

THIRD QUARTER 2005

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Chief Executive Officer



William J. Franklin, Jr.
Chairman of the Board

October 28, 2005

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 September 30, 2005. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2004 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, 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.

The gross loan volume of the Association as of September 30, 2005, was \$1,181,703, an increase of \$50,841 as compared to \$1,130,862 at December 31, 2004. During the past nine months, loan volume has increased primarily due to the continued strong demand for loans. With continued low mortgage interest rates, the demand for mortgage loans continued at a strong pace. Net loans outstanding at September 30, 2005, were \$1,178,966 as compared to \$1,127,915 at December 31, 2004. Net loans were 96.29 percent of total assets at September 30, 2005.

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 \$2,511 at December 31, 2004, to \$4,221 at September 30, 2005. The increase was primarily the

result of additional 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 based on current and expected future conditions. 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 September 30, 2005, was \$2,737.

RESULTS OF OPERATIONS

For the three months ended September 30, 2005

Net income for the three months ended September 30, 2005, totaled \$6,110, as compared to \$5,381 for the same period in 2004, an increase of \$729 or 13.55 percent. The increase in net income was primarily due to an increase in net interest income.

Net interest income increased \$1,158 or 17.96 percent, for the three months ended September 30, 2005, as compared to the same period in 2004. The increase in net interest income was mainly due to the increase in loan volume and higher return on investments that are tied to short-term interest rates when compared to same quarter last year.

Noninterest income for the three months ended September 30, 2005, totaled \$2,318, as compared to \$2,171 the same period of 2004, an increase of \$147. The increase was due primarily to an increase in equity in earnings from AgFirst Farm Credit Bank (the Bank).

Noninterest expense for the three months ended September 30, 2005 totaled \$3,808. This was an increase of \$466 compared to the same period of 2004. The increase was primarily due to last year recording as adjustment for lower insurance fund premium expense and an increase this year in other operating expenses.

For the nine months ended September 30, 2005

Net income for the nine months ended September 30, 2005, totaled \$18,168, as compared to \$15,134 for the same period in 2004, an increase of \$3,034 or 20.05 percent. Net interest income for the first nine months increased \$3,395 compared to the same period in 2004. The increase in net interest income was primarily due to an increase in loan volume and higher return on investments that are tied to short-term interest rates when compared to same period last year.

Noninterest income for nine months ended September 30, 2005, totaled \$6,798, as compared to \$6,915 for the same period of 2004, a decrease of \$117. The decrease was primarily due to the sale of two office buildings last year that caused noninterest income to increase. Noninterest expenses for the nine months ended September 30, 2005 totaled \$10,687. This was an increase of \$302 compared to the same period of 2004. The increase was mainly due to higher 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 September 30, 2005, was \$1,007,896 as compared to \$959,297 at December 31, 2004. The increase during the period is primarily attributed to the increase in loan volume.

CAPITAL RESOURCES

Total members' equity at September 30, 2005 totaled \$198,971, an increase of \$17,309, as compared to \$181,662 at December 31, 2004. 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 September 30, 2005, the Association's permanent capital ratio was 15.54 percent, total surplus ratio was 13.91 percent and core surplus ratio was 11.87 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>	September 30, 2005 <i>(unaudited)</i>	December 31, 2004 <i>(audited)</i>
Assets		
Cash	\$ 1,975	\$ 2,039
Loans	1,181,703	1,130,862
Less: allowance for loan losses	2,737	2,947
Net loans	1,178,966	1,127,915
Accrued interest receivable	11,252	6,348
Investment in other Farm Credit institutions	13,524	13,524
Premises and equipment, net	4,555	4,116
Other property owned	319	—
Other assets	13,757	18,157
Total assets	<u>\$ 1,224,348</u>	<u>\$ 1,172,099</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,007,896	\$ 959,297
Accrued interest payable	4,195	3,651
Patronage refund payable	47	10,072
Postretirement benefits other than pensions	6,003	5,630
Other liabilities	7,236	11,787
Total liabilities	<u>1,025,377</u>	<u>990,437</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	18,815	19,094
Retained earnings		
Allocated	59,180	58,640
Unallocated	120,976	103,928
Total members' equity	<u>198,971</u>	<u>181,662</u>
Total liabilities and members' equity	<u>\$ 1,224,348</u>	<u>\$ 1,172,099</u>

