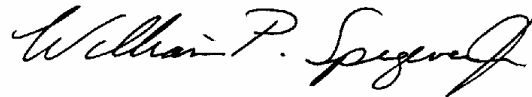
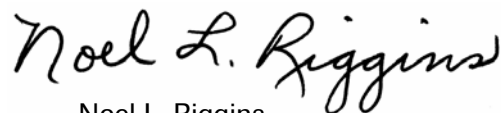


THIRD QUARTER 2007

Management's Discussion and Analysis of Financial Condition and Results of Operations.....	2
Consolidated Financial Statements	
Consolidated Balance Sheets.....	6
Consolidated Statements of Income.....	7
Consolidated Statements of Changes in Members' Equity.....	8
Notes to the Consolidated Financial Statements.....	9



William P. Spigener, Jr.
Chief Executive Officer



Noel L. Riggins
Chairman of the Board

October 23, 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 operations of AgSouth Farm Credit, ACA (Association) for the period ended September 30, 2007. Effective January 1, 2004, pursuant to a consolidation plan approved by the Farm Credit Administration (FCA) and the Association stockholders, AgSouth Farm Credit, headquartered in Statesboro, Georgia and Palmetto Farm Credit, headquartered in Orangeburg, South Carolina merged. The surviving entity assumed the name, AgSouth Farm Credit.

This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2006 Annual Report of AgSouth Farm Credit. 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 wide range of agricultural commodities produced in our region, including poultry (broilers, turkeys and eggs), timber, field crops and grains, and beef cattle. Loans to producers of these commodities total \$956,318 or 71.56 percent of the Association's portfolio. Farm size varies, and many of the Association customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

During the third quarter of 2007 the Association originated \$20,773 in loans for the secondary market. As of September 30, 2007, the Association held \$113 in qualifying loans for sale. These loans are classified as Other Assets on the Association's balance sheet.

Georgia Region

Beginning late in March and lasting through the end of May, the Georgia region suffered from a severe drought situation that resulted in delayed planting of cotton and peanuts. Fairly normal weather and rainfall resumed beginning in early June in Georgia's row crop region which should result in an average crop of corn, peanuts, cotton, and soybeans based on crop conditions as of early October. Most corn harvest is finished with the irrigated yields higher than the dry land corn

yields depending on the areas affected by early drought. Soybeans and cotton are maturing and appear to be good over most of the region. Vidalia sweet onion crop experienced one of its best years in several years with good yields and above average prices. The market for stored onion season finished up by mid- September and the overall stored onion packout was normal with relatively low losses due to spoilage.

Poultry integrators continue to see solid profits generated by strong product pricing and good domestic and export demand for their product. Egg sets and placements are up over last year and we expect to see some moderation in poultry prices for next year. Grower payments are being received as expected for the most part throughout the region and there are no significant problem loans in this loan group.

Earlier this year, farm revenues were expected to be down due to the drought either because of late planting or inability to plant intended acreage, however with the rains which began in June, crop expectations are in the normal range therefore we expect a much better year than previously anticipated.

The housing market remains slow however the recent interest rate reductions have increased activity slightly and further recovery is expected in 2008. New construction permits were down in 2006 and have declined even further in 2007. The recovery in the housing sector is expected to move into 2009.

South Carolina Region

The third quarter brought typical results in 2007 with some areas in need of moisture, but for the most part, South Carolina farmers have received rain just in time. Some damage has been incurred by the cotton acreage in selected areas of the state, and the hay crop has incurred damage in several locations with more damage noted in the upstate. Most conventional row crop farming in South Carolina is in the Midlands and Lowcountry of the state, and accordingly, the current crop expectations remain somewhat favorable. For many hay and row crop farmers in areas experiencing reduced production due to growing conditions, higher commodity prices will offset diminished yields. Overall, the Lowcountry and the Midlands have fared somewhat better than the Piedmont Region of South Carolina where a shortage of quality pasture and hay have forced some farmers to market cattle ahead of intentions. Virtually all of the state's corn is now harvested with average yields. As peanut harvest begins, growing conditions appear conducive to average yields. As noted earlier, the peach crop was devastated during the spring of this year while the tomato crop was average from both a yield and price standpoint.

