
Farm Credit of the Virginias, ACA

SECOND QUARTER 2009

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CERTIFICATION

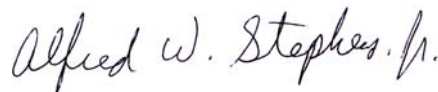
The undersigned certify that we have reviewed the June 30, 2009 quarterly report of Farm Credit of the Virginias, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and 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

July 29, 2009

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. This process provides 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.

Internal control over financial reporting 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 June 30, 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 June 30, 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 June 30, 2009



David E. Lawrence
Chief Executive Officer



David G. Sauer
Chief Financial Officer

July 29, 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 June 30, 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 June 30, 2009, the gross loan volume of the Association was \$1,409,818. This was a decrease of \$57,651 or 4.09 percent as compared to \$1,467,469 at December 31, 2008. Net loans outstanding at June 30, 2009, were \$1,400,739 as compared to \$1,460,690 at December 31, 2008. Net loans accounted for 93.59 percent of total assets as of June 30, 2009. The decrease in loan volume was due to selling loans to AgFirst Farm Credit Bank (the Bank) as part of the capitalized participation pool (CPP) program. Under this program, loans are sold to the Bank as a way to manage capital. The Association did experience a decrease in loan demand for the first half of the year compared to the same period last year. The decrease in demand was mainly due to the slowdown in the real estate market and general economy.

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 \$37,821 at June 30, 2009. The increase was the result of several loans being downgraded to nonaccrual status.

Other property owned showed an increase of \$2,325 at June 30, 2009 compared to December 31, 2008. The 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 June 30, 2009, was \$9,079. This was an increase of \$2,300 compared to the balance at December 31, 2008. The allowance for loan losses was increased due to the weakening of the general economy and some credit deterioration. The agricultural sector has been impacted by the volatility in commodity prices and high input costs. Industries that the Association has exposure to that are showing some signs of stress include dairy, ethanol, timber, and housing.

RESULTS OF OPERATIONS

For the three months ended June 30, 2009

Net income for the three months ended June 30, 2009, totaled \$3,714 as compared to \$6,962 for the same period in 2008, a decrease of \$3,248 or 87.45 percent. The decrease in net income was primarily due to an increase in the provision for loan losses.

Net interest income decreased \$916, or 11.02 percent, for the three months ended June 30, 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 June 30, 2009, totaled \$4,210 as compared to \$3,006 for the same period of 2008, an increase of \$1,204 or 28.60 percent. The increase was primarily due to an increase in equity in earnings of the Bank as part of the capitalized participation pool program and an increase in loan fees.

Noninterest expenses for the three months ended June 30, 2009 totaled \$5,606. This was an increase of \$838, or 14.95 percent, compared to the same period of 2008. The increase was mainly due to an increase in employees' salaries and benefits.

For the six months ended June 30, 2008

Net income for the six months ended June 30, 2009 totaled \$7,204, as compared to \$11,799 for the same period in 2008, a decrease of \$4,595 or 63.78 percent. The decrease was mainly due to the increase in provision for loan loss. Net interest income for the first six months decreased \$1,876 compared to the same period in 2008. The decrease in net interest income was primarily due to a decrease in loan volume compared to last year. Most of the decrease in loan volume was due to selling loans into the Bank's capitalized participation pool

program. Earning of the capitalized participation pool program will flow back to the Association as equity earnings from the Bank.

Provision for loan losses for the six months ended June 30, 2009, totaled \$6,425 compared to \$2,743 for the same period last year. The increase in the provision for loan losses was a result of maintaining the allowance for loan losses at an adequate level taking into consideration the current weakness in the economy and higher credit risk in the portfolio.

Noninterest income for the six months ended June 30, 2009, totaled \$8,080, as compared to \$6,054 for the same period of 2008, an increase of \$2,026. The increase was primarily due to an increase in equity in earnings of the Bank as a result of the capitalized participation pool program and increase in loan fees.

Noninterest expenses for the six months ended June 30, 2009 totaled \$11,050. This was an increase of \$1,074 or 9.72 percent compared to the same period of 2008. The increase was mainly due to an increase in employees' salaries and benefits.

