Valley Farm Credit, ACA

FIRST QUARTER 2007

Robert N. Carpenter
Chief Executive Officer

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Chairman of the Board

April 27, 2007

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, 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, poultry, beef, orchards, dairy and rural home loans. Those major farm commodities totaled approximately $123,156 or 62.06 percent of the loan volume as of March 31, 2007. 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, 2007 was $178,118, an increase of $5,275 as compared to $172,843 at December 31, 2006. Net loans outstanding at March 31, 2007 were $177,524 as compared to $172,249 at December 31, 2006. Net loans accounted for 92.11 percent of total assets at March 31, 2007 as compared to 90.83 percent of total assets at December 31, 2006. The increase in gross and net loan volume during the reporting period is attributed primarily to a blend of new loans to several different sectors of the Association's agricultural and lifestyle portfolio, new participations purchased, and new loans to the residential portion of the portfolio, as well as the repurchase of loans previously sold.

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 $237 at March 31, 2007 and $0 at December 31, 2006. 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 $594 at March 31, 2007 and $594 at December 31, 2006, and was considered by management to be adequate.

RESULTS OF OPERATIONS

For the three months ended March 31, 2007

Net income for the three months ended March 31, 2007 totaled $416, as compared to $66 for the same period in 2006. Net interest income increased $143 for the three months ended March 31, 2007 as compared to the same period in 2006.

At March 31, 2007, interest income on loans increased $566 as compared to the same period in 2006. Nonaccrual income was $0 for the three months ended March 31, 2007 and the same period in 2006. Interest expense increased $423 for the three months ended March 31, 2007 as compared to the comparable period of 2007. There was no change in the allowance for loan losses for the three months ended March 31, 2007 as compared to a reversal of $13 for the same period in 2006. Noninterest income for the three months ended March 31, 2007 totaled $739 as compared to $629 for the same period of 2006, an increase of $110. Noninterest expense for the three months ended March 31, 2007 decreased $110 compared to the same period of 2006. There was no provision (benefit) for income taxes at March 31, 2007 or the same period in 2006.

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, 2007 was $164,044 as compared to $161,731 at December 31, 2006. The increase during the period appears attributed to an increase in loan volume.

CAPITAL RESOURCES

Total members' equity at March 31, 2007 increased to $24,916 from the December 31, 2006 total of $24,800. The increase in members' equity is primarily attributed to the retained earnings related to earnings in the first quarter.

Total capital stock and participation certificates were $4,030 on March 31, 2007 compared to $4,042 on December 31, 2006. This decrease is attributed to the retirement of stock and participation certificates on loans liquidated in the normal course of business in excess of stock purchases.

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, 2007, the Association's total surplus ratio and core surplus ratio were 11.89 percent and 11.10 percent, respectively, and the permanent capital ratio was 14.49 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 (FAS 158). FAS 158 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 through comprehensive income changes in that funded status in the year in which the changes occur. FAS 158 also provides guidance relating to the discount rate, which may require the Bank and related associations to adjust the basis for selecting the discount rate for its pension and non-pension postretirement benefit plans. The Bank and related associations will be required to implement the Standard for the year ended December 31, 2007. In addition, FAS 158 requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Bank and related associations use 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 Bank and related associations are currently evaluating the impact of implementing FAS 158.

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***. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-999-5341 or writing Mary S. Miller, Vice President and CFO, Valley Farm Credit, ACA, P.O. Box 2700, Winchester, Virginia 22604, or accessing the website, ***www.valleyfc.com***. The Association prepares a quarterly report within 45 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Valley Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2007	December 31, 2006
	(unaudited)	*(audited)*
Assets		
Cash	$ 229	$ 1,039
Loans	178,118	172,843
Less: allowance for loan losses	594	594
Net loans	177,524	172,249
Accrued interest receivable	1,741	1,559
Investment in other Farm Credit institutions	2,772	2,718
Premises and equipment, net	8,382	8,431
Prepaid retirement expense	1,426	1,515
Due from AgFirst Farm Credit Bank	328	1,517
Other assets	319	613
Total assets	$ 192,721	$ 189,641
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 164,044	$ 161,731
Accrued interest payable	786	784
Patronage refund payable	16	121
Postretirement benefits other than pensions	1,011	991
Other liabilities	1,948	1,214
Total liabilities	167,805	164,841
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	4,030	4,042
Retained earnings		
Allocated	4,050	4,286
Unallocated	16,836	16,472
Total members' equity	24,916	24,800
Total liabilities and members' equity	$ 192,721	$ 189,641

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, 2007	2006
Interest Income		
Loans	$ 3,450	$ 2,884
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	2,328	1,905
Net interest income	1,122	979
Provision for (reversal of allowance for) loan losses	–	(13)
Net interest income after provision for (reversal of allowance for) loan losses	1,122	992
Noninterest Income		
Loan fees	62	65
Fees for financially related services	11	26
Equity in earnings of other Farm Credit institutions	392	300
Gains (losses) on sale of rural home loans	179	208
Other noninterest income	95	30
Total noninterest income	739	629
Noninterest Expense		
Salaries and employee benefits	834	967
Occupancy and equipment	203	192
Insurance Fund premium	62	55
Other operating expenses	346	341
Total noninterest expense	1,445	1,555
Income before income taxes	416	66
Provision (benefit) for income taxes	–	–
Net income	$ 416	$ 66

The accompanying notes are an integral 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	Total Members' Equity
Balance at December 31, 2005	$ 3,960	$ 4,203	$ 15,017	$ 23,180
Net income			66	66
Capital stock/participation certificates issued	71			71
Capital stock/participation certificates retired	(57)			(57)
Retained earnings retired		(275)		(275)
Distribution adjustment		(39)	49	10
Balance at March 31, 2006	$ 3,974	$ 3,889	$ 15,132	$ 22,995
Balance at December 31, 2006	$ 4,042	$ 4,286	$ 16,472	$ 24,800
Net income			416	416
Capital stock/participation certificates issued	57			57
Capital stock/participation certificates retired	(69)			(69)
Retained earnings retired		(278)		(278)
Distribution adjustment		42	(52)	(10)
Balance at March 31, 2007	$ 4,030	$ 4,050	$ 16,836	$ 24,916

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

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, 2006, are contained in the 2006 Annual Report to Shareholders. These unaudited first 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 three months ended March 31, 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 March 31, 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:

	For the three months ended March 31,	
	2007	**2006**
Balance at beginning of period	$ 594	$ 710
Provision for (reversal of) loan losses	–	(13)
Loans (charged off), net of recoveries	–	–
Balance at end of period	$ 594	$ 697

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, 2007:

	For the three months ended March 31,	
	2007	**2006**
Pension	$ 89	$ 113
Thrift/deferred compensation	33	39
Other postretirement benefits	30	32
Total	$ 152	$ 184

As of March 31, 2007, no contributions have been made to the pension plan for 2007. Actuarial projections as of the last plan measurement date (September 30, 2006) did not anticipate any contributions for 2007; 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.