
AG CREDIT AGRICULTURAL CREDIT ASSOCIATION

2007 ANNUAL REPORT

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Management

Neil L. Jordan.....	President and Chief Executive Officer
David G. Starner	Chief Credit Officer and Interim Secretary/ Treasurer
Daniel E. Ebert	Chief Financial Officer
P. Mark Pepple.....	Vice President – Corporate Services
Clemens C. Prenger.....	Internal Auditor

Board of Directors

Charles L. Bostdorff.....	Chairman
Harold S. Dalton, Jr.	Vice Chairman
Paul N. Aley	Director
Gerald J. Bumb	Director
Deborah L. Johlin-Bach.....	Director
Allen D. Hartschuh	Director
S. Jerry Layman	Director
Harold I. Lunde, Ph.D.	Director
Keith L. Roberts.....	Director
Dennis D. Schroeder	Director

Message from the Chairman of the Board and Chief Executive Officer

By just about every measure, 2007 was a successful year for our Cooperative and its Member-owners. Fueled by the surge in demand of ethanol and other renewable fuels, our grain commodity prices have soared and remained at record levels. Our country's projected agricultural net cash income for the year is anticipated to top \$87.5 billion, a new record.

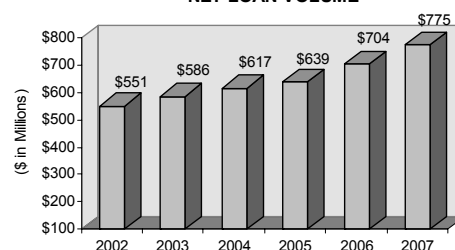
As we celebrate the good fortune within our grain commodities, we also recognize the increased risk to our livestock producers, and the increased risks of our production expense and land value trends. We recognize our risks are following behind our commodity price increases. Our cooperative is ready to face the challenges that these increased risks may bring with you.

We thank you for your continued support and use of our services, and are pleased to bring you this report of the financial condition of our cooperative. The following represent the trends of just a few of our key financial result areas:

Loan Volume

While near record 2007 yields and strong commodity prices have contributed to strong harvest repayments, our total loan volume continues to trend substantially higher. Aided by Member referrals, new Members have come to AG CREDIT, and with the increases in agricultural asset values, the agricultural "lending pie" is increasing. Led by land and equipment values, the capital required to participate in our agricultural industry continues to increase. Our cooperative is prepared with capital and human resources to meet this increasing demand.

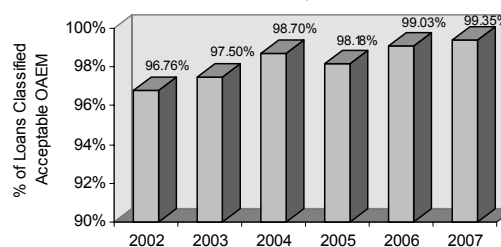
NET LOAN VOLUME



Risk Management

Aided by favorable net farm incomes over the past decade, our credit portfolio has reached a new record in quality. Our loan volume must be constructive, sound, and perform according to the loan contract if we are to remain viable and profitable. We appreciate you, our Members, for the manner in which you repay your loans. Thanks to you, our credit quality has now reached and remained at a very high, very favorable >99% level. While this is the highest continuing level in our history, we recognize we must not become complacent in our administration of credit.

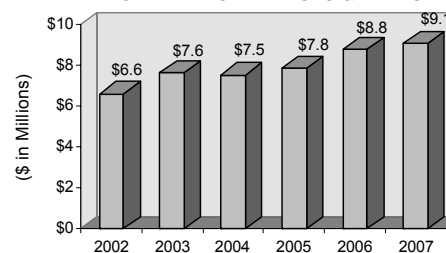
CREDIT QUALITY



Operating Expenses

As our volume of business has grown and new employees have been added, our expenses have also trended up, mainly within the salary and benefits area. Like most growing businesses, while costs have increased, we remain diligent in increasing our efficiencies with growth to offset costs. We remain focused on our efficiency factors which help ensure that we are delivering capital to you in the most effective and efficient means possible. Segmenting our portfolio and improving the delivery channels to those segments have been key to our continued efficiency success.

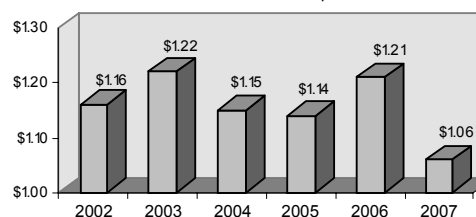
OPERATING EXPENSES & TAXES

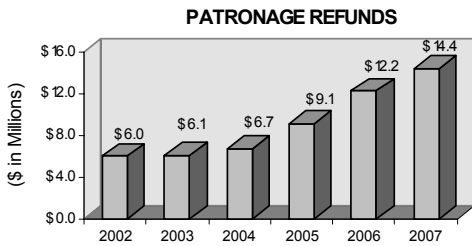
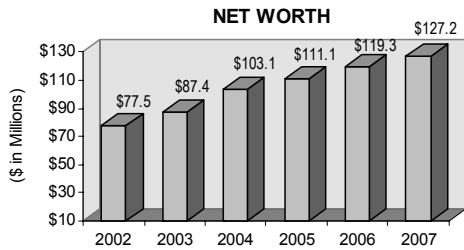
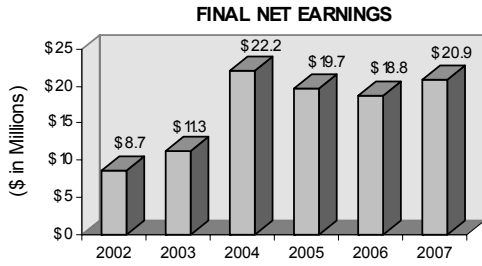


Cost Per \$100

We have continued to have very favorable loan volume growth, and this growth has improved our cost/\$100 loaned ratio. Employee salaries and benefits, and our recent initiatives in home lending secondary market (fee) incomes have increased our total costs, but our volume of business has compensated for these increases. As with your operation, health costs and benefits have been our biggest cost containment challenges. With the increased capital demands of agriculture, we anticipate our growth in volume will help continue to offset our costs in future years. As ever, we will also keep a wary eye focused on limiting increased expenditures where possible.

COST PER \$100





Profitability

AG CREDIT continues to have adequate earnings, which are keeping pace with our growth. As you reflect on this graph, '04 and '05 net earnings were inflated by the Allowance for Loan Loss accounting changes bringing \$6.6 million and \$1.4 million into the income statements for these two respective years. Without the ALL variations, our earnings have increased from general operations and FCB patronage to \$15.5 million in '04, \$18.3 million in '05 and \$18.8 million in '06. Aided by increased loan volume, non interest incomes from participation loans, home lending, farm-related services, insurances, equity income, and FCB patronage, our 2007 net income increased to \$20.9 million.

Capital

Capital is absolutely essential because it provides stability to the business, provides a cushion for the risks inherent with lending money, and provides our allowance for loan losses. Our Association's net worth of \$127.2 million is primarily comprised of \$52.6 million of unallocated surplus, \$9.2 million of stock and participation certificates and \$65.4 million of reserves allocated for you, our Stockholders. We remain very focused on effectively managing and leveraging our capital to provide the most favorable return on equity that we can.

