

# **THIRD QUARTER 2007**

Management's Discussion and Analysis of  
Financial Condition and Results of Operations..... 2

Consolidated Financial Statements

Consolidated Balance Sheets..... 4

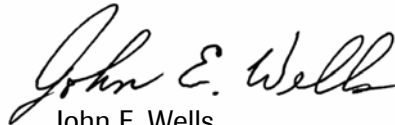
Consolidated Statements of Income..... 5

Consolidated Statements of Changes in Members' Equity..... 6

Notes to the Consolidated Financial Statements..... 7



David E. Lawrence  
Chief Executive Officer



John E. Wells  
Chairman of the Board

October 26, 2007

# 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, 2007. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2006 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 September 30, 2007, the gross loan volume of the Association was \$1,465,930. This was an increase of \$136,148 or 10.24 percent as compared to \$1,329,782 at December 31, 2006. The increase in gross loan volume was due to the continued demand for farm and real estate loans. Net loans outstanding at September 30, 2007, were \$1,463,368 as compared to \$1,327,337 at December 31, 2006. Net loans were 95.42 percent of total assets at September 30, 2007.

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 \$3,886 at December 31, 2006, to \$8,553 at September 30, 2007. 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 September 30, 2007, was \$2,562.

## **RESULTS OF OPERATIONS**

### ***For the three months ended September 30, 2007***

Net income for the three months ended September 30, 2007 totaled \$6,646, as compared to \$6,860 for the same period in 2006, a decrease of \$214 or 3.12 percent. The decrease in net income was primarily due to an increase noninterest expense.

Net interest income increased \$191, or 2.23 percent, for the three months ended September 30, 2007, as compared to the same period in 2006. 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 the three months ended September 30, 2007, totaled \$2,834, as compared to \$2,564 for the same period of 2006, an increase of \$270 or 10.53 percent. 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 \$350, compared to the same period of 2006.

Noninterest expenses for the three months ended September 30, 2007 totaled \$4,841. This was an increase of \$569, or 13.32 percent, compared to the same period of 2006. The increase was mainly due to an increase in employees' salaries and benefits and higher Farm Credit System insurance fund premium expense.

### ***For the nine months ended September 30, 2007***

Net income for the nine months ended September 30, 2007 totaled \$21,492, as compared to \$19,339 for the same period in 2006, an increase of \$2,153 or 11.13 percent. The increase in net income was due to an increase in net interest income, an increase in noninterest income and a refund in state income taxes.

Net interest income for the first nine months increased \$1,291 compared to the same period in 2006. 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 the nine months ended September 30, 2007, totaled \$8,847, as compared to \$7,248 for the same period of 2006, an increase of \$1,599. The increase was primarily due to an increase in equity in earnings of AgFirst Farm Credit Bank and interest on a refund of state income taxes.

Noninterest expenses for the nine months ended September 30, 2007 totaled \$13,840. This was an increase of \$1,083 compared to the same period of 2006. The increase was mainly due to an increase in employees' salaries and benefits, an increase in other operating expenses, and higher Farm Credit System insurance fund premium expense.

The benefit for income taxes for the nine months ended September 30, 2007, total \$566 compared to a provision for income taxes of \$30 for the same period in 2006. The benefit for income taxes of \$566 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.

### 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, 2007, was \$1,311,638 as compared to \$1,168,915 at December 31, 2006. The increase during the period is primarily attributed to the increase in loan volume.

