

FIRST QUARTER 2006

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Chief Executive Officer



William J. Franklin, Jr.
Chairman of the Board

April 28, 2006

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, 2006. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2005 Annual Report of the Association.

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, 2006, the gross loan volume of the Association was \$1,221,214. This was an increase of \$28,334 or 2.4 percent as compared to \$1,192,880 at December 31, 2005. The demand for loans continued at a stronger pacer than the same quarter last year. The demand for real estate and farm loans continued to be strong even with interest rates moving higher. Net loans outstanding at March 31, 2006, were \$1,218,506 as compared to \$1,190,144 at December 31, 2005. Net loans were 96.15 percent of total assets at March 31, 2006.

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 \$4,323 at December 31, 2005, to \$5,599 at March 31, 2006. The increase was primarily 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, 2006, was \$2,708.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2006 totaled \$6,091, as compared to \$5,824 for the same period in 2005, an increase of \$267 or 4.58 percent. The increase in net income was primarily due to an increase in net interest income.

Net interest income increased \$950, or 13.51 percent, for the three months ended March 31, 2006, as compared to the same period in 2005. The increase in net interest income was mainly due the growth in loan volume and higher interest rates when compared to same quarter last year.

Noninterest income for the three months ended March 31, 2006, totaled \$2,360, as compared to \$2,232 for the same period of 2005, an increase of \$128 or 5.73 percent. The increase was primarily due to an increase in equity in earnings of AgFirst Farm Credit Bank.

Operating expenses for the three months ended March 31, 2006 totaled \$4,237. This was an increase of \$801 compared to the same period of 2005. The increase was mainly due to higher salaries and higher Farm Credit System insurance fund premium expense.

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, 2006, was \$1,048,066 as compared to \$1,025,160 at December 31, 2005. The increase during the period is primarily attributed to the increase in loan volume.

CAPITAL RESOURCES

Total members' equity at March 31, 2006 totaled \$188,251, an increase of \$5,118, as compared to \$183,133 at December 31, 2005. 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, 2006, the Association's total surplus ratio and core surplus ratio were 12.88 percent and 11.80 percent, respectively, and the permanent capital ratio was 14.42 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 Jay Wise, 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 1-540-886-3435, writing David Sauer, CFO, 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 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.

Farm Credit of the Virginias, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2006 <i>(unaudited)</i>	December 31, 2005 <i>(audited)</i>
Assets		
Cash	\$ 872	\$ 2,757
Loans	1,221,214	1,192,880
Less: allowance for loan losses	2,708	2,736
Net loans	1,218,506	1,190,144
Other investments	9,274	7,415
Accrued interest receivable	10,736	7,897
Investment in other Farm Credit institutions	13,490	13,489
Premises and equipment, net	4,785	4,585
Other property owned	70	—
Deferred tax asset, net	12	12
Prepaid retirement expense	5,947	6,228
Due from AgFirst Farm Credit Bank	—	10,898
Other assets	3,587	1,317
Total assets	\$ 1,267,279	\$ 1,244,742
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,048,066	\$ 1,025,160
Accrued interest payable	4,641	4,438
Patronage refund payable	128	14,464
Postretirement benefits other than pensions	6,253	6,185
Other liabilities	19,940	11,362
Total liabilities	1,079,028	1,061,609
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	18,395	18,568
Retained earnings		
Allocated	59,181	60,085
Unallocated	110,675	104,480
Total members' equity	188,251	183,133
Total liabilities and members' equity	\$ 1,267,279	\$ 1,244,742

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,	
	2006	2005
Interest Income		
Loans	\$ 21,445	\$ 18,211
Other	125	—
Total Interest Income	21,570	18,211
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	13,587	11,178
Net interest income	7,983	7,033
Provision for (reversal of allowance for) loan losses	—	—
Net interest income after provision for (reversal of allowance for) loan losses	7,983	7,033
Noninterest Income		
Loan fees	205	183
Fees for financially related services	20	12
Equity in earnings of other Farm Credit institutions	1,906	1,816
Gains (losses) on other property owned, net	35	—
Other noninterest income	194	221
Total noninterest income	2,360	2,232
Noninterest Expense		
Salaries and employee benefits	2,686	2,450
Occupancy and equipment	303	267
Insurance Fund premium	438	109
Other operating expenses	810	610
Total noninterest expense	4,237	3,436
Income before income taxes	6,106	5,829
Provision (benefit) for income taxes	15	5
Net income	\$ 6,091	\$ 5,824

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		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2004	\$ 19,094	\$ 58,640	\$ 103,928	\$ 181,662
Net income			5,824	5,824
Capital stock/participation certificates issued	227			227
Capital stock/participation certificates retired	(371)			(371)
Retained earnings retired		(15)		(15)
Distribution adjustment		559	(1,119)	(560)
Balance at March 31, 2005	<u>\$ 18,950</u>	<u>\$ 59,184</u>	<u>\$ 108,633</u>	<u>\$ 186,767</u>
Balance at December 31, 2005	\$ 18,568	\$ 60,085	\$ 104,480	\$ 183,133
Net income			6,091	6,091
Capital stock/participation certificates issued	198			198
Capital stock/participation certificates retired	(371)			(371)
Retained earnings retired		(12)		(12)
Distribution adjustment		(892)	104	(788)
Balance at March 31, 2006	<u>\$ 18,395</u>	<u>\$ 59,181</u>	<u>\$ 110,675</u>	<u>\$ 188,251</u>

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

A description of the organization and operations of Farm Credit of the Virginias, 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, 2005, are contained in the 2005 Annual Report to Shareholders. These unaudited first quarter 2006 consolidated financial statements should be read in conjunction with the 2005 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. The results for the three months ended March 31, 2006, are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

Certain amounts in prior period consolidated financial statements 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 March 31, 2006, 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:

Balance at 12-31-04	\$ 2,947
(Reversal of) provision for loan losses	—
Loans (charged off), net of recoveries	<u>(78)</u>
Balance at 3-31-05	<u>\$ 2,869</u>
Balance at 12-31-05	\$ 2,736
(Reversal of) provision for loan losses	—
Loans (charged off), net of recoveries	<u>(28)</u>
Balance at 3-31-06	<u>\$ 2,708</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 Districtwide Thrift and other postretirement benefit plans.

The following is a table of retirement and postretirement benefit expense for the three months ended March 31, 2006:

	For the three months ended March 31,	
	2006	2005
Pension	\$ 282	\$ 267
Thrift/deferred compensation	77	71
Other postretirement benefits	148	213
Total	<u>\$ 507</u>	<u>\$ 551</u>

As of March 31, 2006, no contributions have been made to the pension plan for 2006. Actuarial projections as of the last plan measurement date (September 30, 2005) did not anticipate any contributions for 2006; 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.

The Association also sponsors supplemental retirement and deferred compensation plans for certain key employees. The expenses of these plans are included in the pension and deferred compensation costs above. The Association contributed \$4 to these plans during the first three months of 2006. The Association anticipates making additional contributions of \$5 to these supplemental retirement and deferred compensation plans during the remainder of 2006.