Patronage Refunds

As our cooperative does well, financially, it returns substantial profits to you, our Stockholder. This sets AG CREDIT apart from the rest of the lender field. On average, your patronage refund reduced your interest paid by over 26% in 2007. Over the long term, with an attractive, competitive rate up front, cash patronage (April) plus an allocated equity reserve disbursement (September), your cooperative continues to provide you with the lowest net costs of funds and the most attractive source of funds possible.

As ever, we thank our Board of Directors for their dedication and leadership throughout the year, sharing their valuable time for meetings and planning sessions. "Who better than farmers to know what farmers need?" Our farm and outside Directors provide an invaluable service to the success of our Cooperative business.

We also thank our Employee Team for their dedication to building lifetime relationships and helping our cooperative, and the Farm Families who use it, succeed.

We enter 2008 with optimism. We have implemented numerous operating tools and procedures to enable our Cooperative to continue to be a forerunner in efficiently delivering capital to your farm or business operation. With our cooperative structure and ability to share our profits with you, we can deliver some of the very lowest cost of funds, anywhere.

As we add "fuels" to our previous food and fiber production from our agriculture, we are well capitalized and positioned to meet the challenges you may face in the future. As always, our risks in agriculture are high, but working through the challenges, together, are equally as gratifying.

We appreciate your business, and look forward to meeting your financial needs in the future. Tell your friends and neighbors about the advantages of our Cooperative.

Charles L. Bostdorff
Chairman of the Board

Neil L. Jordan
Chief Executive Officer

Report of Management

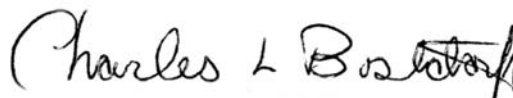
The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Ag Credit Agricultural Credit Association (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been examined by independent public auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that the 2007 Annual Report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.



Charles L. Bostdorff
Chairman of the Board



Neil L. Jordan
Chief Executive Officer



Daniel E. Ebert
Chief Financial Officer

February 28, 2008

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Ag Credit, ACA, (Association) for the year ended December 31, 2007 with comparisons to the years ended December 31, 2006 and December 31, 2005. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of the north central and northwest portion of Ohio. Refer to Note 1, "Organization and Operations," of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, www.agfirst.com, or may be obtained at no charge by calling 1-800-845-1745, extension 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, www.agcredit.net, or by calling 1-800-837-3678, extension 1023, or writing Dan Ebert, Chief Financial Officer at 610 W Lytle St, Fostoria OH 44830. The Association prepares

an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

AGRICULTURAL OUTLOOK AND ECONOMIC CONDITIONS

Despite periods of stressful weather in 2007, yields for our primary commodities of soybeans, corn and wheat were generally favorable across the Association's chartered territory. When coupled with relatively high commodity prices, net farm earnings for cash grain farmers have been positively impacted. The continued demand for alternative or renewable fuels has led to a corresponding increase in the domestic demand for corn and soybeans at a time when world demand for these same

commodities is increasing, resulting in a strong upward movement of prices for these two commodities. A worldwide shortfall in wheat production during 2007 has resulted in strong competition between the various commodities, price wise, as the markets attempt to allocate resources such as land, labor and capital in the proper mix to ensure adequate supplies of all commodities for the coming year(s). Off-farm employment remains stable in most sectors of the Association's territory and will continue to support Ag Credit stockholder's family living requirements. Livestock producers have experienced a mixed bag during 2007. Despite high feed prices, dairy farmers and poultry producers have generally experienced a strong earnings year due to historically high milk and egg prices that more than offset the increased costs of production. Beef producers have experienced a more marginal year with end product prices being relatively high, but not substantially higher than necessary to offset the increased costs of feed and energy. Hog producers, on the other hand, have seen end product prices dip below the cost of production at times throughout 2007 with national production currently continuing to outpace demand leading to concerns that profitability will continue to suffer, at least through the first half of 2008. Our nursery, greenhouse and related consumer industries have also experienced a profitable year.

The favorable conditions for 2007, described above, have allowed the Association's credit quality to remain strong. While non-earning assets increased slightly during 2007 they remain at historically low levels as a percentage of total assets. Management feels the Association continues to be well positioned financially to deal with difficult times our members may encounter, just as we have in the past.

The Association continues to increase its loan volume with significant new loan growth seen in 2007. The strong upward movement in land values during 2007 appears to be contributing to an increase in the number of farm real estate transfers. If this continues we would anticipate continued favorable loan growth in this portion of our portfolio during 2008. In addition the Association continues to focus its attention on increasing its portfolio of purchased loan participations as a means of additional income and to diversify our portfolio's commodity mix. Additionally, the Association continues to target loans to young, beginning and small farmers as part of our business plan to meet the generational transfer needs of our stockholders. Please refer to the Young, Beginning and Small (YBS) Farmers and Ranchers Program discussion later in this section of the Annual Report. The Association also saw continued growth in FSA and Business & Industry (B&I) guaranteed loan volume (guaranteed loans), which assists the Association in leveraging its capital, mitigating its commodity (cash grain) concentration risk and reducing the Association's potential risk of loss on loans. By utilizing guarantees, the Association can help ensure its ongoing profitability, reduce its risk exposure, better serve the agricultural communities in our territory and return more value to our member stockholders.

We continue to emphasize: our relationships with existing stockholders, referrals from our membership and our long-term commitment to agriculture. By operating as a cooperative and returning the majority of our earnings to our stockholders in the form of patronage refunds and allocated surplus disbursement, we continue to obtain new business and anticipate this to continue into the future.

Competition from national, international, regional and local commercial banks will continue. Additional competition for operating loans will come from seed, fertilizer and chemical companies as they seek to add credit as an additional company profit center. However, the Association remains very competitive and has continued to be successful in maintaining or increasing our market share. Our stockholders understand the advantage of doing business with a cooperative, recognizing the reduced net borrowing costs resulting from the sharing of our profits. We continue to look for ways to streamline our credit delivery system, expand our services and tell the cooperative story to return added value to our customer base.

Looking ahead to 2008, stockholders will likely benefit from a continued strong farm economy. However, the strong commodity prices have led to a rapid increase in input costs, increasing the production risk associated with all of the commodities in the Association's portfolio. While net cash incomes are anticipated to remain stronger than average during 2008, any significant reduction in yields could easily result in net losses, despite favorable commodity prices, owing to the higher cost of production. The future level of governmental support remains in question as the new farm bill is being crafted, with indications the final product may reduce the underlying safety net from that seen in the past program(s). Ongoing favorable grain prices will probably lead to at least some continued stress in the beef and hog sectors until such time as supply and demand factors reach an equilibrium point. In the dairy industry, high milk prices have historically led to excess production within a year or two that then leads to prices below the cost of production, again setting up the chances that this sector could see increased stress during 2008.

