Valley Farm Credit, ACA

THIRD QUARTER 2007

Robert N. Carpenter
Chief Executive Officer

Charles W. Kackley
Chairman of the Board

October 26, 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 September 30, 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 $158,032 or 78.64% of the loan volume as of September 30, 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 diminishes the level of dependency on a given commodity.

The gross loan volume of the Association as of September 30, 2007 was $174,701, an increase of $1,858 as compared to $172,843 at December 31, 2006. Net loans outstanding at September 30, 2007 were $174,132 as compared to $172,249 at December 31, 2006. Net loans accounted for 91.30 percent of total assets at September 30, 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 new loans to several different sectors of the Association's agricultural portfolio and new loans to the residential portion of the portfolio. The Association sold a block of loans during the quarter to AgFirst Farm Credit Bank to begin participating in their Capitalized Participation Pool (CPP) program. The CPP provides a strategy for enhancing the Bank's capital position.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual loans were $35 at September 30, 2007 and $0 at December 31, 2006. Association management maintains an allowance for loan losses in an amount sufficient to absorb possible losses inherent in the loan portfolio at the balance sheet date based on current conditions. The allowance for loan losses was $569 at September 30, 2007 and $594 at December 31, 2006, and was considered by management to be adequate.

RESULTS OF OPERATIONS

For the three months ended September 30, 2007

Net income for the three months ended September 30, 2007, totaled $296, as compared to $707 for the same period in 2006. Net interest income decreased $25 for the three months ended September 30, 2007 as compared to the same period in 2006.

At September 30, 2007 interest income on loans increased $120 as compared to the same period in 2006. Nonaccrual income was $0 for the three months ended September 30, 2007 and for the same period in 2006. Interest expense increased $145 for the three months ended September 30, 2007 as compared to the same period in 2006. Noninterest income for the three months ended September 30, 2007 totaled $684 as compared to $919 for the same period of 2006, a decrease of $235. Prior year total noninterest income includes the gain on sale of assets in the amount of $177 during the three months ended September 30, 2006, which is related to the sale of undeveloped land located in Martinsburg, WV. Noninterest expense for the three months ended September 30, 2007 increased $106 compared to the same period of 2006. There was a benefit for income taxes of $8 during the three months ended September 30, 2007 as compared to a benefit of $2 for the same period of 2006. The benefit for income taxes was a result of the receipt of a state tax refund exceeding the federal tax expense amount during the quarter.

For the nine months ended September 30, 2007

Net income for the nine months ended September 30, 2007, totaled $1,139 as compared to $1,073 for the same period in 2006. Net interest income increased $193 for the nine months ended September 30, 2007 as compared to the same period in 2006.

At September 30, 2007 interest income on loans increased $1,093 as compared to the same period in 2006. Nonaccrual income was $0 for the nine months ended September 30, 2007 and for the same period in 2006. Interest expense increased $900 for the nine months ended September 30, 2007 as compared to the same period in 2006. Noninterest income for the nine months ended September 30, 2007 totaled $2,190 as compared to $2,313 for the same period of 2006, a decrease of $123. Prior year total noninterest income includes the gain on sale of assets in the amount of $177 during the nine months ended September 30, 2006, which is related to the sale of undeveloped land located in Martinsburg, WV. Noninterest expense for the nine months ended September 30, 2007 decreased $50 compared to the same period of 2006. There was a benefit for income taxes of $40 for the nine months ended September 30, 2007 as compared to a benefit for income taxes of $2 during the same period in 2006. The benefit for income taxes was a result of the receipt of a state tax refund exceeding the federal tax amount.

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 September 30, 2007 was $161,877 as compared to $161,731 at December 31, 2006. The increase during the period is primarily attributed to an increase in loan volume.

CAPITAL RESOURCES

Total members' equity at September 30, 2007 increased to $25,576 from the December 31, 2006 total of $24,800. The rise in members' equity is attributed to the increase in retained earnings in excess of the reduction in capital stock and participation certificates.

