

SECOND QUARTER 2008

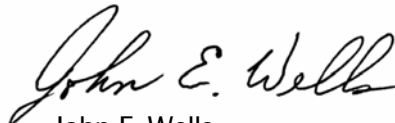
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David E. Lawrence
Chief Executive Officer



David G. Sauer
Chief Financial Officer



John E. Wells
Chairman of the Board

July 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 June 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 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, 2008, the gross loan volume of the Association was \$1,620,534. This was an increase of \$117,524 or 7.82% as compared to \$1,503,010 at December 31, 2007. The increase in gross loan volume was due to the continued demand for real estate loans and operating loans. Net loans outstanding at June 30, 2008, were \$1,615,939 as compared to \$1,499,316 at December 31, 2007. Net loans were 95.61 percent of total assets at June 30, 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 \$8,860 at June 30, 2008. The increase was primarily the result of several loans being downgraded to nonaccrual status.

Other property owned showed an increase of \$1,726 at June 30, 2008 compared to December 31, 2007. 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 June 30, 2008, was \$4,595.

RESULTS OF OPERATIONS

For the three months ended June 30, 2008

Net income for the three months ended June 30, 2008 totaled \$6,962, as compared to \$8,060 for the same period in 2007, a decrease of \$1,098 or 13.62%. The decrease was mainly the result of last year's net income being higher due to a refund of state income taxes. Net interest income increased \$400, or 4.53%, for the three months ended June 30, 2008, as compared to the same period in 2007. The increase in net interest income was primarily due to an increase in loan volume compared to same period last year.

The provision for loan losses for the three months ended June 30, 2008, totaled \$493 compared to \$150 for the same period in 2007. The increase in the provision was primarily due to the growth in loan volume.

Noninterest income for the three months ended June 30, 2008, totaled \$3,006, as compared to \$3,232 for the same period of 2007, a decrease of \$226 or 6.99%. The decrease was primarily the result of last year's noninterest income being higher due to interest received on the refund of state income taxes. Interest on the refund of state income taxes totaled \$488. Without this item, noninterest income actually increased \$262. This was mainly due to the increase in equity in earnings of AgFirst Farm Credit Bank.

Noninterest expenses for the three months ended June 30, 2008 totaled \$4,768. This was an increase of \$328, or 7.39%, compared to the same period of 2007. The increase was mainly due to an increase in employees' salaries and benefits, an increase in occupancy and equipment expenses, and higher Farm Credit System insurance fund premium expense.

The provision for income taxes for the three months ended June 30, 2008, totaled \$13 compared to a benefit for income taxes of \$588 for the same period in 2007. For 2007, the benefit for income taxes of \$588 was a result of a refund of state income taxes totaling \$601. The refund was due to the 2001 settlement agreement with the IRS related to the taxability of earnings from the Association's long-term mortgage lending activities prior to 2001. Virginia and Maryland agreed to the change in taxable income and issued refunds of income taxes in the second quarter of 2007.

For the six months ended June 30, 2008

Net income for the six months ended June 30, 2008 totaled \$11,799, as compared to \$14,846 for the same period in 2007, a decrease of \$3,047 or 20.52%. The decrease was mainly due to the increase in provision for loan loss and last year's net income being higher due to a refund of state income taxes.

Net interest income for the first six months increased \$1,074 compared to the same period in 2007. The increase in net interest income was primarily due to an increase in loan volume compared to last year.

Provision for loan losses for the six months ended June 30, 2008, totaled \$2,743 compared to \$150 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 after taking a large charge-off on a loan during first quarter of 2008 and the growth in loan volume.

Noninterest income for the six months ended June 30, 2008, totaled \$6,054, as compared to \$5,989 for the same period of 2007, an increase of \$65. The increase was primarily due to an increase in equity in earnings of AgFirst Farm Credit Bank.

Noninterest expenses for the six months ended June 30, 2008 totaled \$9,976. This was an increase of \$1,001 or 11.15% compared to the same period of 2007. The increase was mainly due to an increase in employees' salaries and benefits, an increase in occupancy and equipment expenses, and higher Farm Credit System insurance fund premium expense.

The provision for income taxes for the six months ended June 30, 2008, total \$20 as compared to a benefit for income taxes of \$572 for the same period in 2007. The benefit for income taxes in 2007 was a result of a refund of state income taxes. The refund was due to the 2001 settlement agreement with the IRS related to the taxability of earnings from the Association's long-term mortgage lending activities prior to 2001.

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, 2008, was \$1,465,344 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 June 30, 2008 totaled \$203,187, an increase of \$11,531, 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 June 30, 2008, the Association's total surplus ratio and core surplus ratio were

10.36 percent and 10.36 percent, respectively, and the permanent capital ratio was 11.58 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.

