
Farm Credit of the Virginias, ACA
FIRST QUARTER 2002

Management's Discussion and Analysis of
Financial Condition and Results of Operations2

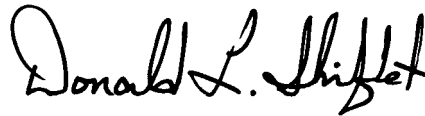
Consolidated Financial Statements

Consolidated Balance Sheets4

Consolidated Statements of Income.....5

Consolidated Statements of Changes in Members' Equity6

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



Donald L. Shiflet
Chief Executive Officer



Paul House
Chairman of the Board

April 29, 2002

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, 2002. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2001 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 March 31, 2002, was \$939,791, an increase of \$37,236 as compared to \$902,555 at December 31, 2001. During the past three months, loan volume has increased primarily due to the continued strong demand in loans. With interest rates remaining at 30 year historical lows, the demand for loans have continued at a strong pace. Net loans outstanding at March 31, 2002, were \$917,114 as compared to \$880,455 at December 31, 2001. Net loans were 96.54 percent of total assets at March 31, 2002.

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 decreased from \$1,933 at December 31, 2001, to \$1,639 at March 31, 2002. This decrease is primarily the result of several of the loans being paid down.

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. The Association made an addition of \$600 to the allowance for loan losses during the three months ended March 31, 2002. The addition was mainly due to an increase in portfolio risk as the economy continued to show some weakness. The allowance for loan losses at March 31, 2002, was \$22,677 compared to \$22,100 at December 31, 2001, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2002, totaled \$3,239, as compared to \$485 for the same period in 2001, an increase of \$2,754. The increase in net income for the first quarter 2002, was primarily due to the one-time charges related to the merger which were recorded during the first quarter 2001.

Net interest income decreased \$1,013, for the three months ended March 31, 2002, as compared to the same period in 2001. The decrease in net interest income was due primarily to lower interest rates on the Association's loan portfolio. Although the Association experienced growth in loan volume exceeding 15% when compared to the first quarter of 2001, the historical low interest rates have resulted in reducing the Association's earnings on its lendable capital.

Noninterest income for the three months ended March 31, 2002, totaled \$1,733, as compared to \$1,474 for the same period of 2001, an increase of \$259. The increase was due primarily to an increase in loan fees of \$97 and an increase in equity in earnings of *AgFirst Farm Credit Bank* (the Bank) of \$150. The increase in loan fees was the result of fee income from loans sold into the secondary mortgage market.

Noninterest expense for the three months ended March 31, 2002 totaled \$2,768. This was a decrease of \$3,276 compared to the same period of 2001. The primary reason for decrease was the merger-related expenses \$3,545 recorded in 2001. There were no merger-related expenses recorded during the period for 2002. Without the merger-related expenses, noninterest expense increased \$269. The increase was mainly due to increases in salaries and employee benefits and insurance fund premium.

There was no income tax expense provision recorded during the first quarter of 2002 compared to \$735 for the same period last year. Last year's income tax expense was primarily due to the reduction in net deferred tax asset to conform the patronage policy of Southwest Virginia Farm Credit to the Association.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with *AgFirst Farm Credit Bank* (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, 2002, was \$768,899 as compared to \$737,512 at December 31, 2001. The increase during the period is primarily attributed to the increase in loan volume.

CAPITAL RESOURCES

Total members' equity at March 31, 2002 totaled \$161,285, increase of \$4,615, as compared to \$156,670 at December 31, 2001. The increase 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, 2002, the Association's total surplus ratio and core surplus ratio were 13.73 percent and 10.69 percent, respectively, and the permanent capital ratio was 16.31 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.

IRS TAX SETTLEMENT

As previously disclosed in the 2001 Annual Report of the Association, Farm Credit System Agricultural Credit Associations (ACA) entered into a settlement process with the IRS to resolve conclusively the status of all claimed refunds and the ongoing tax status of the ACA using another ACA as a model. In August 2000, the model ACA reached a settlement agreement with the IRS, which established the collectibility of a portion of the claimed refunds of taxes previously paid, plus interest, related to income earned in prior years from the mortgage lending activities of the ACA. This agreement also confirmed that all income generated by an ACA will be taxable in future periods. Effective January 1, 2001, the Association reorganized to operate their long-term mortgage lending activities through a newly created FLCA subsidiary and their short- and intermediate-term lending activities through a newly created PCA subsidiary. Income earned by the FLCA subsidiary is exempt from taxation. As a result, the Association recognized \$4,113 in tax refunds and \$1,834 of interest on those refunds in 2001.