Despite the generally positive economic conditions referenced above, we recognize the Association is a single industry lender that is highly concentrated and dependent upon two government-supported commodities (corn and soybeans). With the government's ongoing deficit issues, governmental support from the farm program is susceptible to significant reductions to help balance the government's budget. Land values are increasing to levels that exceed what can be supported by even the current historically high grain commodity prices. Oil prices and other energy sources continue to remain at lofty levels with the potential for even further increases should conditions further erode in the geo-politically sensitive areas from which much of the U.S. supplies are imported. With strong competition internationally for farm inputs, costs are expected to continue to increase. All of these factors increase the inherent risk in the Association's portfolio and could have a significant, adverse impact on the net earnings of our stockholders and the future performance of the portfolio.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, "Summary of

Significant Accounting Policies,” of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- **Allowance for loan losses** — The allowance for loan losses is management’s best estimate of the amount of probable losses existing in and inherent in our loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which generally considers relevant historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors.

Significant individual loans are evaluated based on the borrower’s overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- **Valuation methodologies** — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association’s results of operations.
- **Pensions** — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected

return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate was selected by reference to Hewitt’s (a global human resources service provider) corporate bond index, actuarial analyses and industry norms.

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 through numerous product types.

The diversification of the Association loan volume and percent of portfolio by type for each of the past three years is shown below.

Loan Type	December 31,					
	2007		2006		2005	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 399,776	51.32%	\$ 361,980	51.14%	\$ 340,262	53.03%
Production and intermediate-term	290,442	37.29	268,942	38.00	237,818	37.07
Processing and marketing	21,499	2.76	14,364	2.03	1,697	0.26
Farm-related business	14,862	1.91	12,254	1.73	10,336	1.61
Rural residential real estate	50,506	6.48	49,220	6.95	50,538	7.88
Lease receivables	1,895	0.24	1,074	0.15	960	0.15
Total	\$ 778,980	100.00%	\$ 707,834	100.00%	\$ 641,611	100.00%

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The geographic distribution of the loans by branch/state for the past three years is as follows:

Branch/State	December 31,		
	2007	2006	2005
Findlay	8.9%	9.4%	9.9%
Wellington*	8.2	7.6	0.0
Fremont	7.9	7.8	8.3
Tiffin	9.1	9.4	10.3
Bowling Green	9.5	10.9	10.1
Marion	5.7	5.8	6.0
Bucyrus	7.9	8.1	8.1
Kenton	7.2	5.7	5.5
Mt. Gilead	7.5	7.6	7.3
Upper Sandusky	4.2	4.1	4.2
Norwalk	5.4	5.6	12.8
Ottawa	8.1	8.0	8.0
Van Wert	3.6	3.2	3.2
Napoleon	4.1	4.1	4.5
Admin Branch	2.7	2.7	1.8
	100.0%	100.0%	100.0%

* The Wellington branch designation was established in October, 2006. The Wellington branch volume was included in the Norwalk branch volume in 2005.

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The predominant commodities are general cash grains (primarily soybeans, corn and wheat), livestock, and horticulture, which constitute over 81% percent of the entire portfolio.

Commodity Group	2007		December 31, 2006		2005	
<i>(dollars in thousands)</i>						
General Cash Grain	\$ 466,766	60%	\$ 428,589	61%	\$ 401,621	63%
Livestock	116,194	15	105,197	15	89,522	14
Landlords	57,641	7	46,105	7	41,065	6
Rural Home Loans	50,039	6	49,516	7	50,990	8
Horticulture	44,652	6	45,437	7	41,837	7
Other	43,688	6	32,990	3	16,576	2
Total	<u>\$ 778,980</u>	<u>100%</u>	<u>\$ 707,834</u>	<u>100%</u>	<u>\$ 641,611</u>	<u>100%</u>

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of cash grain producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are supplemented with off-farm employment income that reduces overall risk exposure. Consumer demand for beef, grain prices, demand for alternate renewable fuel sources and international trade are some of the factors affecting the price of these commodities. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory, increased crop insurance protection and the use of FSA and Business and Industry loan guarantees

Loan portfolio concentration risk, whether by enterprise, individual, or related parties, is managed through loan participations, underwriting standards, internal lending limits, and sound portfolio management and monitoring practices. As a part of these risk management strategies, the Association has entered into participation agreements with AgFirst and System entities and continues to participate in the FSA loan guarantee program. Refer to the Agricultural Outlook and Economic Conditions section above for more details.

The dollar and percentage changes between 2006 and 2007 for the different loan types are shown in the chart below:

Loan Type	December 2007	December 2006	\$ Change	% Change
	<i>(dollars in thousands)</i>			
Real estate mortgage	\$ 399,776	\$ 361,980	\$ 37,796	10.4%
Production and intermediate-term	290,442	268,942	21,500	8.0%
Processing and marketing	21,499	14,364	7,135	49.7%
Farm related business	14,862	12,254	2,608	21.3%
Rural residential real estate	50,506	49,220	1,286	2.6%
Lease receivables	1,895	1,074	821	76.4%
Total	<u>\$ 778,980</u>	<u>\$ 707,834</u>	<u>\$ 71,146</u>	<u>10.1%</u>

The increase in real estate mortgage loans is attributed to an increase in the amount of acreage available for sale, the increase in the average cost per acre and our efforts to earn the business of those purchasing the acreage. Production and intermediate-term volume increased due to increased input costs, borrowers prepaying of 2008 input costs and efforts to obtain new business. Processing and marketing volume as well as farm related business volume increased due to increased participation

purchased volume and the addition of several large commercial accounts that fall within these two loan types. Rural home loans increased slightly due to increased efforts to earn new business and retaining the loans in the loan portfolio. The increase in lease volume is related to the addition of one large lease.

During 2007, the Association increased activity in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen our capital position. Participation purchased volume increased in 2007 as a result of increased purchasing activity by the Association due to improved net income margins on new participation offerings resulting in improved returns on required equity and the desire to be involved in credit offerings within the Association's service territory. Earnings on Participation purchased volume helps the Association leverage its capital and improve value returned to stockholder. Participations sold also increased due to increased borrowing of some large commercial accounts whose total borrowings exceeded the Association's hold position.

Loan Participations:	December 31, 2005		
	2007	2006	2005
<i>(dollars in thousands)</i>			
Participations Purchased			
– FCS Institutions	\$ 19,519	\$ 9,305	\$ 3,239
Participations Purchased			
– Non-FCS Institutions	8,864	–	–
Participations Sold	<u>(15,604)</u>	<u>(14,500)</u>	<u>(9,079)</u>
Total	<u>\$ 12,779</u>	<u>\$ (5,195)</u>	<u>\$ (5,840)</u>

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2007.

The Association sells qualified long-term home mortgage loans into the secondary market. For the year ended December 31, 2007, the Association originated home loans for resale into the secondary market totaling \$4,309 compared to \$7,093 for 2006 and \$218 for 2005.

MISSION-RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot under the mission-related investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create

and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2007, 2006 and 2005, the Association had \$983, \$0 and \$0, respectively, in Rural America Bonds, and they are classified as Loans on the Consolidated Balance Sheets.

