

FIRST 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

April 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 March 31, 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.

As of March 31, 2003, the gross loan volume of the Association was \$1,053,732. This was an increase of \$31,219 as compared to \$1,022,513 at December 31, 2002. During the past three months, loan volume has increased primarily due to the continued strong demand in loans. With interest rates remaining at 40 year historical lows, the demand for loans has continued at a strong pace. Net loans outstanding at March 31, 2003, were \$1,028,732 as compared to \$998,008 at December 31, 2002. Net loans were 97.27 percent of total assets at March 31, 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 \$11,284 at March 31, 2003. The increase was primarily the result of several of the 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 made an addition of \$514 to the allowance for loan losses during the three months ended March 31, 2003. 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, 2003, was \$25,000 compared to \$24,505 at December 31, 2002, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2003, totaled \$3,977, as compared to \$3,239 for the same period in 2002, an increase of \$738 or 22.78 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 \$847, for the three months ended March 31, 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 same quarter last year.

Noninterest income for the three months ended March 31, 2003, totaled \$2,185, as compared to \$1,733 for the same period of 2002, an increase of \$452. The increase was due primarily to an increase in loan fees of \$234 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.

Noninterest expense for the three months ended March 31, 2003 totaled \$3,515. This was an increase of \$747 compared to the same period in 2002. The primary reasons for the increase were higher salaries and employee benefits expenses and higher insurance fund premium. Salaries and employee benefits increased \$472. 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 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 March 31, 2003, was \$879,077 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 March 31, 2003 totaled \$154,220, an increase of \$3,562, 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 March 31, 2003, the Association's total surplus ratio and core surplus ratio were 12.33 percent and 9.30 percent, respectively, and the permanent capital ratio was 14.38 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>	March 31, 2003	December 31, 2002
	<i>(unaudited)</i>	
Assets		
Cash	\$ 22	\$ 665
Loans	1,053,732	1,022,513
Less: allowance for loan losses	25,000	24,505
Net loans	1,028,732	998,008
Accrued interest receivable	7,922	6,281
Investment in AgFirst Farm Credit Bank	15,306	15,306
Premises and equipment, net	3,596	3,628
Deferred tax asset, net	19	19
Other assets	1,987	7,649
Total assets	<u>\$ 1,057,584</u>	<u>\$ 1,031,556</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 879,077	\$ 847,329
Accrued interest payable	3,865	3,890
Patronage refund payable	143	8,467
Postretirement benefits other than pensions	4,329	4,155
Other liabilities	15,950	17,057
Total liabilities	<u>903,364</u>	<u>880,898</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	20,178	20,469
Retained earnings		
Allocated	57,849	57,904
Unallocated	82,054	78,146
Accumulated other comprehensive income (loss)	(5,861)	(5,861)
Total members' equity	<u>154,220</u>	<u>150,658</u>
Total liabilities and members' equity	<u>\$ 1,057,584</u>	<u>\$ 1,031,556</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,	
	2003	2002
Interest Income		
Loans	\$ 16,037	\$ 15,611
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	10,316	10,737
Net interest income	5,721	4,874
Provision for (reversal of) loan losses	514	600
Net interest income after provision for (reversal of) loan losses	5,207	4,274
Noninterest Income		
Loan fees	475	241
Fees for financially related services	14	18
Equity in earnings of AgFirst Farm Credit Bank	1,591	1,389
Miscellaneous	105	85
Total noninterest income	2,185	1,733
Noninterest Expense		
Salaries and employee benefits	2,412	1,940
Occupancy and equipment	220	216
Insurance Fund premium	309	69
Other operating expenses	574	543
Total noninterest expense	3,515	2,768
Income before income taxes	3,877	3,239
Provision (benefit) for income taxes	(100)	-
Net income	\$ 3,977	\$ 3,239

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, 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	\$ 21,177	\$ 57,123	\$ 82,985	\$ —	\$ 161,285
Balance at December 31, 2002	\$ 20,469	\$ 57,904	\$ 78,146	\$ (5,861)	\$ 150,658
Net income			3,977		3,977
Capital stock/participation certificates issued	278				278
Capital stock/participation certificates retired	(569)				(569)
Retained earnings retired		(89)			(89)
Distribution adjustment		34	(69)		(35)
Balance at March 31, 2003	\$ 20,178	\$ 57,849	\$ 82,054	\$ (5,861)	\$ 154,220

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 first 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 three months ended March 31, 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 March 31, 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	600
Loans (charged off), net of recoveries	<u>(23)</u>
Balance at 3-31-02	<u>\$ 22,677</u>
Balance at 12-31-02	\$ 24,505
(Reversal of) provision for loan losses	514
Loans (charged off), net of recoveries	<u>(19)</u>
Balance at 3-31-03	<u>\$ 25,000</u>