Farm Credit of the Virginias, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2002	December 31, 2001
	<i>(unaudited)</i>	
Assets		
Cash	\$ 208	\$ 538
Loans	939,791	902,555
Less: allowance for loan losses	22,677	22,100
Net loans	917,114	880,455
Accrued interest receivable	8,122	6,386
Investment in <i>Ag First Farm Credit Bank</i>	17,873	17,873
Premises and equipment, net	3,832	3,873
Deferred tax asset, net	23	13
Other assets	2,812	7,138
Total assets	<u>\$ 949,984</u>	<u>\$ 916,276</u>
Liabilities		
Notes payable to <i>Ag First Farm Credit Bank</i>	\$ 768,899	\$ 737,512
Accrued interest payable	3,932	3,831
Patronage refund payable	63	9,886
Postretirement benefits other than pensions	3,866	3,771
Other liabilities	11,939	4,606
Total liabilities	<u>788,699</u>	<u>759,606</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	21,177	21,580
Retained earnings		
Allocated	57,123	55,329
Unallocated	82,985	79,761
Total members' equity	<u>161,285</u>	<u>156,670</u>
Total liabilities and members' equity	<u>\$ 949,984</u>	<u>\$ 916,276</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 March 31,	
	2002	2001
Interest Income		
Loans	\$ 15,611	\$ 17,255
Interest Expense		
Notes payable to Ag First Farm Credit Bank	10,737	11,368
Net interest income	4,874	5,887
Provision for (reversal of) loan losses	600	97
Net interest income after provision for (reversal of) loan losses	4,274	5,790
Noninterest Income		
Loan fees	241	144
Fees for financially related services	18	21
Equity in earnings of Ag First Farm Credit Bank	1,389	1,239
Miscellaneous	85	70
Total noninterest income	1,733	1,474
Noninterest Expense		
Salaries and employee benefits	1,940	1,745
Occupancy and equipment	216	234
Insurance Fund premium	69	—
Other operating expenses	543	520
Merger-related expenses	—	3,545
Total noninterest expense	2,768	6,044
Income before income taxes	3,239	1,220
Provision (benefit) for income taxes	—	735
Net income	\$ 3,239	\$ 485

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)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	<u>Retained Earnings</u>		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2000	\$ 23,874	\$ 55,994	\$ 76,870	\$ 156,738
Net income			485	485
Capital stock/participation certificates issued	204			204
Capital stock/participation certificates retired	(605)			(605)
Retained earnings retired		(59)		(59)
Distribution adjustment		(1)	(1)	(2)
Balance at March 31, 2001	<u>\$ 23,473</u>	<u>\$ 55,934</u>	<u>\$ 77,354</u>	<u>\$ 156,761</u>
Balance at December 31, 2001	\$ 21,580	\$ 55,329	\$ 79,761	\$ 156,670
Net income			3,239	3,239
Capital stock/participation certificates issued	299			299
Capital stock/participation certificates retired	(702)			(702)
Retained earnings retired		(14)		(14)
Distribution adjustment		1,808	(15)	1,793
Balance at March 31, 2002	<u>\$ 21,177</u>	<u>\$ 57,123</u>	<u>\$ 82,985</u>	<u>\$ 161,285</u>

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

Farm Credit of the Virginias, ACA

Notes to 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, 2001, are contained in the 2001 Annual Report to Stockholders. These unaudited first quarter 2002 consolidated financial statements should be read in conjunction with the 2001 Annual Report to Stockholders.

As disclosed in the 2001 Annual Report, pursuant to a plan of restructuring approved by the Farm Credit Administration and Association shareholders, the Association reorganized its corporate structure effective January 1, 2001. Pursuant to this restructuring, a Federal Land Credit Association (FLCA) and Production Credit Association (PCA) were formed as wholly owned subsidiaries of the Association. The formation of these subsidiaries enables the Association to take advantage of the tax-exempt status of long-term mortgage interest for loans held by the FLCA. This restructuring was accounted for as a reorganization of entities under common control similar to a pooling of interests.

Prior to the restructuring, the Association was subject to federal and state income tax. As a result of the restructuring, long-term lending activity has been separated into a wholly owned FLCA subsidiary which is exempt from federal and state income tax. The ACA, which is the holding company, along with the wholly owned PCA subsidiary, will continue to be subject to income tax.

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, 2002, are not necessarily indicative of the results to be expected for the year ending December 31, 2002.

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, 2002, 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 12-31-00	\$20,400
(Reversal of) provision for loan losses	97
Recoveries, net of loans charged off	<u>4</u>
Balance at 3-31-01	<u>\$20,501</u>
Balance at 12-31-01	\$22,100
(Reversal of) provision for loan losses	600
Loans (charged off), net of recoveries	<u>(23)</u>
Balance at 3-31-02	<u>\$22,677</u>