

SECOND QUARTER 2003

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 Lawrence
Chief Executive Officer



W. W. Sanford, III
Chairman of the Board

July 29, 2003

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, 2003. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2002 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 June 30, 2003, was \$1,070,698, an increase of \$48,185 as compared to \$1,022,513 at December 31, 2002. During the past six months, loan volume has increased primarily due to the continued strong demand in loans. With interest rates continuing to fall to 40 year historical lows, the demand for loans has continued at a strong pace. Net loans outstanding at June 30, 2003, were \$1,045,098 as compared to \$998,008 at December 31, 2002. Net loans were 97.00 percent of total assets at June 30, 2003.

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 \$10,351 at December 31, 2002, to \$10,518 at June 30, 2003. This increase was primarily 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 based on current and expected future conditions. The Association increased the allowance for loan losses \$1,095 during the six months ended June 30, 2003. The addition was due to an increase in portfolio risk as the economy continued to show weakness, weakness in timber and dairy commodity prices, and an increase in loan volume. The allowance for loan losses at June 30, 2003, was \$25,600 compared to \$24,505 at December 31, 2002, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2003

Net income for the three months ended June 30, 2003, totaled \$4,124, as compared to \$3,087 for the same period in 2002, an increase of \$1,037 or 33.59 percent. The increase in net income was primarily due to an increase in net interest income and higher fee income from loans.

Net interest income increased \$1,019 or 20.16 percent, for the three months ended June 30, 2003, as compared to the same period in 2002. The increase in net interest income was mainly due to the increase in loan volume when compared to the same period last year.

Noninterest income for the three months ended June 30, 2003, totaled \$2,272, as compared to \$1,759 for the same period of 2002, an increase of \$513. The increase was due primarily to an increase in loan fees of \$260 and an increase in equity in earnings of AgFirst Farm Credit Bank (the Bank) of \$202. The increase in loan fees was the result of increased fee income from loans sold into the secondary mortgage market. The Association continued to experience increased home mortgage loan originations as customers refinanced their mortgages to take advantage of the low interest rate environment.

Noninterest expense for the three months ended June 30, 2003 totaled \$3,647. This was an increase of \$553 compared to the same period of 2002. The primary reasons for the increase were higher salaries and employee benefits expenses and higher insurance fund premium. Salaries and employee benefits increased \$277. The increase was primarily due to annual salary increases, additional staff, higher pension and retirement cost, and increases in medical insurance expenses. The higher insurance fund premium of \$247 was due to an overall increase in Farm Credit System loan volume.

For the six months ended June 30, 2003

Net income for the six months ended June 30, 2003, totaled \$8,101, as compared to \$6,326 for the same period in 2002, an increase of \$1,775 or 28.06 percent. The increase was mainly due to an increase in net interest income, fees on loans, and an increase in equity in earnings of the Bank.

Net interest income increased \$1,866, or 18.79 percent, for the six months ended June 30, 2003, as compared to the same period in 2002. The increase in net interest income was mainly due to the increase in loan volume when compared to the same period last year.

The Association recorded a provision for loan losses of \$1,180 for the six months ended June 20, 2003, compared to a provision of \$1,223 for the same period last year, a decrease of \$43.

Noninterest income for the six months ended June 30, 2003, totaled \$4,457, as compared to \$3,492 for the same period of 2002, an increase of \$965, or 27.63 percent. The increase was due primarily to an increase in loan fees of \$494 and an increase in equity in earnings of the Bank of \$404. The increase in loan fees was the result of increased fee income from loans sold into the secondary mortgage market. The increase in equity in earnings of the Bank was due to the increase in loan volume.

Noninterest expense for the six months ended June 30, 2003, increased \$1,300 compared to the same period of 2002. The primary reasons for the increase were higher salaries and employee benefits expenses and higher insurance fund premium. Salaries and employee benefits increased \$749. The increase was primarily due to annual salary increases, additional staff, higher pension and retirement cost, and increases in medical

insurance expenses. The higher insurance fund premium of \$487 was due to the overall increase in Farm Credit System loan volume.

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, 2003, was \$902,375 as compared to \$847,329 at December 31, 2002. The increase during the period is primarily attributed to the increase in loan volume.

CAPITAL RESOURCES

Total members' equity at June 30, 2003 totaled \$158,166, an increase of \$7,508, as compared to \$150,658 at December 31, 2002. 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, 2003, the Association's permanent capital ratio was 14.14 percent, total surplus ratio was 12.18 percent and core surplus ratio was 9.06 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.