SIGNIFICANT EVENT

Effective July 1, 2008, the Association and Valley Farm Credit, ACA (Valley) entered into an agreement where David Lawrence, in addition to being chief executive officer of the Association, would serve as chief executive officer for Valley. This action was taken because Valley's chief executive officer retired in June, 2008. Valley is headquartered in Winchester, Virginia. At December 31, 2007, Valley's had total assets of \$190,727.

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>	June 30, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
Assets		
Cash	\$ 3,526	\$ 3,627
Loans	1,620,534	1,503,010
Less: allowance for loan losses	4,595	3,694
Net loans	1,615,939	1,499,316
Loans held for sale	799	443
Other investments	14,793	15,065
Accrued interest receivable	14,133	10,661
Investment in other Farm Credit institutions	21,022	21,022
Premises and equipment, net	5,710	5,908
Other property owned	2,522	796
Due from AgFirst Farm Credit Bank	5,222	11,240
Other assets	6,453	6,013
Total assets	\$ 1,690,119	\$ 1,574,091
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,465,344	\$ 1,341,684
Accrued interest payable	6,282	6,565
Patronage refund payable	88	18,306
Other liabilities	15,218	15,880
Total liabilities	1,486,932	1,382,435
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	18,629	18,517
Retained earnings		
Allocated	62,782	63,629
Unallocated	121,768	109,502
Accumulated other comprehensive income (loss)	8	8
Total members' equity	203,187	191,656
Total liabilities and members' equity	\$ 1,690,119	\$ 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)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	2008	2007
Interest Income				
Loans	\$ 27,654	\$ 26,891	\$ 55,642	\$ 52,451
Other	204	197	393	345
Total interest income	27,858	27,088	56,035	52,796
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	18,628	18,258	37,551	35,386
Net interest income	9,230	8,830	18,484	17,410
Provision for (reversal of allowance for) loan losses	493	150	2,743	150
Net interest income after provision for (reversal of allowance for) loan losses	8,737	8,680	15,741	17,260
Noninterest Income				
Loan fees	314	231	616	480
Fees for financially related services	12	11	22	35
Equity in earnings of other Farm Credit institutions	2,687	2,340	5,220	4,528
Gains (losses) on other property owned, net	(184)	(29)	(189)	(24)
Gains (losses) on sale of rural home loans, net	132	168	239	344
Other noninterest income	45	511	146	626
Total noninterest income	3,006	3,232	6,054	5,989
Noninterest Expense				
Salaries and employee benefits	2,730	2,527	5,623	5,247
Occupancy and equipment	334	359	672	701
Insurance Fund premium	589	515	1,150	1,006
Other operating expenses	1,115	1,039	2,531	2,021
Total noninterest expense	4,768	4,440	9,976	8,975
Income before income taxes	6,975	7,472	11,819	14,274
Provision (benefit) for income taxes	13	(588)	20	(572)
Net income	\$ 6,962	\$ 8,060	\$ 11,799	\$ 14,846

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			14,846		14,846
Capital stock/participation certificates issued/(retired), net	66				66
Patronage distribution adjustment		371	(365)		6
Balance at June 30, 2007	\$ 18,384	\$ 55,216	\$ 121,061	\$ —	\$ 194,661
Balance at December 31, 2007	\$ 18,517	\$ 63,629	\$ 109,502	\$ 8	\$ 191,656
Net income			11,799		11,799
Capital stock/participation certificates issued/(retired), net	112				112
Patronage distribution adjustment		(847)	469		(378)
Employee benefit plans adjustments			(2)		(2)
Balance at June 30, 2008	\$ 18,629	\$ 62,782	\$ 121,768	\$ 8	\$ 203,187

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 second 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 six months ended June 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 June 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 six months ended June 30,	
	2008	2007
Balance at beginning of period	\$ 3,694	\$ 2,445
Provision for (reversal of) loan losses	2,743	150
Loans (charged off), net of recoveries	(1,842)	(62)
Balance at end of period	<u>\$ 4,595</u>	<u>\$ 2,553</u>

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	2008	2007
Pension	\$ 308	\$ 495
401(k)	159	141
Other postretirement benefits	259	292
Total	<u>\$ 726</u>	<u>\$ 928</u>

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

	Actual YTD Through 6/30/08	Projected Contributions For Remainder of 2008	Projected Total Contributions 2008
Pension	\$ 4	\$ 5	\$ 9
Other postretirement benefits	179	186	365
Total	<u>\$ 183</u>	<u>\$ 191</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 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 \$2 thousand.

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 six months of 2008, \$0 has been recognized as a credit to accumulated other comprehensive income 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.