

# **FIRST QUARTER 2009**

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## **CERTIFICATION**

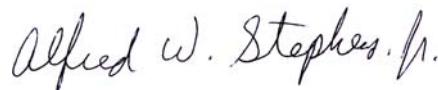
The undersigned certify that we have reviewed the March 31, 2009 quarterly report of Farm Credit of the Virginias, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



David E. Lawrence  
Chief Executive Officer



David G. Sauer  
Chief Financial Officer



Alfred W. Stephens, Jr.  
Chairman of the Board

April 23, 2009

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*Farm Credit of the Virginias, ACA*

# Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2009. In making the assessment, management used the framework in *Internal Control—Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of March 31, 2009 the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2009.



David E. Lawrence  
Chief Executive Officer



David G. Sauer  
Chief Financial Officer

April 23, 2009

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

*(dollars in thousands)*

The following commentary reviews the consolidated financial condition and results of operations of Farm Credit of the Virginias, ACA (Association) for the period ended March 31, 2009. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2008 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 in our region, including livestock, timber, poultry and field crops. 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 impacts the level of dependency on a given commodity.

As of March 31, 2009, the gross loan volume of the Association was \$1,457,032. This was a decrease of \$10,437 or 0.71% as compared to \$1,467,469 at December 31, 2008. Net loans outstanding at March 31, 2009, were \$1,447,970 as compared to \$1,460,690 at December 31, 2008. Net loans accounted for 94.56 percent of total assets as of March 31, 2009. Loan demand did slow during the first quarter due to slower real estate sales during the period.

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 \$37,181 at December 31, 2008, to \$37,982 at March 31, 2009. The increase was the result of several loans being downgraded to nonaccrual status.

Other property owned showed an increase of \$200 at March 31, 2009 compared to December 31, 2008. This increase was the result of a couple of loans going through the foreclosure process and the Association acquiring the property.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio. Factors considered in

determining the allowance for loan losses were generally based on recent historical charge-off experience adjusted for relevant environmental factors. The allowance for loan losses at March 31, 2009, was \$9,062. This was an increase of \$2,283. The allowance for loan losses was increased due to the weakening of the general economy.

## RESULTS OF OPERATIONS

### *For the three months ended March 31, 2009*

Net income for the three months ended March 31, 2009, totaled \$3,490 as compared to \$4,837 for the same period in 2008, a decrease of \$1,347 or 27.85%. The decrease in net income was primarily due to an increase in the provision for loan losses.

Net interest income decreased \$960, or 10.37%, for the three months ended March 31, 2009, as compared to the same period in 2008. The decrease in net interest income was primarily due to the decrease in loan volume.

Noninterest income for the three months ended March 31, 2009, totaled \$3,870 as compared to \$3,048 for the same period of 2008, an increase of \$822 or 26.97%. The increase was primarily due to an increase in equity in earnings of the Bank and an increase in loan fees.

Noninterest expenses for the three months ended March 31, 2009 totaled \$5,444. This was an increase of \$236, or 4.53%, compared to the same period of 2008. The increase was mainly due to an increase in employees' salaries and benefits.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with 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 the 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, 2009, was \$1,293,692 as compared to \$1,318,784 at December 31, 2008. The decrease during the period is primarily attributed to a decrease in loan volume.

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## CAPITAL RESOURCES

Total members' equity at March 31, 2009 totaled \$206,799, an increase of \$1,058, as compared to \$205,741 at December 31, 2008. The increase in members' equity was primarily attributed to earnings.

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, 2009, the Association's total surplus ratio and core surplus ratio were 10.83 percent and 10.83 percent, respectively, and the permanent capital ratio was 12.13 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.

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**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](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 540-886-3435, ext. 5020, or writing David Sauer, Farm Credit of the Virginias, ACA, P.O. Box 899, Staunton, VA 24402, or accessing the website, [www.farmcreditofvirginias.com](http://www.farmcreditofvirginias.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# Farm Credit of the Virginias, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>March 31, 2009</b> <i>(unaudited)</i>	<b>December 31, 2008</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 1,000	\$ 3,677
Loans	1,457,032	1,467,469
Less: allowance for loan losses	9,062	6,779
Net loans	1,447,970	1,460,690
Loans held for sale	1,626	501
Other investments	13,030	15,850
Accrued interest receivable	11,399	10,076
Investment in other Farm Credit institutions	37,255	37,545
Premises and equipment, net	7,398	7,448
Other property owned	2,707	2,507
Due from AgFirst Farm Credit Bank	3,376	11,611
Other assets	5,523	6,201
Total assets	\$ 1,531,284	\$ 1,556,106
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,293,692	\$ 1,318,784
Accrued interest payable	4,811	5,347
Patronage refund payable	529	10,649
Other liabilities	25,453	15,585
Total liabilities	1,324,485	1,350,365
Commitments and contingencies		
<b>Members' Equity</b>		
Capital stock and participation certificates	18,299	18,430
Retained earnings		
Allocated	72,575	71,860
Unallocated	115,919	115,444
Accumulated other comprehensive income (loss)	6	7
Total members' equity	206,799	205,741
Total liabilities and members' equity	\$ 1,531,284	\$ 1,556,106

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

# Farm Credit of the Virginias, ACA

## Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2009	2008
<b>Interest Income</b>		
Loans	\$ 22,943	\$ 27,988
Other	174	189
Total interest income	23,117	28,177
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	14,823	18,923
Net interest income	8,294	9,254
Provision for (reversal of allowance for) loan losses	3,225	2,250
Net interest income after provision for (reversal of allowance for) loan losses	5,069	7,004
<b>Noninterest Income</b>		
Loan fees	452	302
Fees for financially related services	42	10
Equity in earnings of other Farm Credit institutions	3,376	2,533
Gains (losses) on other property owned, net	(209)	(5)
Gains (losses) on sale of rural home loans, net	114	107
Other noninterest income	95	101
Total noninterest income	3,870	3,048
<b>Noninterest Expense</b>		
Salaries and employee benefits	3,310	2,893
Occupancy and equipment	341	338
Insurance Fund premium	626	561
Other operating expenses	1,167	1,416
Total noninterest expense	5,444	5,208
Income before income taxes	3,495	4,844
Provision (benefit) for income taxes	5	7
Net income	\$ 3,490	\$ 4,837