The poultry industry within the state has slowed construction to some degree, but reports from integrators indicate profits remain solid. Several integrators have either already changed the size of the birds being produced or are considering a change. The reason for this change relates directly to the ability to produce greater numbers of smaller birds within the growing area. Frequent contacts with integrators continue as both regional management and lenders within poultry growing areas make every effort to stay in close contact with field personnel and the management of the poultry companies in order to monitor poultry housing needs and the overall state of the industry.

The timber industry is facing adverse data regarding housing starts, which is impacting the price of most wood building materials. Pulpwood has retained demand as it continues to be utilized by the OSB plants and the paper mills in the state. It appears that pulpwood prices could have the potential to strengthen some as 2007 comes to a conclusion. Most mills in the state indicate net income has diminished during the second and third quarters and cash flow has tightened. Despite this observation, the mill owners remain cautiously optimistic as they head into the fall and winter. There is some concern as to what an abnormally wet winter might do to prices of stumpage versus the return from finished timber products, but it is acknowledged that this is a typical late summer, early fall concern.

Land sales within South Carolina have slowed slightly, but efforts remain in place to market land prospects for continued financing, and these efforts are generally proving successful. The prices in the market place vary significantly from tract to tract depending upon the area where land is being offered for sale; but, in general, it appears land prices are beginning to stabilize to some degree. Real estate agents and investors are now noting longer advertising periods and more negotiations taking place on tracts listed for sale even compared to the spring of this year. As the possibility of real estate sales' slowing becomes more likely, South Carolina lenders are being reminded to remain keenly aware of the movement of real estate in their service areas and to exercise appropriate underwriting on rural acreage and improvements to real estate.

The gross loan volume of the Association as of September 30, 2007, was \$1,333,415, an increase of \$52,017 or 4.06 percent as compared to \$1,281,398 at December 31, 2006. Net loans outstanding at September 30, 2007 were \$1,329,493 as compared to \$1,277,592 at December 31, 2006. Net loans accounted for 94.34 percent of total assets at September 30, 2007, as compared to 94.26 percent of total assets at December 31, 2006.

The increase in gross and net loan volume during the reporting period is primarily attributed to new loans for real estate purposes and draws on annual operating credits to farmer/borrowers. The Association continues to actively make large loans, some of which are participated with AgFirst Farm Credit bank and others. The Association typically structures loans to meet the needs of the borrower. Many

term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan 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 and credit administration remains satisfactory. Nonaccrual loans decreased slightly from \$2,275 at December 31, 2006, to \$1,930 at September 30, 2007. The decrease is the result of payments and payoffs of nonaccrual accounts exceeding transfers to nonaccrual status during the reporting period. Other property owned decreased to \$425 from \$536 during the comparative reporting periods. The decrease is the result of sales of held property during the quarter.

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 allowance for loan losses at September 30, 2007, was \$3,922 compared to \$3,806 at December 31, 2006, and was considered by management to be adequate to cover possible losses. The increase in the allowance account came from recoveries of previously charged-off amounts.

Premises and equipment, net increased \$833 from \$10,802 at December 31, 2006 to \$11,635 at September 30, 2007. The increase is primarily the result of the construction of a new facility to house members of the Human Resource and Accounting staff in Orangeburg, South Carolina. Association staff moved into the new facility in early September 2007.

RESULTS OF OPERATIONS

For the three months ended September 30, 2007

Net income for the three months ended September 30, 2007, totaled \$9,687 as compared to \$7,974 for the same period in 2006. Net interest income before the provision for loan loss increased \$649 for the three months ended September 30, 2007, as compared to the same period in 2006 due primarily to the increase in loan volume, and focused repricing activities. No provision expense was recorded in the quarter ending September 30, 2007. The Association's Asset/Liability Committee made the decision that no provision was needed after analyzing the risk in the current portfolio. The analysis includes reviewing historical trends, loan size, loan performance and credit quality reports.