INVESTMENT SECURITIES

At December 31, 2007, the Association had no investments in Tobacco Buyout SIIC, Small Business Administration (SBA) guaranteed loans or mortgage-backed securities (MBS). SBA guaranteed loans carry the full faith and credit of the United States government. MBSs are collateralized by U.S. government or U.S. agency-guaranteed residential mortgages that have an AAA rating. It is the Association's objective that liquid, high-quality investments shall be utilized, as opportunities and circumstances dictate, as an asset liability management strategy to manage interest rate risk, short-term funds, and diversify its income sources.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than \$250,000. In addition, each loan is assigned

a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2007	2006	2005
Acceptable & OAEM	99.34%	99.03%	98.18%
Substandard	0.65%	0.96%	1.82%
Doubtful	0.01%	0.01%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

High-risk Assets	December 31,		
	2007	2006	2005
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 957	\$ 651	\$ 297
Restructured loans	330	346	360
Accruing loans 90 days past due	46	105	–
Total high-risk loans	1,333	1,102	657
Other property owned	–	–	–
Total high-risk assets	\$ 1,333	\$ 1,102	\$ 657
Ratios			
Nonaccrual loans to total loans	0.12%	0.09%	0.05%
High-risk assets to total assets	0.16%	0.15%	0.10%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased by \$306 or 47.00 percent in 2007. Nonaccrual volume increased \$354, or 119.2 percent in 2006. The increase for both years resulted from the transfer of loans for several members to nonaccrual status. Of the \$957 in nonaccrual volume at December 31, 2007, \$151 or

16 percent compared to 27 percent and 31 percent at December 31, 2006 and 2005, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

The following table presents the activity in the allowance for loan losses for the most recent three years:

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2007	2006	2005
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 3,432	\$ 3,039	\$ 4,433
Charge-offs:			
Real estate mortgage	(99)	-	-
Production and intermediate-term	(1)	(29)	(2)
Total charge-offs	(100)	(29)	(2)
Recoveries:			
Real estate mortgage	-	-	-
Production and intermediate-term	22	22	8
Total recoveries	22	22	8
Net (charge-offs) recoveries	(78)	(7)	6
Provision for (reversal of allowance for) loan losses	146	400	(1,400)
Balance at end of year	\$ 3,500	\$ 3,432	\$ 3,039
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.011%)	(0.001%)	0.001%

The net loan charge-offs for 2007 were primarily associated with one real estate mortgage loan and a number of small production or intermediate-term loans.

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31,		
	2007	2006	2005
	<i>(dollars in thousands)</i>		
Real estate mortgage	\$ 279	\$ 523	\$ 658
Production and intermediate-term	2,659	2,452	2,090
Agribusiness	186	240	146
Rural residential real estate	371	217	140
Lease receivables	5	-	5
Total allowance	\$ 3,500	\$ 3,432	\$ 3,039

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	December 31,		
	2007	2006	2005
Total loans	0.45%	0.48%	0.47%
Nonperforming loans	282.94%	356.39%	810.40%
Nonaccrual loans	365.73%	527.19%	1,023.23%

The financial positions of our borrowers have generally strengthened during the past decade as farmers' net cash income has been at a favorable level due, in part, to direct federal government payments and steady increases in land values over the period. With borrowers' strengthened financial positions and the continued emphasis on sound underwriting standards, the credit quality of our loan portfolio has remained healthy. Please refer to Note 3, "Loans and Allowance for Loan Losses," of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2007, totaled \$20,930, an increase of \$2,159 or 11.50 percent, as compared to \$18,771 for the same period of 2006, and a decrease of \$925 or 4.70 percent in 2006, as compared to \$19,696 net income for the same period of 2005. Major components of the change in net income for the past two years are outlined in the following table.

Change in Net Income:	2007-2006	2006-2005
	<i>(dollars in thousands)</i>	
Net income (prior year)	\$ 18,771	\$ 19,696
Increase (decrease) in net income due to:		
Interest income	6,921	8,899
Interest expense	(5,318)	(6,828)
Net interest income	1,603	2,071
Provision for loan losses	254	(1,800)
Loan fees	(368)	347
Financially related services	425	183
Equity earnings of AgFirst		
Farm Credit Bank	514	(665)
Other noninterest income	6	(118)
Salaries and employee benefits	199	(407)
Occupancy and equipment	(124)	26
Insurance Fund premiums	(54)	(503)
Other operating expenses	(156)	(307)
Provision for income taxes	(140)	248
Total changes in income	2,159	(925)
Net income	\$ 20,930	\$ 18,771

Net Interest Income

Net interest income was \$22,841, \$21,238 and \$19,167 in 2007, 2006 and 2005, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. Net interest income increased by \$1,603 or 7.6 percent in 2007 when compared to 2006 and by \$2,071 or 10.8 percent for 2006 when compared to 2005. The 2007 increase was primarily due to increased loan volume and increased earnings on own funds in loans offset by lower market interest rates. Whereas the 2006 increase resulted from increased loan volume, earnings on own funds in loans and increased market

interest rate. The Association's net interest income as a percentage of average earnings assets was 3.11 percent, 3.20 percent and 3.10 percent on December 31, 2007, 2006 and 2005, respectively. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Loan Purchase Discount Income	Total
	(dollars in thousands)				
12/31/07 – 12/31/06					
Interest income	\$ 5,440	\$ 1,474	\$ 13	\$ (6)	\$ 6,921
Interest expense	(3,401)	(1,917)	–	–	(5,318)
Change in net interest income	\$ 2,039	\$ (443)	\$ 13	\$ (6)	\$ 1,603
12/31/06 – 12/31/05					
Interest income	\$ 2,967	\$ 6,337	\$ (291)	\$ (114)	\$ 8,899
Interest expense	(1,638)	(5,190)	–	–	(6,828)
Change in net interest income	\$ 1,329	\$ 1,147	\$ (291)	\$ (114)	\$ 2,071

* Volume variances can be the result of increased loan volume or from changes in the percentage composition of assets and liabilities between periods.

A reversal of a portion of the allowance for loan losses at December 31, 2005 resulted in a negative provision for loan losses of (\$1,400). This is income to the Association. The Association recorded a provision for loan losses of \$400 and \$146 for 2006 and 2007, respectively.

Please refer to the Consolidated Five-Year Summary of Selected Financial Data in the Annual Report to review key financial ratios pertaining to earnings and net interest income.

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	For the Year Ended December 31,			Percentage Increase/(Decrease)	
	2007	2006	2005	2007/ 2006	2006/ 2005
	(dollars in thousands)				
Loan fees	\$ 474	\$ 842	\$ 495	(43.7)%	70.10%
Fees for financially related services	1,070	645	462	65.9	39.6
Patronage refund from other Farm Credit Institutions	5,702	5,188	5,853	9.9	(11.4)
Other noninterest income	46	40	158	15.0	(74.7)
Total noninterest income	\$ 7,292	\$ 6,715	\$ 6,968	8.6%	(3.6)%

Loan fee income recognition decreased primarily as a result of the implementation of Statement of Financial Accounting Standards No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (FAS 91), lower participation loan origination fees and lower home loan secondary mortgage market origination fees. Rather than recording loan origination fees as loan fee income, FAS 91 amortizes loan origination fees into loan interest income over the life of the respective loans. The Association implemented FAS 91 accounting effective January 1, 2007. Prior to this time, the Association determined that FAS 91 accounting was immaterial to the Association's results of operations. The Association originates loans for the secondary market mortgage companies to meet customer needs

and to generate additional income to improve the Association's profitability. Fee income on participation purchased loans includes unused commitment fees, letter of credit fees and origination fees. Loan fee income for 2006, when compared to 2005, increased as a result of the increase in income from originating rural home loans for secondary market mortgage companies and increased fee income from participation purchased loans. Financially related services income for 2007 and 2006 increased due to increased multi-peril crop insurance income. The higher other noninterest income in 2005 when compared to 2006 and 2007 is related to income generated from the reduction of the SFAS 106 retiree medical liability due to payments of the monthly premiums by the former Louisville Farm Credit Bank benefit plan (former Louisville plan).

