Valley Farm Credit, ACA

FIRST QUARTER 2005

Robert N. Carpenter
Chief Executive Officer

Charles W. Kackley
Chairman of the Board

April 29, 2005

Valley Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of the consolidated operations of Valley Farm Credit ACA, Valley Farm Credit, FLCA and Valley Farm Credit, PCA (Association) for the period ended March 31, 2005. This information should be read in conjunction with the 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, beef, orchards, dairy and rural home loans. Those major farm commodities totaled approximately $120,135 or 68.17 percent of the loan volume as of March 31, 2005. 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, 2005 was $170,947, a decrease of $821 as compared to $171,768 at December 31, 2004. Net loans outstanding at March 31, 2005 were $170,119 as compared to $170,940 at December 31, 2004. Net loans accounted for 94.04 percent of total assets at March 31, 2005 as compared to 93.79 percent of total assets at December 31, 2004. The decrease in gross and net loan volume during the reporting period is attributed primarily to conversions of residential construction loans to permanent secondary market financing.

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 were $0 at March 31, 2005 and December 31, 2004. Association management maintains an allowance for loan losses in an amount sufficient to absorb losses inherent in the loan portfolio at the balance sheet date based on current conditions. The allowance for loan losses was $828 at March 31, 2005 and at December 31, 2004.

The Association recorded a loan loss reversal of $2,000 in the fourth quarter of 2004 that resulted in a decrease in the allowance for loan losses. Please refer to the Association's 2004 Annual Report and further to Note 2 in the Notes to the Consolidated Financial Statements of this Interim Report.

RESULTS OF OPERATIONS

For the three months ended March 31, 2005

Net income for the three months ended March 31, 2005 totaled $280, as compared to $222 for the same period in 2004. Net interest income increased $108 for the three months ended March 31, 2005 as compared to the same period in 2004.

At March 31, 2005, interest income on loans increased $406 as compared to the same period in 2004. Nonaccrual income was $0 for the three months ended March 31, 2005 and the same period in 2004. Interest expense increased $298 for the three months ended March 31, 2005 as compared to the comparable period of 2004. Noninterest income for the three months ended March 31, 2005 totaled $659 as compared to $546 for the same period of 2004, an increase of $113. Noninterest expense for the three months ended March 31, 2005 increased $163 compared to the same period of 2004. There was no provision (benefit) for income taxes at March 31, 2005 or the same period in 2004.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the 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 funds are advanced by the Bank 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, 2005 was $154,914 as compared to $157,765 at December 31, 2004. A significant portion of the decrease during the period appears attributed to a decrease in loan volume.

CAPITAL RESOURCES

Total members' equity at March 31, 2005 decreased to $20,935 from the December 31, 2004 total of $21,197. The decrease is primarily attributed to the Association's patronage revolvement of allocated surplus and reduction of capital stock and participation certificates.

Total capital stock and participation certificates were $3,907 on March 31, 2005 compared to $3,924 on December 31, 2004. This decrease is attributed to the retirement of stock and participation certificates on loans liquidated in the normal course of business and new loans being capitalized at lower stock levels.

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, 2005, the Association's total surplus ratio and core surplus ratio were 10.35 percent and 8.96 percent, respectively, and the permanent capital ratio was 12.99 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.

Valley Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	**March 31, 2005** *(unaudited)*	**December 31, 2004**
Assets		
Cash	$ 624	$ 381
Loans	170,947	171,768
Less: allowance for loan losses	828	828
Net loans	170,119	170,940
Accrued interest receivable	1,399	879
Investment in other Farm Credit institutions	2,061	2,061
Premises and equipment, net	4,203	3,908
Other assets	2,495	4,088
Total assets	$ 180,901	$ 182,257
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 154,914	$ 157,765
Accrued interest payable	577	546
Patronage refund payable	8	229
Other liabilities	4,467	2,520
Total liabilities	159,966	161,060
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	3,907	3,924
Retained earnings		
Allocated	3,785	4,388
Unallocated	13,243	12,885
Total members' equity	20,935	21,197
Total liabilities and members' equity	$ 180,901	$ 182,257

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

Valley Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2005	2004
Interest Income		
Loans	$ 2,655	$ 2,249
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	1,693	1,395
Net interest income	962	854
Provision for (reversal of) loan losses	–	–
Net interest income after provision for (reversal of) loan losses	962	854
Noninterest Income		
Loan fees	50	63
Fees for financially related services	18	20
Equity in earnings of other Farm Credit institutions	290	255
Gains (losses) on sale of rural home loans	262	170
Other noninterest income	39	38
Total noninterest income	659	546
Noninterest Expense		
Salaries and employee benefits	853	806
Occupancy and equipment	130	117
Insurance Fund premium	16	36
Other operating expenses	342	219
Total noninterest expense	1,341	1,178
Income before income taxes	280	222
Provision (benefit) for income taxes	–	–
Net income	$ 280	$ 222

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

Valley Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2003	$ 3,872	$ 4,360	$ 10,066	$ (1,322)	$ 16,976
Net income			222		222
Capital stock/participation certificates issued	69				69
Capital stock/participation certificates retired	(87)				(87)
Retained earnings retired		(561)			(561)
Distribution adjustment		103	(63)		40
Balance at March 31, 2004	$ 3,854	$ 3,902	$ 10,225	$ (1,322)	$ 16,659
Balance at December 31, 2004	$ 3,924	$ 4,388	$ 12,885	$ –	$ 21,197
Net income			280		280
Capital stock/participation certificates issued	72				72
Capital stock/participation certificates retired	(89)				(89)
Retained earnings retired		(549)			(549)
Distribution adjustment		(54)	78		24
Balance at March 31, 2005	$ 3,907	$ 3,785	$ 13,243	$ –	$ 20,935

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

Valley Farm Credit, 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 Valley Farm Credit, 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 Stockholders. These unaudited first quarter 2005 consolidated financial statements should be read in conjunction with the 2004 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, 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 March 31, 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	$ 2,826
(Reversal of) provision for loan losses	–
Recoveries, net of loans charged off	–
Balance at 3-31-04	$ 2,826
Balance at 12-31-04	$ 828
(Reversal of) provision for loan losses	–
Recoveries, net of loans charged off	–
Balance at 3-31-05	$ 828

As discussed in the 2004 Annual Report, the Association recorded a loan loss reversal of $2,000 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 three months ended March 31, 2005:

	For the three months ended March 31,	
	2005	**2004**
Pension	$ 99	$ 117
Thrift/deferred compensation	35	30
Other postretirement benefits	44	47
Total	$ 178	$ 194

As of March 31, 2005, no contributions have been made to the pension plan for 2005. Actuarial projections as of the last plan measurement date (September 30, 2004) did not anticipate any contributions for 2005; however, market conditions could impact discount rates and return on plan assets which could change this expectation, making contributions necessary before the next plan measurement date.