| Notes payable to AgFirst Farm Credit Bank | \$ 590,053 | \$ 532,003 |
| Accrued interest payable | 2,286 | 2,494 |
| Patronage refund payable | 127 | 7,101 |
| Other liabilities | 6,505 | 6,380 |
| Total liabilities | 598,971 | 547,978 |
| Commitments and contingencies | | |
| Members' Equity | | |
| Capital stock and participation certificates | 5,341 | 5,505 |
| Retained earnings | | |
| Unallocated | 121,097 | 112,871 |
| Accumulated other comprehensive income (loss) | (109) | (122) |
| Total members' equity | 126,329 | 118,254 |
| Total liabilities and members' equity | \$ 725,300 | \$ 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 September 30, | | For the nine months ended September 30, | |
|--|---|-------------|--|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Interest Income | | | | |
| Loans | 11,403 | 12,189 | 33,996 | 35,415 |
| Other | 29 | 35 | 88 | 100 |
| Total interest income | 11,432 | 12,224 | 34,084 | 35,515 |
| Interest Expense | | | | |
| Notes payable to AgFirst Farm Credit Bank | 6,849 | 7,728 | 20,412 | 22,134 |
| Net interest income | 4,583 | 4,496 | 13,672 | 13,381 |
| Provision for (reversal of allowance for) loan losses | 1,400 | 177 | 1,542 | 70 |
| Net interest income after provision for (reversal of allowance for) loan losses | 3,183 | 4,319 | 12,130 | 13,311 |
| Noninterest Income | | | | |
| Loan fees | 139 | 121 | 473 | 425 |
| Fees for financially related services | 42 | 29 | 78 | 64 |
| Equity in earnings of other Farm Credit institutions | 1,102 | 1,003 | 3,131 | 2,909 |
| Gains (losses) on other property owned, net | 2 | 3 | 9 | 10 |
| Gains (losses) on sale of rural home loans, net | 184 | 134 | 462 | 499 |
| Other noninterest income | 63 | 637 | 211 | 854 |
| Total noninterest income | 1,532 | 1,927 | 4,364 | 4,761 |
| Noninterest Expense | | | | |
| Salaries and employee benefits | 1,888 | 1,760 | 5,268 | 5,286 |
| Occupancy and equipment | 258 | 201 | 610 | 588 |
| Insurance Fund premium | 216 | 235 | 701 | 689 |
| Other operating expenses | 514 | 503 | 1,571 | 1,446 |
| Total noninterest expense | 2,876 | 2,699 | 8,150 | 8,009 |
| Income before income taxes | 1,839 | 3,547 | 8,344 | 10,063 |
| Provision (benefit) for income taxes | (7) | 11 | 48 | (139) |
| Net income | \$ 1,846 | \$ 3,536 | \$ 8,296 | \$ 10,202 |

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 | | 10,202 | | 10,202 |
| Capital stock/participation certificates issued/(retired), net | (226) | | | (226) |
| Patronage distribution adjustment | | (153) | | (153) |
| Balance at September 30, 2007 | \$ 5,502 | \$ 116,050 | \$ — | \$ 121,552 |
| Balance at December 31, 2007 | \$ 5,505 | \$ 112,871 | \$ (122) | \$ 118,254 |
| Net income | | 8,296 | | 8,296 |
| Capital stock/participation certificates issued/(retired), net | (164) | | | (164) |
| Patronage distribution adjustment | | (62) | | (62) |
| Employee benefit plans adjustments | | (8) | 13 | 5 |
| Balance at September 30, 2008 | \$ 5,341 | \$ 121,097 | \$ (109) | \$ 126,329 |

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 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 | \$ 2,624 | \$ 2,728 |
| Provision for (reversal of) loan losses | 1,542 | 70 |
| Loans (charged off), net of recoveries | 64 | (179) |
| Balance at end of period | <u>\$ 4,230</u> | <u>\$ 2,619</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 | \$ 323 | \$ 505 |
| 401(k) | 150 | 147 |
| Other postretirement benefits | 283 | 326 |
| Total | <u>\$ 756</u> | <u>\$ 978</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 | \$ - | \$ - | \$ - |
| Other postretirement benefits | 83 | 76 | 159 |
| Total | <u>\$ 83</u> | <u>\$ 76</u> | <u>\$ 159</u> |

As of September 30, 2008, no contributions have been made to the pension plan for 2008. Actuarial projections as of the last plan measurement date (September 30, 2007) did not anticipate any contributions 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 \$8.

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, \$13 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.