Total capital stock and participation certificates were $3,968 on September 30, 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 September 30, 2007, the Association's total surplus ratio and core surplus ratio were 11.26 percent and 10.61 percent, respectively, and the permanent capital ratio was 13.78 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 FAS158.

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)	September 30, 2007 *(unaudited)*	December 31, 2006 *(audited)*
Assets		
Cash	$ 296	$ 1,039
Loans	174,701	172,843
Less: allowance for loan losses	569	594
Net loans	174,132	172,249
Accrued interest receivable	1,815	1,559
Investment in other Farm Credit institutions	3,842	2,718
Premises and equipment, net	8,197	8,431
Prepaid retirement expense	1,249	1,515
Due from AgFirst Farm Credit Bank	1,035	1,517
Other assets	155	613
Total assets	$ 190,721	$ 189,641
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 161,877	$ 161,731
Accrued interest payable	779	784
Patronage refund payable	16	121
Postretirement benefits other than pensions	1,053	991
Other liabilities	1,420	1,214
Total liabilities	165,145	164,841
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	3,968	4,042
Retained earnings		
Allocated	4,049	4,286
Unallocated	17,559	16,472
Total members' equity	25,576	24,800
Total liabilities and members' equity	$ 190,721	$ 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 September 30, 2007	For the three months ended September 30, 2006	For the nine months ended September 30, 2007	For the nine months ended September 30, 2006
Interest Income				
Loans	$ 3,361	$ 3,241	$ 10,226	$ 9,133
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	2,329	2,184	7,010	6,110
Net interest income	1,032	1,057	3,216	3,023
Provision for (reversal of allowance for) loan losses	(24)	(75)	(24)	(116)
Net interest income after provision for (reversal of allowance for) loan losses	1,056	1,132	3,240	3,139
Noninterest Income				
Loan fees	53	87	214	241
Fees for financially related services	67	56	131	118
Equity in earnings of other Farm Credit institutions	384	323	1,108	927
Gains (losses) on sale of rural home loans	127	234	533	706
Gain on sale of assets	—	176	9	182
Other noninterest income	53	43	195	139
Total noninterest income	684	919	2,190	2,313
Noninterest Expense				
Salaries and employee benefits	824	783	2,517	2,617
Occupancy and equipment	197	208	626	598
Insurance Fund premium	61	60	185	172
Other operating expenses	370	295	1,003	994
Total noninterest expense	1,452	1,346	4,331	4,381
Income before income taxes	288	705	1,099	1,071
Provision (benefit) for income taxes	(8)	(2)	(40)	(2)
Net income	$ 296	$ 707	$ 1,139	$ 1,073

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			1,073	1,073
Capital stock/participation certificates issued	233			233
Capital stock/participation certificates retired	(191)			(191)
Retained earnings retired		(275)		(275)
Distribution adjustment		(40)	50	10
Balance at September 30, 2006	$ 4,002	$ 3,888	$ 16,140	$ 24,030
Balance at December 31, 2006	$ 4,042	$ 4,286	$ 16,472	$ 24,800
Net income			1,139	1,139
Capital stock/participation certificates issued	171			171
Capital stock/participation certificates retired	(245)			(245)
Retained earnings retired		(279)		(279)
Distribution adjustment		42	(52)	(10)
Balance at September 30, 2007	$ 3,968	$ 4,049	$ 17,559	$ 25,576

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 third 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 nine months ended September 30, 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 September 30, 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 nine months ended September 30,	
	2007	**2006**
Balance at beginning of period	$ 594	$ 710
Provision for (reversal of) loan losses	(25)	(116)
Loans (charged off), net of recoveries	–	–
Balance at end of period	$ 569	$ 594

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 nine months ended September 30,	
	2007	**2006**
Pension	$ 267	$ 336
Thrift/deferred compensation	101	107
Other postretirement benefits	92	97
Total	$ 460	$ 540

As of September 30, 2007, no contributions have been made to the pension plan for 2007. The Association does not anticipate making additional contributions for the remainder of 2007.