Farm Credit of the Virginias, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2003	December 31, 2002
	<i>(unaudited)</i>	
Assets		
Cash	\$ 222	\$ 665
Loans	1,070,698	1,022,513
Less: allowance for loan losses	25,600	24,505
Net loans	1,045,098	998,008
Accrued interest receivable	7,993	6,281
Investment in AgFirst Farm Credit Bank	15,306	15,306
Premises and equipment, net	3,653	3,628
Deferred tax asset, net	19	19
Other assets	5,098	7,649
Total assets	\$ 1,077,389	\$ 1,031,556
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 902,375	\$ 847,329
Accrued interest payable	3,840	3,890
Patronage refund payable	33	8,467
Postretirement benefits other than pensions	4,500	4,155
Minimum pension liability	3,670	3,899
Other liabilities	4,805	13,158
Total liabilities	919,223	880,898
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	20,000	20,469
Retained earnings		
Allocated	57,849	57,904
Unallocated	86,178	78,146
Accumulated other comprehensive income (loss)	(5,861)	(5,861)
Total members' equity	158,166	150,658
Total liabilities and members' equity	\$ 1,077,389	\$ 1,031,556

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,	
	2003	2002	2003	2002
Interest Income				
Loans	\$ 16,342	\$ 16,084	\$ 32,379	\$ 31,695
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	10,268	11,029	20,584	21,766
Net interest income	6,074	5,055	11,795	9,929
Provision for (reversal of) loan losses	666	623	1,180	1,223
Net interest income after provision for (reversal of) loan losses	5,408	4,432	10,615	8,706
Noninterest Income				
Loan fees	505	245	980	486
Fees for financially related services	73	15	87	33
Equity in earnings of AgFirst Farm Credit Bank	1,677	1,475	3,268	2,864
Miscellaneous	17	24	122	109
Total noninterest income	2,272	1,759	4,457	3,492
Noninterest Expense				
Salaries and employee benefits	2,387	2,110	4,799	4,050
Occupancy and equipment	246	236	466	452
Insurance Fund premium	318	71	627	140
Other operating expenses	696	677	1,270	1,220
Total noninterest expense	3,647	3,094	7,162	5,862
Income before income taxes	4,033	3,097	7,910	6,336
Provision (benefit) for income taxes	(91)	10	(191)	10
Net income	\$ 4,124	\$ 3,087	\$ 8,101	\$ 6,326

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	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2001	\$ 21,580	\$ 55,329	\$ 79,761	\$ —	\$ 156,670
Net income			6,326		6,326
Capital stock/participation certificates issued	627				627
Capital stock/participation certificates retired	(1,276)				(1,276)
Retained earnings retired		(15)			(15)
Distribution adjustment		1,808	(15)		1,793
Balance at June 30, 2002	<u>\$ 20,931</u>	<u>\$ 57,122</u>	<u>\$ 86,072</u>	<u>\$ —</u>	<u>\$ 164,125</u>
Balance at December 31, 2002	\$ 20,469	\$ 57,904	\$ 78,146	\$ (5,861)	\$ 150,658
Net income			8,101		8,101
Capital stock/participation certificates issued	822				822
Capital stock/participation certificates retired	(1,291)				(1,291)
Retained earnings retired		(90)			(90)
Distribution adjustment		35	(69)		(34)
Balance at June 30, 2003	<u>\$ 20,000</u>	<u>\$ 57,849</u>	<u>\$ 86,178</u>	<u>\$ (5,861)</u>	<u>\$ 158,166</u>

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, 2002, are contained in the 2002 Annual Report to Stockholders. These unaudited second quarter 2003 consolidated financial statements should be read in conjunction with the 2002 Annual Report to Stockholders.

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 six months ended June 30, 2003, are not necessarily indicative of the results to be expected for the year ending December 31, 2003.

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 June 30, 2003, 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 12-31-01	\$ 22,100
(Reversal of) provision for loan losses	1,223
Loans (charged off), net of recoveries	<u>(23)</u>
Balance at 6-30-02	<u>\$ 23,300</u>
Balance at 12-31-02	\$ 24,505
(Reversal of) provision for loan losses	1,180
Loans (charged off), net of recoveries	<u>(85)</u>
Balance at 6-30-03	<u>\$ 25,600</u>