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 September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
Interest Income				
Loans	\$ 19,988	\$ 16,910	\$ 57,305	\$ 48,839
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	12,382	10,462	35,338	30,267
Net interest income	7,606	6,448	21,967	18,572
Provision for (reversal of) loan losses	—	—	(78)	—
Net interest income after provision for (reversal of) loan losses	7,606	6,448	22,045	18,572
Noninterest Income				
Loan fees	195	194	572	497
Fees for financially related services	56	100	80	123
Equity in earnings of other Farm Credit institutions	1,916	1,774	5,595	5,173
Other noninterest income	151	103	551	1,122
Total noninterest income	2,318	2,171	6,798	6,915
Noninterest Expense				
Salaries and employee benefits	2,292	2,330	6,969	6,949
Occupancy and equipment	279	247	815	734
Insurance Fund premium	201	(124)	424	414
Other operating expenses	1,036	889	2,479	2,288
Total noninterest expense	3,808	3,342	10,687	10,385
Income before income taxes	6,116	5,277	18,156	15,102
Provision (benefit) for income taxes	6	(104)	(12)	(32)
Net income	\$ 6,110	\$ 5,381	\$ 18,168	\$ 15,134

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)

	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
		Allocated	Unallocated		
<i>(dollars in thousands)</i>					
Balance at December 31, 2003	\$ 19,735	\$ 58,345	\$ 78,727	\$ (5,297)	\$ 151,510
Net income			15,134		15,134
Capital stock/participation certificates issued	1,077				1,077
Capital stock/participation certificates retired	(1,619)				(1,619)
Retained earnings retired		(116)			(116)
Distribution adjustment		298	256		554
Balance at September 30, 2004	\$ 19,193	\$ 58,527	\$ 94,117	\$ (5,297)	\$ 166,540
Balance at December 31, 2004	\$ 19,094	\$ 58,640	\$ 103,928	\$ —	\$ 181,662
Net income			18,168		18,168
Capital stock/participation certificates issued	1,084				1,084
Capital stock/participation certificates retired	(1,363)				(1,363)
Retained earnings retired		(20)			(20)
Distribution adjustment		560	(1,120)		(560)
Balance at September 30, 2005	\$ 18,815	\$ 59,180	\$ 120,976	\$ —	\$ 198,971

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, 2004, are contained in the 2004 Annual Report to Shareholders. These unaudited third quarter 2005 consolidated financial statements should be read in conjunction with the 2004 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 nine months ended September 30, 2005, are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

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 September 30, 2005, 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 12-31-03	\$ 23,302
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	<u>547</u>
Balance at 9-30-04	<u>\$ 23,849</u>
Balance at 12-31-04	\$ 2,947
(Reversal of) provision for loan losses	(78)
Loans (charged off), net of recoveries	<u>(132)</u>
Balance at 9-30-05	<u>\$ 2,737</u>

As discussed in the 2004 Annual Report, the Association recorded a loan loss reversal of \$20,858 in the fourth quarter of 2004 that resulted in a decrease in the allowance for loan losses.

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 nine months ended September 30, 2005:

	For the nine months ended September 30,	
	2005	2004
Pension	\$ 801	\$ 910
Thrift/deferred compensation	168	156
Other postretirement benefits	<u>638</u>	<u>755</u>
Total	<u>\$1,607</u>	<u>\$1,821</u>

The Association had not previously anticipated making a contribution in 2005 to the defined benefit retirement plan based upon actuarial projections as of the last plan measurement date (September 30, 2004). However, due to market conditions affecting discount rates and return on plan assets, current actuarial projections indicated that a contribution was needed to meet the expected accumulated benefit obligation at September 30, 2005. During the third quarter of 2005, the Association contributed \$1,500 to the defined benefit retirement plan. The Association does not anticipate making additional contributions for the remainder of 2005.

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 \$7 to these plans during the first nine months of 2005. The Association anticipates making additional contributions of \$2 to these supplemental retirement and deferred compensation plans during the remainder of 2005.