Patronage refunds from the Bank for 2006 when compared to 2005 decreased due to a reduction in the amount of special distribution from the Bank. The increase for 2007 when compared to 2006 is primarily a result of the increase in the average daily balance in the Association's note payable to the Bank. The Association's patronage from the Bank includes \$4,840, \$4,323, and \$4,029 in regular patronage refund for 2007, 2006, and 2005, respectively. In addition, the patronage refund line item includes a special distribution from the Bank of \$862, \$865 and \$1,824 for 2007, 2006, 2005, respectively.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense	For the Year Ended December 31,			Percentage Increase/(Decrease)	
	2007	2006	2005	2007/ 2006	2006/ 2005
	(dollars in thousands)				
Salaries and employee benefits	\$ 5,266	\$ 5,465	\$ 5,058	(3.6)%	8.1%
Occupancy and equipment expense	532	408	434	30.4	(6.0)
Insurance Fund premium	811	757	254	7.1	198.0
Other operating expense	2,266	2,110	1,803	7.4	17.0
Total noninterest expense	\$ 8,875	\$ 8,740	\$ 7,549	1.5%	15.8%

Salaries and employee benefits decreased in 2007, as compared with 2006, primarily due to regular salary increases and related benefit costs, increased group health insurance expenses offset by the decreased retirement expense and decreases resulting from the implementation of FAS 91 as previously discussed. FAS 91 accounting establishes deferred costs for each qualifying new loan. These deferred costs reduce salary and benefit expenses when they are set up at the inception of the loan. The deferred costs amortize each month over the life of the loan and reduce interest income and the loan's effective yield. Salaries and benefits increased for 2006 when compared to 2005 due primarily to a significant increase in group health insurance expenses along with regular salary increases and salary related benefits expenses and an increase in pension expenses. Increases in salaries and benefits were contained in 2005 as a result of health insurance premiums for the first ten months of 2005 being funded by the use of assets from the former Louisville plan previously discussed. The assets from the former Louisville plan were exhausted in 2005 and the Association paid the group health premiums in 2006 resulting in increased group health expenses in 2006 and 2007. Occupancy and equipment costs increased in 2007, as compared to 2006, primarily due to increased expenses related to depreciation,

maintenance and repairs, utilities and reduced rental income. Occupancy and equipment expenses decreased in 2006, as compared to 2005, due to a decreased cost of space related expenses. Insurance fund premium expenses increased in 2006 when compared to 2005 due to a significant increase in the insurance premiums charged by the Farm Credit System Insurance Corporation. Insurance fund premium expenses increased in 2007, as compared to 2006, due to increased loan volume. The increased premium expenses for both 2006 and 2007 were mitigated by significant increases in the Association's loan guarantees. The Association is not required to pay insurance premiums on the guaranteed portion of its loan portfolio. Other operating expenses for 2007 when compared to 2006 increased as a result of increased director, training, travel, communication, data processing, printing, supplies and public relations expenses offset by reduced purchased services and advertising expenses. Other operating expenses increased in 2006 when compared to 2005 due to increases in director, purchased services, communications, printing and supplies, advertising, public relations, travel and FSA guarantee expenses offset by decreases in training and data processing expenses.

Income Taxes

The Association recorded a provision for income taxes of \$182 for the year ended December 31, 2007, as compared to a provision for income taxes of \$42 and \$290 for 2006 and 2005, respectively.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended		
	12/31/07	12/31/06	12/31/05
Return on average assets (ROA)	2.73%	2.71%	3.06%
Return on average members' equity (ROE)	16.49%	16.00%	18.12%
Net interest income as a percentage of average earning assets	3.11%	3.20%	3.10%
Net charge-offs (recoveries) to average loans	(0.011)%	(0.001)%	0.001%

The ROA and ROE for 2005 was significantly impacted by the \$1,400 of income attributed to the reversal of the allowance for loan losses previously discussed. The ROA and ROE for 2005, adjusted for the allowance income, would be approximately 2.87 percent and 17.95 percent respectively.

A key factor in the growth of net income for future years will be continued improvement in net interest income and noninterest income as well as controlling noninterest expenses. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue the improvement shown in recent years and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA 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, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. 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. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds".

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. Participation in the Farmer Mac, investments, and other secondary market programs may provide additional liquidity. During 2007, the Association only used the home mortgage loan secondary market. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

Total notes payable to the Bank at December 31, 2007, was \$672,645 as compared to \$614,175 at December 31, 2006 and \$554,453 at December 31, 2005. The increase of 9.5 percent compared to December 31, 2006 and the increase of 10.8 percent for December 31, 2006 as compared to December 31, 2005, was attributable to continued loan growth in the Association, the cash patronage to members in April and the cash payment of qualified and nonqualified allocated surplus in September of both years. These increases were offset by the receipt of patronage from the Bank in January of both years. The average volume of outstanding notes payable to the Bank was \$631,424 and \$566,449 for the years ended December 31, 2007 and 2006, respectively. Refer to Note 6, "Notes Payable to AgFirst Farm Credit Bank," of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

The Association had no lines of credit from third party financial institutions as of December 31, 2007.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services. The Association utilizes loan guarantees to mitigate risk and leverage capital to return value to its stockholders.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2007 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

The following table shows the components of and total members' equity as of December 31, 2007, 2006 and 2005.

	December 31,		
	2007	2006	2005
	<i>(dollars in thousands)</i>		
Class A Preferred Stock	\$ 4,634	\$ 4,817	\$ 6,096
C Stock and Participation Certificates	4,537	4,424	4,324
Qualified Allocated Retained Earnings	4,883	6,140	9,888
Nonqualified Retained Earnings	36,864	32,293	26,590
Nonqualified Allocated			
Retained Earnings	23,671	20,553	13,195
Unallocated Retained Earnings	52,637	51,076	51,039
Total members' equity	<u>\$ 127,226</u>	<u>\$ 119,303</u>	<u>\$ 111,132</u>

Total members' equity for 2007 increased by \$7,923 or 6.6 percent when compared to 2006 and increased by \$8,171 or 7.35 percent for 2006 when compared to 2005. The increases for

both years were a result of net income offset by cash patronage, the revolvment of qualified allocated surplus and the reduction in Class A Preferred Stock.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standard for all the ratios.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2007	2006	2005	Regulatory Minimum
Permanent capital ratio	18.96%	19.15%	18.73%	7.00%
Total surplus ratio	17.50%	17.54%	16.74%	7.00%
Core surplus ratio	15.66%	15.71%	14.74%	3.50%

The decrease in the Association's permanent capital, total surplus, and core surplus for December 31, 2007 when compared to December 31, 2006 was attributed to increased loan volume offset by increased loan guarantees and increased earnings. Loan guarantees reduce the capital requirement for the loans. The ratios at December 31, 2006 when compared to December 31, 2005 increased as a result of increased risk weighted capital generated by increased earnings and the increased use loan guarantees. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 7, "Members' Equity," of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, "Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of \$19,599 in 2007, \$17,653 in 2006, and \$17,111 in 2005.

YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association’s mission is to provide financial services to agriculture and the rural community, which includes providing credit to young*, beginning** and small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. As a result, 2007 goals were established. The Association met its total portfolio by number goal for beginning farmer loans, but fell slightly short of its portfolio by number goal for the young and small farmers categories. The Association did not meet its YBS volume as a percent of portfolio volume goals. The Association met its goals for YBS new volume and number of new loans.

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2007	
	Number of Loans	Amount of Loans
Young	1,769	\$107,127
Beginning	1,527	85,177
Small	7,667	386,200

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2002 USDA (2002 is the latest USDA Ag census data available; next census will be available in 2008.) Ag census data has been used as a benchmark to measure penetration of the Association’s marketing efforts. The census data indicated that within the Association’s chartered territory (counties) there were 14,232 reported farmers of which by definition 970 or 6.8 percent were Young, 3,127 or 22.0 percent were Beginning, and 13,364 or 93.9 percent were Small. Comparatively, as of December 31, 2007, the demographics of the Association’s agricultural portfolio contained 4,842 farmers, of which by definition 960 or 19.8 percent were Young, 892 or 18.4 percent were Beginning and 3,809 or 78.7 percent were Small.

The Start Right program was created to help YBS farmers finance their operations. It consists of three focus areas: education, events, and financial support. Education is at the heart of the program, and includes seminars, speaking opportunities and training sessions, which are conducted throughout the year. These educational opportunities are both in-house, in the form of events held by the Association, and external, in which case, the Association provides a speaker or provides educational materials. The Association website, www.agcredit.net, includes a section of information for YBS visitors to the site.

The second focus area of the program includes those activities in which the Association sponsors local events (such as 4-H and FFA fairs), or events where the Association is an exhibitor (such as industry or trade shows).

The third prong of the Start Right program, financial support, addresses the specific credit programs and partnerships that we’ve developed to help small farmers, young farmers, and farmers just starting out. It comprises programs such as those offered by the Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers. The Association is a “preferred lender,” the highest status designated by FSA.

The Association is also a Guaranteed Participating Lender for the Small Business Administration (SBA), which offers lending programs specifically for small borrowers. Additionally, the Association offers flexible financing options in-house for qualifying borrowers.

The Credit Administrator, who coordinates the Association’s efforts, oversees the Start Right program. A designated team member from each office coordinates the YBS efforts of their respective office. The Association includes YBS goals in the annual strategic plan, and reports on those goals and achievements to the Board of Directors on a quarterly basis.

The Association is committed to the future success of young, beginning and small farmers.

* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

*** Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than \$250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

The following strategies and outreach programs have been conducted which allowed the Association to meet its objectives and goals to date of the young, beginning, and small farmer program.

- Use of FSA programs. These include but are not limited to:
 - FSA guarantees
 - FSA interest assistance
 - FSA Beginning Farmer Down Payment Farm Ownership loan
 - FSA 50/50 Participation Program
- Use of Ohio Link Deposit loans.
- Provide access to credit life insurance, crop insurance and appraisal services.
- Support of 4-H, FFA and young farmer organizations through sponsorships and donations.
- Sponsor seminars on farm transition planning and financial management.
- PowerPoint presentation to use when talking with vocational agriculture classes about the importance of establishing and maintaining good credit.

- Association employees made presentations to high school agri-business classes explaining Ag Credit, the cooperative method of doing business and agricultural finance issues.
- Advertised YBS promotional topics in local media outlets.
- Featured YBS families in articles in the Association's quarterly magazine, The Leader.
- Sent YBS informational stuffers in the Association's loan payment notices
- Sponsored scholarships for YBS borrowers to attend the National Young Farmer Educational Institute in Columbus, Ohio.
- Recognized the 41 winners of the FFA 110% Award with articles in the Ohio Country Journal and AgCredit Leader publications.
- Started a new Wood County Young Farmer organization with AgCredit being the primary sponsor and organizer.

REGULATORY MATTERS

Proposed Federal Legislation

The current farm bill expired on September 30, 2007. In July 2007, the House of Representatives passed its version of a new farm bill, the Farm, Nutrition, and Bioenergy Act of 2007. Under the farm bill as passed by the House of Representatives, the Congressional Budget Office estimated that payments to farmers under the commodity programs, i.e., direct and countercycle payments and loan deficiency payments, would be reduced by an estimated \$825 million in total over the next 10 years, as compared with a current services baseline of approximately \$75 billion for commodities. However, the specific provisions of the farm bill may increase payments for certain commodities or increase them in certain years and reduce them in others. This farm bill would also revise certain income payment limitations.

The farm bill as passed by the House of Representatives also contains provisions that would expand certain authorities of the Farm Credit System Insurance Corporation. The proposed changes generally would authorize the Insurance Corporation to collect higher levels of premiums and expand the base upon which premiums are charged. Premiums of up to 20 basis points could be charged against insured debt adjusted for government-guaranteed loans and up to an additional 10 basis points could be charged for any loan volume that is nonaccrual or investments that are other-than-temporarily impaired. Currently, premiums of up to 15 basis points may be charged on accruing loans and up to 25 basis points for nonaccrual loans.

The Senate Agriculture, Nutrition and Forestry Committee has submitted to the full Senate its version of the farm bill, the Food and Energy Security Act of 2007. As reported, the bill proposes adjustments to current farm policy while maintaining the basic safety net structure of current law. The bill, when combined with tax provisions previously reported by the Senate Finance Committee, would provide for a permanent disaster fund and provide new incentives for farmers to engage in soil conservation activities. Before these changes are enacted into law, the Senate must adopt the bill and conference their actions with the bill earlier approved by the House. It is premature to predict the final outcome of this process. The proposed Senate farm bill contains the same expanded authorities with respect to the Insurance Corporation as noted above.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109*" (FIN 48 or Interpretation) that was effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies how an enterprise should recognize, measure, present and disclose in its financial statements uncertain tax positions that the enterprise has taken or expects to take on a tax return. Under the Interpretation, the financial statements reflect expected future tax consequences of income tax positions presuming the relevant taxing authority's full knowledge of the position and all relevant facts, but without considering time values. FIN 48 is applicable to all uncertain positions for taxes accounted for under FASB Statement No. 109. The Association adopted FIN 48 on January 1, 2007 and determined that interest and penalties would be classified as a component of income taxes.

There were no uncertain positions for income taxes at January 1, 2007 identified as a result of the adoption and therefore no cumulative adjustment to beginning members' equity was required. The tax years that remain open for federal and major state income tax jurisdictions are 2004 and forward.

