
Farm Credit of the Virginias, ACA

FIRST QUARTER 2008

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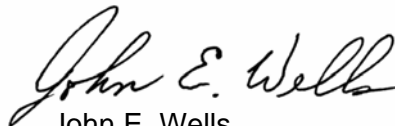
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David E. Lawrence
Chief Executive Officer



David G. Sauer
Chief Financial Officer



John E. Wells
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 consolidated financial condition and results of operations of Farm Credit of the Virginias, 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 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, 2008, the gross loan volume of the Association was \$1,550,241. This was an increase of \$47,231 or 3.14% as compared to \$1,503,010 at December 31, 2007. The increase in gross loan volume was primarily due to the continued demand for real estate and operating loans. Net loans outstanding at March 31, 2008, were \$1,546,104 as compared to \$1,499,316 at December 31, 2007. Net loans were 95.90 percent of total assets at March 31, 2008.

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 \$8,211 at December 31, 2007, to \$8,824 at March 31, 2008. The increase was the result of several loans being downgraded to nonaccrual status.

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, 2008, was \$4,137.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2008 totaled \$4,837, as compared to \$6,786 for the same period in 2007, a decrease of \$1,949 or 28.72%. The decrease in net income was primarily due to an increase in the provision for loan loss.

Net interest income increased \$674, or 7.86%, for the three months ended March 31, 2008, as compared to the same period in 2007. The increase in net interest income was primarily due to an increase in loan volume offset somewhat by lower return on investments that are tied to short-term interest rates.

The provision for loan losses for the three months ended March 31, 2008, totaled \$2,250 compared to no provision for the same period last year. The provision for loan losses of \$2,250 was a result of maintaining the allowance for loan losses at an adequate level after taking a large charge-off on a loan during the quarter.

Noninterest income for the three months ended March 31, 2008, totaled \$3,048, as compared to \$2,757 for the same period of 2007, an increase of \$291 or 10.55%. The increase was primarily due to an increase in equity in earnings of AgFirst Farm Credit Bank. Equity in earnings of AgFirst Farm Credit Bank increased \$345, compared to the same period of 2007.

Noninterest expenses for the three months ended March 31, 2008 totaled \$5,208. This was an increase of \$673, or 14.84%, compared to the same period of 2007. The increase was mainly due to an increase in employees' salaries and benefits and other operating expenses.

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, 2008, was \$1,376,256 as compared to \$1,341,684 at December 31, 2007. The increase during the period is primarily attributed to the increase in loan volume.

CAPITAL RESOURCES

Total members' equity at March 31, 2008 totaled \$196,106, an increase of \$4,450, as compared to \$191,656 at December 31, 2007. 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, 2008, the Association's total surplus ratio and core surplus ratio were 10.68 percent and 10.68 percent, respectively, and the permanent capital ratio was 11.94 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. 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 31, 2006 and for employers without publicly traded securities for the fiscal year ending after September 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 used 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 the 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.

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 540-886-3435, ext. 620, or writing David Sauer, Farm Credit of the Virginias, ACA, P.O. Box 899, Staunton, VA 24402, or accessing the website, 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>	March 31, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
Assets		
Cash	\$ 1,628	\$ 3,627
Loans	1,550,241	1,503,010
Less: allowance for loan losses	4,137	3,694
Net loans	1,546,104	1,499,316
Loans held for sale	333	443
Other investments	14,405	15,065
Accrued interest receivable	13,522	10,661
Investment in other Farm Credit institutions	21,022	21,022
Premises and equipment, net	5,764	5,908
Other property owned	978	796
Due from AgFirst Farm Credit Bank	2,533	11,240
Other assets	5,927	6,013
Total assets	\$ 1,612,216	\$ 1,574,091
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,376,256	\$ 1,341,684
Accrued interest payable	6,138	6,565
Patronage refund payable	286	18,306
Other liabilities	33,430	15,880
Total liabilities	1,416,110	1,382,435
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	18,512	18,517
Retained earnings		
Allocated	62,781	63,629
Unallocated	114,805	109,502
Accumulated other comprehensive income (loss)	8	8
Total members' equity	196,106	191,656
Total liabilities and members' equity	\$ 1,612,216	\$ 1,574,091

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

Farm Credit of the Virginias, ACA
Consolidated Statements of Income

(unaudited)

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

(dollars in thousands)

	2008	2007
Interest Income		
Loans	\$ 27,988	\$ 25,560
Other	189	148
Total interest income	28,177	25,708
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	18,923	17,128
Net interest income	9,254	8,580
Provision for (reversal of allowance for) loan losses	2,250	—
Net interest income after provision for (reversal of allowance for) loan losses	7,004	8,580
Noninterest Income		
Loan fees	302	249
Fees for financially related services	10	24
Equity in earnings of other Farm Credit institutions	2,533	2,188
Gains (losses) on other property owned, net	(5)	5
Gains (losses) on sale of rural home loans, net	107	177
Other noninterest income	101	114
Total noninterest income	3,048	2,757
Noninterest Expense		
Salaries and employee benefits	2,893	2,720
Occupancy and equipment	338	342
Insurance Fund premium	561	491
Other operating expenses	1,416	982
Total noninterest expense	5,208	4,535
Income before income taxes	4,844	6,802
Provision (benefit) for income taxes	7	16
Net income	\$ 4,837	\$ 6,786

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, 2006	\$ 18,318	\$ 54,845	\$ 106,580	\$ —	\$ 179,743
Net income			6,786		6,786
Capital stock/participation certificates issued/retired, net	(4)				(4)
Patronage distribution adjustment		371	(366)		5
Balance at March 31, 2007	\$ 18,314	\$ 55,216	\$ 113,000	\$ —	\$ 186,530
Balance at December 31, 2007	\$ 18,517	\$ 63,629	\$ 109,502	\$ 8	\$ 191,656
Net income			4,837		4,837
Capital stock/participation certificates issued/retired, net	(5)				(5)
Patronage distribution adjustment		(848)	468		(380)
Employee benefit plans adjustments			(2)		(2)
Balance at March 31, 2008	\$ 18,512	\$ 62,781	\$ 114,805	\$ 8	\$ 196,106

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 AND SIGNIFICANT ACCOUNTING POLICIES

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, 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	\$ 3,694	\$ 2,445
Provision for (reversal of) loan losses	2,250	–
Loans (charged off), net of recoveries	(1,807)	(17)
Balance at end of period	<u>\$ 4,137</u>	<u>\$ 2,428</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	\$ 154	\$ 248
401(k)	87	77
Other postretirement benefits	130	146
Total	<u>\$ 371</u>	<u>\$ 471</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	\$ 2	\$ 7	\$ 9
Other postretirement benefits	89	276	365
Total	<u>\$ 91</u>	<u>\$ 283</u>	<u>\$ 374</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 \$2.

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. \$0 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.