### CAPITAL RESOURCES

Total members' equity at September 30, 2007 totaled \$201,381, an increase of \$21,638, as compared to \$179,743 at December 31, 2006. 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, 2007, the Association's total surplus ratio and core surplus ratio were 10.83 percent and 10.83 percent, respectively, and the permanent capital ratio was 12.09 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 30<sup>th</sup>. 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. 316, or writing Wanda Martin, 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](http://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](http://www.farmcreditofvirginias.com). The Association prepares a quarterly report within 45 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>	<b>September 30, 2007</b> <i>(unaudited)</i>	<b>December 31, 2006</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 1,386	\$ 2,716
Loans	1,465,930	1,329,782
Less: allowance for loan losses	2,562	2,445
Net loans	1,463,368	1,327,337
Other investments, held to maturity	14,635	10,401
Accrued interest receivable	15,751	10,645
Investment in other Farm Credit institutions	18,304	18,304
Premises and equipment, net	6,028	6,247
Other property owned	796	—
Deferred tax asset, net	9	9
Prepaid retirement expense	4,376	5,114
Due from AgFirst Farm Credit Bank	6,986	9,844
Other assets	2,030	2,511
Total assets	<u>\$ 1,533,669</u>	<u>\$ 1,393,128</u>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,311,638	\$ 1,168,915
Accrued interest payable	6,470	5,587
Patronage refund payable	48	18,204
Postretirement benefits other than pensions	6,676	6,483
Minimum pension liability	118	119
Other liabilities	7,338	14,077
Total liabilities	<u>1,332,288</u>	<u>1,213,385</u>
Commitments and contingencies		
<b>Members' Equity</b>		
Capital stock and participation certificates	18,458	18,318
Retained earnings		
Allocated	55,216	54,845
Unallocated	127,707	106,580
Total members' equity	<u>201,381</u>	<u>179,743</u>
Total liabilities and members' equity	<u>\$ 1,533,669</u>	<u>\$ 1,393,128</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>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Interest Income</b>				
Loans	\$ 27,768	\$ 24,093	\$ 80,219	\$ 68,352
Other	202	157	547	431
Total interest income	27,970	24,250	80,766	68,783
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	19,211	15,682	54,597	43,905
Net interest income	8,759	8,568	26,169	24,878
Provision for (reversal of allowance for) loan losses	100	—	250	—
Net interest income after provision for (reversal of allowance for) loan losses	8,659	8,568	25,919	24,878
<b>Noninterest Income</b>				
Loan fees	154	226	634	601
Fees for financially related services	12	68	47	100
Equity in earnings of other Farm Credit institutions	2,458	2,108	6,986	6,027
Other noninterest income	210	162	1,180	520
Total noninterest income	2,834	2,564	8,847	7,248
<b>Noninterest Expense</b>				
Salaries and employee benefits	2,817	2,337	8,064	7,502
Occupancy and equipment	321	328	1,022	956
Insurance Fund premium	539	475	1,545	1,369
Other operating expenses	1,160	1,132	3,181	2,965
Losses on other property owned, net	4	—	28	(35)
Total noninterest expense	4,841	4,272	13,840	12,757
Income before income taxes	6,652	6,860	20,926	19,369
Provision (benefit) for income taxes	6	—	(566)	30
Net income	\$ 6,646	\$ 6,860	\$ 21,492	\$ 19,339

*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, 2005	\$ 18,568	\$ 60,085	\$ 104,480	\$ 183,133
Net income			19,339	19,339
Capital stock/participation certificates issued	748			748
Capital stock/participation certificates retired	(997)			(997)
Retained earnings retired		(29)		(29)
Distribution adjustment		(893)	105	(788)
Balance at September 30, 2006	\$ 18,319	\$ 59,163	\$ 123,924	\$ 201,406
Balance at December 31, 2006	\$ 18,318	\$ 54,845	\$ 106,580	\$ 179,743
Net income			21,492	21,492
Capital stock/participation certificates issued	1,558			1,558
Capital stock/participation certificates retired	(1,418)			(1,418)
Distribution adjustment		371	(365)	6
Balance at September 30, 2007	\$ 18,458	\$ 55,216	\$ 127,707	\$ 201,381

*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, 2006, are contained in the 2006 Annual Report to Shareholders. These unaudited third quarter 2007 consolidated financial statements should be read in conjunction with the 2006 Annual Report to Shareholders.

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 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 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 uses 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 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.

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, 2007, are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

Certain amounts in prior period consolidated financial statements may 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, 2007, 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:

	<b>For the nine months ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Balance at beginning of period	\$ 2,445	\$ 2,736
Provision for (reversal of) loan losses	250	–
Loans (charged off), net of recoveries	(133)	(188)
Balance at end of period	<u>\$ 2,562</u>	<u>\$ 2,548</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:

	<b>For the nine months ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Pension	\$ 743	\$ 841
Thrift/deferred compensation	209	195
Other postretirement benefits	438	443
Total	<u>\$ 1,390</u>	<u>\$ 1,479</u>

As of September 30, 2007, no contributions have been made to the pension plan for 2007. The Association does not anticipate making additional contributions for the remainder of 2007.

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 2007. The Association anticipates making additional contributions of \$2 to these supplemental retirement and deferred compensation plans during the remainder of 2007.