Valley Farm Credit, ACA

FIRST QUARTER 2008

Robert N. Carpenter
Chief Executive Officer

Mary S. Miller
Chief Financial Officer

Charles W. Kackley
Chairman of the Board

April 28, 2008

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, 2008. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, and the 2007 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 $139,129 or 75.37 percent of the loan volume as of March 31, 2008. 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, 2008 was $179,276, an increase of $4,686 as compared to $174,590 at December 31, 2007. Net loans outstanding at March 31, 2008 were $178,721 as compared to $174,036 at December 31, 2007. Net loans accounted for 91.81 percent of total assets at March 31, 2008 as compared to 91.25 percent of total assets at December 31, 2007. 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.

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 $798 at March 31, 2008 and $35 at December 31, 2007. 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 $555 at March 31, 2008 and $554 at December 31, 2007, and was considered by management to be adequate.

RESULTS OF OPERATIONS

For the three months ended March 31, 2008

Net income for the three months ended March 31, 2008 totaled $453, as compared to $416 for the same period in 2007. Net interest income decreased $102 for the three months ended March 31, 2008 as compared to the same period in 2007.

At March 31, 2008, interest income on loans decreased $237 as compared to the same period in 2007. Nonaccrual income was $6 for the three months ended March 31, 2008 as compared to $0 during the same period in 2007. Interest expense decreased $135 for the three months ended March 31, 2008 as compared to the comparable period of 2008. There was an increase of $1 in the allowance for loan losses for the three months ended March 31, 2008 due to a recovery of a charge-off. There was no change in the allowance during the same period of 2007. Noninterest income for the three months ended March 31, 2008 totaled $748 as compared to $739 for the same period of 2007, an increase of $9. Noninterest expense for the three months ended March 31, 2008 decreased $130 compared to the same period of 2007. There was no provision (benefit) for income taxes at March 31, 2008 or the same period in 2007.

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, 2008 was $164,932 as compared to $161,298 at December 31, 2007. The increase during the period appears attributed to an increase in loan volume.

CAPITAL RESOURCES

Total members' equity at March 31, 2008 increased to $26,245 from the December 31, 2007 total of $26,126. 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 $3,959 on March 31, 2008 compared to $3,945 on December 31, 2007. This increase is attributed to the excess of stock purchases above the normal retirement of stock and participation certificates on loans liquidated in the normal course of business.

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, 2008, the Association's total surplus ratio and core surplus ratio were 11.65 percent and 10.86 percent, respectively, and the permanent capital ratio was 14.08 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, "Organization and Significant Accounting Policies", in the Notes to the Financial Statements, and the 2007 Annual Report of the Association for recently issued accounting pronouncements.

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. 378, or writing Stephen Gilbert, 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 40 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, 2008 *(unaudited)*	December 31, 2007 *(audited)*
Assets		
Cash	$ 543	$ 243
Loans	179,276	174,590
Less: allowance for loan losses	555	554
Net loans	178,721	174,036
Accrued interest receivable	1,736	1,401
Investment in other Farm Credit institutions	3,954	3,957
Premises and equipment, net	7,968	8,075
Due from AgFirst Farm Credit Bank	389	1,677
Other assets	1,345	1,338
Total assets	$ 194,656	$ 190,727
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 164,932	$ 161,298
Accrued interest payable	712	764
Patronage refund payable	24	213
Other liabilities	2,743	2,326
Total liabilities	168,411	164,601
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	3,959	3,945
Retained earnings		
Allocated	4,137	4,487
Unallocated	18,149	17,694
Total members' equity	26,245	26,126
Total liabilities and members' equity	$ 194,656	$ 190,727

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, 2008	2007
Interest Income		
Loans	$ 3,213	$ 3,450
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	2,193	2,328
Net interest income	1,020	1,122
Provision for (reversal of allowance for) loan losses	—	—
Net interest income after provision for (reversal of allowance for) loan losses	1,020	1,122
Noninterest Income		
Loan fees	93	62
Fees for financially related services	17	11
Equity in earnings of other Farm Credit institutions	400	392
Gains (losses) on sale of rural home loans, net	164	179
Other noninterest income	74	95
Total noninterest income	748	739
Noninterest Expense		
Salaries and employee benefits	743	834
Occupancy and equipment	201	203
Insurance Fund premium	62	62
Other operating expenses	309	346
Total noninterest expense	1,315	1,445
Income before income taxes	453	416
Provision (benefit) for income taxes	—	—
Net income	$ 453	$ 416

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, 2006	$ 4,042	$ 4,286	$ 16,472	$ 24,800
Net income			416	416
Capital stock/participation certificates issued/retired, net	(12)			(12)
Retained earnings retired		(278)		(278)
Patronage distribution adjustment		42	(52)	(10)
Balance at March 31, 2007	$ 4,030	$ 4,050	$ 16,836	$ 24,916
Balance at December 31, 2007	$ 3,945	$ 4,487	$ 17,694	$ 26,126
Net income			453	453
Capital stock/participation certificates issued/retired, net	14			14
Retained earnings retired		(363)		(363)
Patronage distribution adjustment		13	2	15
Balance at March 31, 2008	$ 3,959	$ 4,137	$ 18,149	$ 26,245

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

The accompanying financial statements include the accounts of Valley Farm Credit, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2007, are contained in the 2007 Annual Report to Shareholders. These unaudited first quarter 2008 consolidated financial statements should be read in conjunction with the 2007 Annual Report to Shareholders.

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 (GAAP) and prevailing practices within the banking industry. The results for the three months ended March 31, 2008, are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's 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 GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2008, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In December 2007, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141R, "Business Combinations." SFAS No. 141R requires business combinations to be accounted for under the acquisition method of accounting (previously called the purchase method). The acquisition method requires (a) identifying the acquirer, (b) determining the acquisition date, (c) recognizing and measuring the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, at their acquisition date fair values, and (d) recognizing and measuring goodwill or a gain from a bargain purchase. SFAS No. 141R should be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Association is still evaluating the provisions of the Standard, but believes that its adoption will significantly impact its accounting for acquisitions that may occur in 2009 and beyond.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the three months ended March 31, 2008	2007
Balance at beginning of period	$ 554	$ 594
Provision for (reversal of) loan losses	–	–
Loans (charged off), net of recoveries	1	–
Balance at end of period	$ 555	$ 594

NOTE 3 – EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the Association:

	For the three months ended March 31, 2008	2007
Pension	$ 52	$ 89
401(k)	33	33
Other postretirement benefits	25	30
Total	$ 110	$ 152

The following is a table of retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 3/31/08	Projected Contributions For Remainder of 2008	Projected Total Contributions 2008
Pension	$ –	$ –	$ –
Other postretirement benefits	11	41	52
Total	$ 11	$ 41	$ 52

Market conditions could impact discount rates and return on plan assets which could change the above contribution projections by making additional contributions necessary before the next plan measurement date.