In September 2006, the FASB also issued Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*." This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As a result, there is now a common definition of fair value to be used throughout generally accepted accounting principles. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. This Statement clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure. In measuring fair value for a financial statement item, the Statement sets forth a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The highest priority is given to quoted prices in active markets and the lowest priority to unobservable inputs. Additional disclosure requirements will be required for the lowest priority level. The Statement became effective as of January 1, 2008, and will be applied to our consolidated financial statements on a prospective basis.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "*Fair Value Option for Financial Assets and Financial Liabilities*." The Standard permits entities to choose on an instrument-by-instrument basis, at specified election dates, to measure financial assets and liabilities and certain other items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected must be reported in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. This Standard became effective as of January 1, 2008. The Association has not made any elections under the fair value option, thus there will be no impact of the initial adoption of the Standard. However, the Association may elect to apply the fair value option to financial instruments acquired in future periods.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1 of the Consolidated Financial Statements, "Organization and Operations," included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Ohio:

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
610 W. Lytle St. Fostoria	Administrative	Owned
7868 County Rd. 140, Ste. A Findlay	Branch	Leased ⁽¹⁾
2155 Oak Harbor Rd. Fremont	Branch	Owned ⁽²⁾
1200 N. St. Rt. 53 Tiffin	Branch	Owned
111 E. Gypsy Lane Rd. Bowling Green	Branch	Owned
602 W. Lytle St. Fostoria	Country Mortgages	Owned
1100 E. Center St. Marion	Branch	Owned
3113 St. Rt. 98 Bucyrus	Branch	Owned
12923 St. Rt. 309 Kenton	Branch	Owned
97 Houpt Dr., Room E. Upper Sandusky	Branch	Leased ⁽³⁾
871 W. Marion Rd., Suite 204 Mt. Gilead	Branch	Leased ⁽⁴⁾
735 US Rt. 20 E. Norwalk	Branch	Owned
116 W Herrick Avenue Wellington	Branch	Leased ⁽⁵⁾
315 W. Williamstown Rd. Ottawa	Branch	Owned

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
1195 Professional Dr. Van Wert	Branch	Leased ⁽⁶⁾
1485 N. Scott St., Suite 210 Napoleon	Branch	Leased ⁽⁷⁾

- (1) One-year lease terminating on December 31, 2008, with a one-year option ending December 31, 2009. Annual lease of \$27,381.
- (2) The Association owns the West half of the building.
- (3) Five-year lease terminating February 29, 2012. Annual lease of \$15,708.
- (4) One-year lease terminating November 30, 2008. Annual lease of \$17,400.
- (5) Three-year lease terminating October 31, 2010. Annual lease of \$9,600.
- (6) Five-year lease terminating December 31, 2010. Annual lease of \$16,800.
- (7) Ten-year lease terminating February 14, 2012. Annual lease of \$15,000.

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 12 of the Consolidated Financial Statements, "Commitments and Contingencies," included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 7 of the Consolidated Financial Statements, "Members' Equity," included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities and intrasystem financial assistance rights and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 10 and 12 of the Consolidated Financial Statements included in this Annual Report.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association:

<u>Senior Officer</u>	<u>Position</u>
Neil Jordan	<i>President and Chief Executive Officer</i> since January, 1995. Employed by Ag Credit for the past 5 years. Employed by Ag Credit, or predecessor associations, since February, 1981.
David Starner	<i>Chief Credit Officer and Interim Secretary Treasurer</i> – Chief Credit Officer since September, 2004. Interim Secretary/Treasurer since October, 2006. Employed by Ag Credit for the past 5 years. Employed by Ag Credit, or predecessor associations, since 1996.
Daniel Ebert	<i>Chief Financial Officer</i> since August 1, 2007. Employed by Ag Credit for the past 5 years. Employed by Ag Credit, or predecessor associations, since July, 1986.
Mark Pepple	<i>Vice President – Corporate Services</i> since January, 2001. Employed by Ag Credit for the past 5 years. Employed by Ag Credit, or predecessor associations, since July, 1978.
Clem Prenger	<i>Internal Auditor</i> since October, 1987. Employed by Ag Credit for the past 5 years. Employed by Ag Credit, or predecessor associations, since October, 1987.

The total amount of compensation earned by the CEO and the five highest paid officers as a group, during the years ended December 31, 2007, 2006 and 2005, is as follows:

Name of Individual or Number in Group	Year	Annual		Deferred/-		Total
		Salary	Bonus	Perquisites	Other	
Neil Jordan	2007	\$189,005	\$17,577	–	–	\$206,582
Neil Jordan	2006	\$180,005	\$16,020	–	–	\$196,025
Neil Jordan	2005	\$172,007	\$14,964	–	–	\$186,971
5	2007	\$457,567	\$46,745	–	–	\$504,312
5	2006	\$433,301	\$38,600	–	–	\$471,901
5	2005	\$530,558	\$48,331	–	–	\$578,889

Note: Beginning with year-end 2006, CEO compensation must be disclosed as a separate line item and is not included in the aggregate amount. The CEO salary is included in the aggregate amount for 2005.

Regulatory reporting changes have affected the content of the compensation reported for 2006 and 2007 and those changes are not reflected in the 2005 amounts.

In addition to base salary, employees and senior officers can earn additional bonus compensation under an annual incentive plan which is tied to the overall business performance and the individual's performance appraisal rating. The incentive plan is based on a fiscal year, from October 1 to September 30, and is designed to motivate employees to exceed performance targets established by the Board of Directors. Employees may earn

additional incentive compensation under the FSA/B&I Guarantee Loan Officer Incentive Plan (Guarantee Incentive) and the Rural Home Loan Incentive Plan (RHL Incentive). The Guarantee Incentive pays the employee an incentive for obtaining an FSA or Business and Industry loan guarantee. These guarantees help the association leverage capital, mitigate credit risk and assist the Association to lend funds to Young, Beginning and Small Farmers and Ranchers. The RHL Incentive pays the employee for making qualifying rural home mortgage loans. The RHL Incentive is designed to motivate employees to make loans to qualifying borrowers and help the Association extend credit to the rural communities it serves. Incentives are shown in the year earned, which may be different from the year of payment. Additionally, all employees are reimbursed for mileage on personally-owned automobiles at the rate allowed by IRS regulations and for all actual travel expenses incurred when traveling on Association business. A copy of the travel and other business expenses policy is available to shareholders upon written request.

Disclosure of information on the total compensation paid during 2007 to any senior officer, or to any other individual included in the totals shown above, is available to shareholders upon request.

Directors

The following chart details the year the director began serving on the board, the current term expiration and total cash compensation paid:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2007
Charles L. Bostdorff, <i>Chairman</i>	2001	2010	\$ 12,200
Harold S. Dalton, Jr., <i>Vice Chairman</i>	2000	2009	9,200
Paul N. Aley, <i>Outside Director</i>	2005	2008	5,600
Gerald J. Bumb	2003	2009	8,400
Allen D. Hartschuh	1999	2008	8,000
Deborah L. Johlin-Bach	2007	2010	5,200
S. Jerry Layman	2004	2010	10,000
Harold I. Lunde, PhD, <i>Outside Director</i>	2005	2010	8,400
Keith L. Roberts	2006	2009	7,400
Dennis D. Schroeder	1996	2008	8,000
Thomas L. Antesberger	1995	2007	<u>2,000</u>
			\$ 84,400

Subject to approval by the board, the Association may allow directors honoraria of \$400 for attendance at regular meetings and \$400 for attending committee meetings or special assignments. With the exception of the Loan Committee, committees meet during regularly scheduled board meetings. The Loan Committee and the Audit Committee may meet on other days during the year. Compensation received and days attending meetings for these two committees are shown in the director narratives below. Total compensation paid to directors, as a group was \$84,400. No director received more than \$5,000 in non-cash compensation during the year.