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

**Farm Credit of the Virginias, ACA**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

*(dollars in thousands)*

	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2007	\$ 18,517	\$ 63,629	\$ 109,502	\$ 8	\$ 191,656
Comprehensive income					
Net income			4,837		4,837
Employee benefit plans adjustments			(2)		(2)
Total comprehensive income					4,835
Capital stock/participation certificates issued/(retired), net	(5)				(5)
Patronage distribution adjustment		(848)	468		(380)
Balance at March 31, 2008	\$ 18,512	\$ 62,781	\$ 114,805	\$ 8	\$ 196,106
Balance at December 31, 2008	\$ 18,430	\$ 71,860	\$ 115,444	\$ 7	\$ 205,741
Comprehensive income					
Net income			3,490		3,490
Employee benefit plans adjustments				(1)	(1)
Total comprehensive income					3,489
Capital stock/participation certificates issued/(retired), net	(131)				(131)
Patronage distribution adjustment		715	(3,015)		(2,300)
Balance at March 31, 2009	\$ 18,299	\$ 72,575	\$ 115,919	\$ 6	\$ 206,799

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

*Farm Credit of the Virginias, ACA*

# Notes to the Consolidated Financial Statements

*(dollars in thousands, except as noted)  
(unaudited)*

**NOTE 1 – ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

The accompanying financial statements include the accounts of Farm Credit of the Virginias, 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, 2008, are contained in the 2008 Annual Report to Shareholders. These unaudited first quarter 2009 consolidated financial statements should be read in conjunction with the 2008 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, 2009, are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

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, 2009, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In addition to the recently issued accounting pronouncements discussed in the 2008 Annual Report to Shareholders, effective January 1, 2009, the Association adopted Financial Accounting Standards Board (FASB) Statement of Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. The impact of adoption requires additional fair value disclosures, if applicable, but does not have an impact on the Association's financial condition or results of operations.

**NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS**

An analysis of the allowance for loan losses follows:

	<b>For the three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Balance at beginning of period	\$ 6,779	\$ 3,694
Provision for (reversal of) loan losses	3,225	2,250
Charge-offs	(943)	(1,808)
Recoveries	1	1
Balance at end of period	<u>\$ 9,062</u>	<u>\$ 4,137</u>

The following table presents information concerning impaired loans as of March 31,

	<b>2009</b>	<b>2008</b>
Impaired loans with related allowance	\$ 6,745	\$ 4,250
Impaired loans with no related allowance	<u>32,505</u>	<u>4,574</u>
Total impaired loans	<u>\$ 39,250</u>	<u>\$ 8,824</u>
Allowance on impaired loans	<u>\$ 3,985</u>	<u>\$ 1,698</u>

The following table summarizes impaired loan information for the three months ended March 31,

	<b>2009</b>	<b>2008</b>
Average impaired loans	\$ 37,818	\$ 9,075
Interest income recognized on impaired loans	35	52

**NOTE 3 – EMPLOYEE BENEFIT PLANS**

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

	<b>For the three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Pension	\$ 781	\$ 154
401(k)	102	87
Other postretirement benefits	142	130
Total	<u>\$ 1,025</u>	<u>\$ 371</u>

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

	Actual YTD Through 3/31/09	Projected Contributions For Remainder of 2009	Projected Total Contributions 2009
Pension	\$ 2	\$ 7	\$ 9
Other postretirement benefits	94	323	417
Total	\$ 96	\$ 330	\$ 426

Actuarial calculations as of the last plan measurement date (December 31, 2008) projected contributions of \$9 to the pension plan for 2009. However, market conditions could impact discount rates and return on plan assets which could make additional contributions necessary before the next plan measurement date of December 31, 2009.

Further details regarding employee benefit plans are contained in the 2008 Annual Report to Shareholders.

#### **NOTE 4 – FAIR VALUE MEASUREMENT**

Effective January 1, 2008, the Association adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities primarily consist of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

SFAS No. 157 establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the Association's financial instruments within the fair value hierarchy are as follows:

#### **Level 1**

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at March 31, 2009 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

#### **Level 2**

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value on a recurring basis.

#### **Level 3**

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing. Level 3 assets at March 31, 2009 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under SFAS No. 114. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principle balance of the loan, a specific reserve is established. Other property owned is classified as a level 3 asset at March 31, 2009. The fair value for other property owned is based upon the collateral less estimated costs to sell. Level 3 liabilities at March 31, 2009 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at March 31, 2009 for each of the fair value hierarchy levels:

	March 31, 2009			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Assets held in trust funds	\$ 393	\$ -	\$ -	\$ 393
Total Assets	\$ 393	\$ -	\$ -	\$ 393
<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 194	\$ 194
Total Liabilities	\$ -	\$ -	\$ 194	\$ 194

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 223
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(29)
Transfers in and/or out of level 3	-
Balance at March 31, 2009	\$ 194

## Assets and Liabilities Measured at Fair-Value on a Non-recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2009 for each of the fair value hierarchy values are summarized below:

	March 31, 2009			Total Fair Value	YTD Total Gains (Losses)
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 2,760	\$ 2,760	\$ (2,103)
Other property owned	\$ -	\$ -	\$ 2,707	\$ 2,707	\$ (191)