Interest income on loans increased \$2,812 from \$25,488 at September 30, 2006 to \$28,300 at September 30, 2007. The majority of this increase was due to a higher loan volume base and a higher interest rate environment. Nonaccrual income, which is included in interest income was \$227 for the three months ended September 30, 2007, as compared to \$24 for the same period in 2006.

Interest expense increased \$2,163 from \$14,959 at September 30, 2006 to \$17,122 at September 30, 2007. The increase is linked to the higher interest rate environment

and the increase in the Notes Payable balance. The Notes Payable balance increases with the increase in loan volume.

Noninterest income increased \$1,504 over the same period last year primarily due to, higher equity in earnings from other Farm Credit institutions, and income recorded on proceeds from an assigned life insurance policy. Both loan fees and fees for financially related services increased between the two reporting periods. Loan fees increased \$109 and fees from financially related services increased \$3. The equity in earnings from other Farm Credit institutions increased \$431 from \$2,463 at September 30, 2006 to \$2,894 at September 30, 2007. The increase is the result of the higher average Notes Payable balance and patronage accrued on participations sold to other Associations. The Association's activity in the secondary market generated gains on the sale of rural home loans of \$186, compared to \$236 at the same period last year. The decline in gains is the result of a decrease in the volume of loans sold during the reporting quarter. Other noninterest income totaled \$1,050 for the three months ended September 30, 2007. During July, the Association received proceeds from a life insurance policy totaling \$940. The insurance policy was assigned to the Association during a troubled debt restructure.

Noninterest expense for the three months ended September 30, 2007, increased \$66 compared to the same period of 2006. Salaries and employee benefit expense decreased \$145 between the two reporting periods. The decline can be attributed to lower payments to secondary mortgage market commissioned sales personnel. Occupancy and equipment increased \$112 between the two reporting periods. The Insurance Fund expense increased from \$431 at September 30, 2006 to \$463 at September 30, 2007. The increase in the insurance expense is directly related to the loan volume growth in the Association. Other operating expenses increased \$68. The increase in other operating expenses includes additional expense for advertising and public and member relations, and other miscellaneous expenses

For the nine months ended September 30, 2007

Net income for the nine months ended September 30, 2007, totaled \$25,324 as compared to \$21,711 for the same period in 2006. Net interest income before the provision for loan loss increased \$1,938 when compared to the same period in 2006.

Interest income increased \$9,497 from \$71,945 at September 30, 2006 to \$81,442 at September 30, 2007. The variance was due to the slightly higher interest rate environment during the comparative reporting periods and the higher loan volume. Nonaccrual income was \$419 for the nine months ended September 30, 2007, as compared to \$231 for the same period in 2006.

Interest expense increased \$7,559 for the nine months ended September 30, 2007. The increase is directly linked to the increase in notes payable balance.

During the nine month period ending September 30, 2007, the Association's Asset/Liability Committee determined that the allowance for loan loss reserve account was sufficient and that a provision adjustment was not needed at this time. Therefore, net interest income before and after the provision for loan losses is the same.

Noninterest income for the nine months ended September 30, 2007, totaled \$12,897 as compared to \$10,220 for the same period of 2006, an increase of \$2,677. The increase resulted from higher loan fee income, higher equity in earnings from the Bank and other Farm Credit institutions, higher gains on the sale of rural home loans and higher other noninterest income. Loan Fee income increased \$240 between the 2006 and 2007 reporting periods. Fees from financially related services increased slightly from \$325 at September 30, 2006 to \$327 at September 30, 2007. Equity earnings from the Bank and other Farm Credit institutions exceeded 2006 amounts by \$1,322. The increase in equity earnings is the result of the higher direct note balance and an increase in the patronage accrual for loans sold to other Associations. Gains on the sale of rural home loans increased from \$660 at September 30, 2006 to \$686 at September 30, 2007. The increase of \$26 is the result of higher premiums earned on loans sold. Other noninterest income includes an insurance refund from the FCSIC and proceeds from a life insurance policy. Other noninterest income increased from \$262 to \$1,349 between the two reporting periods. The Association recorded other income from the FCSIC in the amount of \$155. The proceeds from the life insurance policy assigned to the Association totaled \$940.