The provision for income taxes for the six months ended June 30, 2009, total \$9 as compared to \$20 for the same period in 2008.

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 June 30, 2009, was \$1,267,546 as compared to \$1,318,784 at December 31, 2008. The decrease during the period is primarily attributed to a decrease in loan volume.

CAPITAL RESOURCES

Total members' equity at June 30, 2009 totaled \$210,467, an increase of \$4,726, 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 June 30, 2009, the Association's total surplus ratio and core surplus ratio were 10.81 percent and 10.81 percent, respectively, and the permanent capital ratio was 12.15 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 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. 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>	June 30, 2009	December 31, 2008
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Cash	\$ 3,417	\$ 3,677
Loans	1,409,818	1,467,469
Less: allowance for loan losses	9,079	6,779
Net loans	1,400,739	1,460,690
Loans held for sale	4,120	501
Other investments	13,205	15,850
Accrued interest receivable	10,996	10,076
Investment in other Farm Credit institutions	40,379	37,545
Premises and equipment, net	7,278	7,448
Other property owned	4,832	2,507
Due from AgFirst Farm Credit Bank	6,942	11,611
Other assets	4,834	6,201
Total assets	\$ 1,496,742	\$ 1,556,106
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,267,546	\$ 1,318,784
Accrued interest payable	4,393	5,347
Patronage refund payable	85	10,649
Other liabilities	14,251	15,585
Total liabilities	1,286,275	1,350,365
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	18,253	18,430
Retained earnings		
Allocated	72,575	71,860
Unallocated	119,633	115,444
Accumulated other comprehensive income (loss)	6	7
Total members' equity	210,467	205,741
Total liabilities and members' equity	\$ 1,496,742	\$ 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 June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
Interest Income				
Loans	\$ 21,524	\$ 27,654	\$ 44,467	\$ 55,642
Other	175	204	349	393
Total interest income	21,699	27,858	44,816	56,035
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	13,385	18,628	28,208	37,551
Net interest income	8,314	9,230	16,608	18,484
Provision for (reversal of allowance for) loan losses	3,200	493	6,425	2,743
Net interest income after provision for (reversal of allowance for) loan losses	5,114	8,737	10,183	15,741
Noninterest Income				
Loan fees	537	314	989	616
Fees for financially related services	12	12	54	22
Equity in earnings of other Farm Credit institutions	3,603	2,687	6,979	5,220
Gains (losses) on other property owned, net	(196)	(184)	(405)	(189)
Gains (losses) on sale of rural home loans, net	176	132	290	239
Other noninterest income	78	45	173	146
Total noninterest income	4,210	3,006	8,080	6,054
Noninterest Expense				
Salaries and employee benefits	3,518	2,730	6,828	5,623
Occupancy and equipment	370	334	711	672
Insurance Fund premium	621	589	1,247	1,150
Other operating expenses	1,097	1,115	2,264	2,531
Total noninterest expense	5,606	4,768	11,050	9,976
Income before income taxes	3,718	6,975	7,213	11,819
Provision (benefit) for income taxes	4	13	9	20
Net income	\$ 3,714	\$ 6,962	\$ 7,204	\$ 11,799

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			11,799		11,799
Employee benefit plans adjustments			(2)		(2)
Total comprehensive income					11,797
Capital stock/participation certificates issued/(retired), net	112				112
Patronage distribution adjustment		(847)	469		(378)
Balance at June 30, 2008	\$ 18,629	\$ 62,782	\$ 121,768	\$ 8	\$ 203,187
Balance at December 31, 2008	\$ 18,430	\$ 71,860	\$ 115,444	\$ 7	\$ 205,741
Comprehensive income					
Net income			7,204		7,204
Employee benefit plans adjustments				(1)	(1)
Total comprehensive income					7,203
Capital stock/participation certificates issued/(retired), net	(177)				(177)
Patronage distribution adjustment		715	(3,015)		(2,300)
Balance at June 30, 2009	\$ 18,253	\$ 72,575	\$ 119,633	\$ 6	\$ 210,467

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