Noninterest expense for the nine months ended September 30, 2007, increased \$578 from \$19,161 at September 30, 2006 to \$19,739 at September 30, 2007. Salaries and employee benefits expense increased \$184 between the two reporting periods. Occupancy and equipment expense increased \$251 between the two reporting periods. This increase is the result of the payment of property taxes, \$142, in the first six months of 2007 and the Association also completed construction of new offices in Aiken and Orangeburg, South Carolina. Insurance Fund premium expense was \$1,250 for the nine months ending September 30, 2006 compared to \$1,340 for the nine month period ending September 30, 2007. The increase in insurance fund expense is tied to the loan growth of the Association.

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 September 30, 2007 was \$1,166,276 as compared to \$1,114,330 at December 31, 2006. The increase is related to the increase in loan volume between the two reporting periods.

As of September 30, 2007, the Association had invested \$30,000 of its lendable equity in a fixed rate note. This note will mature in June, 2008.

CAPITAL RESOURCES

Total members' equity at September 30, 2007, increased to \$217,215 from the December 31, 2006 total of \$206,313. The increase is primarily attributed to the earnings of the Association during the reporting period reduced by the revolvment of allocated equities and the retirement of capital stock, and participation certificates. In February 2007, the Association revolved \$14,677 in allocated surplus from the fiscal year 2001 series of equities. The checks and notices were mailed in late February to 12,943 customers. The revolvment is reflected in the change in allocated retained earnings during the two reporting periods. At December 31, 2006, allocated retained earnings totaled \$92,430. At September 30, 2007, the allocated retained earnings had declined to \$79,371.

Total capital stock and participation certificates were \$6,614 on September 30, 2007, compared to \$6,629 on December 31, 2006. The decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business, the retirement of excess stock, and new loans being capitalized at lower regulatory 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 September 30, 2007, the Association's total surplus ratio and core surplus ratio were 14.59 percent and 11.36 percent, respectively, and the permanent capital ratio was 15.08 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.

The Association has a portion of the portfolio in an in-portfolio guarantee program with Farmer Mac. At September 30, 2007, the Association had loans totaling \$20,058 in this program. No additional placement of loans is scheduled at this time. The cost of the guarantees year to date was \$89. The use of the Farmer Mac In-portfolio guarantee has a positive effect on the Association's capital ratios.

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. 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.

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 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 1-800-310-4805, ext 237, writing Alisa D. Gunter, CFO, AgSouth Farm Credit, ACA PO Box 4966, Spartanburg, SC 29305, or accessing the website www.agsouthfc.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.

AgSouth Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2007 <i>(unaudited)</i>	December 31, 2006 <i>(audited)</i>
Assets		
Cash	\$ 3,104	\$ 2,116
Loans	1,333,415	1,281,398
Less: allowance for loan losses	3,922	3,806
Net loans	1,329,493	1,277,592
Accrued interest receivable	21,046	17,113
Investment in other Farm Credit institutions	20,178	19,832
Premises and equipment, net	11,635	10,802
Other property owned	425	536
Prepaid retirement expense	12,609	13,797
Due from AgFirst Farm Credit Bank	7,691	10,433
Other assets	3,083	3,184
Total assets	<u>\$ 1,409,264</u>	<u>\$ 1,355,405</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,166,276	\$ 1,114,330
Accrued interest payable	5,668	5,299
Patronage refund payable	151	8,529
Postretirement benefits other than pensions	11,353	11,059
Other liabilities	8,601	9,875
Total liabilities	<u>1,192,049</u>	<u>1,149,092</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	472	608
Capital stock and participation certificates	6,142	6,021
Retained earnings		
Allocated	79,371	92,430
Unallocated	131,230	107,254
Total members' equity	<u>217,215</u>	<u>206,313</u>
Total liabilities and members' equity	<u>\$ 1,409,264</u>	<u>\$ 1,355,405</u>

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

AgSouth Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
Interest Income				
Loans	\$ 28,300	\$ 25,488	\$ 81,442	\$ 71,945
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	17,082	14,918	48,689	41,179
Other	40	41	142	93
Total interest expense	<u>17,122</u>	<u>14,959</u>	<u>48,831</u>	<u>41,272</u>
Net interest income	11,178	10,529	32,611	30,673
Provision for (reversal of allowance for) loan losses	—	—	—	—
Net interest income after provision for (reversal of allowance for) loan losses	<u>11,178</u>	<u>10,529</u>	<u>32,611</u>	<u>30,673</u>
Noninterest Income				
Loan fees	618	509	2,103	1,863
Fees for financially related services	115	112	327	325
Equity in earnings of other Farm Credit institutions	2,894	2,463	8,432	7,110
Gains (losses) on sale of rural home loans	186	236	686	660
Other noninterest income	1,050	39	1,349	262
Total noninterest income	<u>4,863</u>	<u>3,359</u>	<u>12,897</u>	<u>10,220</u>
Noninterest Expense				
Salaries and employee benefits	3,819	3,964	13,100	12,916
Occupancy and equipment	584	472	1,711	1,460
Insurance Fund premium	463	431	1,340	1,250
Other operating expenses	1,141	1,073	3,576	3,535
Losses on other property owned, net	(2)	(1)	12	—
Total noninterest expense	<u>6,005</u>	<u>5,939</u>	<u>19,739</u>	<u>19,161</u>
Income before income taxes	10,036	7,949	25,769	21,732
Provision (benefit) for income taxes	349	(25)	445	21
Net income	<u>\$ 9,687</u>	<u>\$ 7,974</u>	<u>\$ 25,324</u>	<u>\$ 21,711</u>

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

AgSouth Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2005	\$ 910	\$ 5,923	\$ 86,063	\$ 105,468	\$ 198,364
Net income				21,711	21,711
Protected borrower equity retired	(286)				(286)
Capital stock/participation certificates issued		666			666
Capital stock/participation certificates retired		(602)			(602)
Retained earnings retired			(12,244)		(12,244)
Distribution adjustment			1,248	(1,781)	(533)
Balance at September 30, 2006	\$ 624	\$ 5,987	\$ 75,067	\$ 125,398	\$ 207,076
Balance at December 31, 2006	\$ 608	\$ 6,021	\$ 92,430	\$ 107,254	\$ 206,313
Net income				25,324	25,324
Protected borrower equity retired	(136)				(136)
Capital stock/participation certificates issued		651			651
Capital stock/participation certificates retired		(530)			(530)
Retained earnings retired			(14,003)		(14,003)
Distribution adjustment			944	(1,348)	(404)
Balance at September 30, 2007	\$ 472	\$ 6,142	\$ 79,371	\$ 131,230	\$ 217,215

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 AgSouth 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	\$ 3,806	\$ 3,808
Provision for (reversal of) loan losses	—	—
Loans (charged off), net of recoveries	116	(2)
Balance at end of period	<u>\$ 3,922</u>	<u>\$ 3,806</u>

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	\$ 1,257	\$ 1,470
Thrift/deferred compensation	299	279
Other postretirement benefits	707	740
Total	<u>\$ 2,263</u>	<u>\$ 2,489</u>

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.

The Association also sponsors supplemental retirement and deferred compensation plans for certain key employees. The expenses of these plans are included in the pension and deferred compensation costs above. The Association contributed \$65 to these plans during the first nine months of 2007. The Association anticipates making additional contributions of \$21 to these supplemental retirement and deferred compensation plans during the remainder of 2007.