The following represents certain information regarding the directors of the Association:

Charles L. Bostdorff, Chairman, farms in Wood County and represents Wood and Henry Counties and western Lucas County. For the past five years, his principal occupation and employment was farming and a greenhouse operation. During 2007 Mr. Bostdorff served on the Governance Committee, the Compensation Committee and the Loan Committee (3 days and \$1,200 compensation).

Harold S. Dalton, Jr., Vice Chairman, represents Erie, Huron and Lorain Counties. For the past five years, his principal occupation and employment was farming. He serves on the county committee for the Farm Service Agency. During 2007 Mr. Dalton served on the Audit Committee (2 days and \$800 compensation).

Paul N. Aley is an outside director. Mr. Aley's principal occupation and employment for the past five years was as the owner and chairman of AgriEnergy Resources and President of the National Machinery Company. Mr. Aley retired from the National Machinery Company in 2002. During 2007 Mr. Aley served on the Audit Committee (1 day and \$400 compensation).

Gerald J. Bumb represents Seneca County. For the past five years, his principal occupation and employment was farming. During 2007 Mr. Bumb served on the Governance Committee, the Compensation Committee and the Loan Committee (3 days and \$1,200 compensation).

Allen D. Hartschuh represents Crawford and Morrow Counties. For the past five years, his principal occupation and employment was farming. He is a director for the Sandusky Valley Milk Producers Association. During 2007 Mr. Hartschuh served on the Credit Committee, the Operations Committee and the Loan Committee (2 days and \$800 compensation).

Deborah L. Johlin-Bach represents Ottawa and Sandusky Counties and eastern Lucas County. For the past five years, her principal occupation and employment was farming. She is also a supervisor for the Sandusky County Soil and Water Conservation District. During 2007 Mrs. Johlin-Bach served on the Credit Committee and the Loan Committee (2 days and \$800 compensation).

S. Jerry Layman represents Hardin and Hancock Counties. For the past five years, Mr. Layman's principal occupation and employment was as a substitute teacher, township trustee and farming. During 2007 Mr. Layman served on the Audit Committee (3 days and \$1,200 compensation), the Operations Committee and the Loan Committee (2 days and \$800 compensation).

Harold I. Lunde, PhD is an outside director. Dr. Lunde's principal occupation and employment for the past five years was as a Professor of Management, Emeritus for Bowling Green State University (BGSU). Dr. Lunde also serves on the boards for the U.S. Naval War College Foundation, the BGSU Retirees Association, BGSU School of Art, and Goodwill Industries of Northwest Ohio. During 2007 Dr. Lunde served on the Operations Committee, the Governance Committee, the Compensation Committee and the Loan Committee (2 days and \$800 compensation).

Keith L. Roberts represents Marion and Wyandot Counties. For the past five years, his principal occupation and employment was farming. During 2007 Mr. Roberts served on the Credit Committee and the Loan Committee (2 days and \$800 compensation).

Dennis D. Schroeder represents Paulding, Putnam and Van Wert Counties. For the past five years, his principal occupation and employment was farming. Mr. Schroeder also serves on the Putnam County Economic Development Board. During 2007 Mr. Schroeder served on the Operations Committee and the Loan Committee (3 days and \$1,200 compensation).

Thomas L. Antesberger represented Ottawa and Sandusky Counties and eastern Lucas County. Mr. Antesberger's three-year term which began in 2004, expired in 2007. For the past five years, his principal occupation and employment was farming. Prior to the expiration of his term, Mr. Antesberger served on the Audit Committee (1 day and \$400 compensation) and the Loan Committee (1 day and \$400 compensation).

The following chart details the number of meetings, other activities and additional compensation paid for other activities (if applicable) for each director:

Director	Regular Board Meetings		Other Official Activities	
	Days Served	Compensation Paid	Days Served	Compensation Paid
Charles L. Bostdorff, <i>Chairman</i>	11	\$ 4,400	20	\$ 7,800
Harold S. Dalton, Jr., <i>Vice Chairman</i>	11	4,400	12	4,800
Paul N. Aley, <i>Outside Director</i>	7	2,800	7	2,800
Gerald J. Bumb	11	4,400	10	4,000
Allen D. Hartschuh	11	4,400	9	3,600
Deborah L. Johlin-Bach	8	3,200	5	2,000
S. Jerry Layman	10	4,000	15	6,000
Harold I. Lunde, PhD, <i>Outside Director</i>	11	4,400	10	4,000
Keith L. Roberts	10	4,000	9	3,400
Dennis D. Schroeder	10	4,000	10	4,000
Thomas L. Antesberger	3	1,200	2	800
Total Compensation		\$ 41,200		\$ 43,200

* Includes board committee meetings and other board activities other than regular board meetings.

Directors are reimbursed for mileage on personally-owned automobiles at the rate allowed by IRS and for all actual travel expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to stockholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$65,844 for 2007, \$51,906 for 2006 and \$51,882 for 2005.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 11 of the Consolidated Financial Statements, "Related Party Transactions," included in this Annual Report.

FCA regulation requires the disclosure of the purchase or retirement of Association preferred stock held by an Association officer or director. The Association only has Class A Preferred Stock (preferred stock) and is available for purchase by members and others in accordance with the Association's Bylaws. The average preferred stock dividend rate for dividends paid in 2007 was 3.875 percent. Dividends are declared quarterly and paid in additional shares of preferred stock. No Association officer held preferred stock during 2007. The following chart shows the directors holding preferred stock and the preferred stock activity for each individual for 2007.

Director	Beginning Balance 1/1/07	Purchases	Retirements	Dividends Paid	Ending Balance 12/31/07
Deborah L. Johlin-Bach	\$625	\$-	\$-	\$25	\$650
Charles L. Bostdorff	\$1,190	\$-	\$-	\$45	\$1,235
Keith L. Roberts	\$8,480	\$-	\$-	\$330	\$8,810
S. Jerry Layman	\$530	\$25,000	\$-	\$270	\$25,800
Harold S. Dalton Jr.	\$4,775	\$-	\$-	\$185	\$4,960
Dennis D. Schroeder	\$1,545	\$-	\$-	\$65	\$1,610

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditors and Other Qualified Public Accountants

There were no changes in or material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees incurred by the Association for services rendered by its independent auditors and other qualified public accountants for the year ended December 31, 2007 were as follows:

	<u>2007</u>
Independent Auditor	
PricewaterhouseCoopers LLP	
Audit services	\$ 54,637
Qualified Public Accountant	
J. Robin Haynes, C.P.A.	
Tax Services	13,200
Harper, Rains, Knight and Co.	
Audit services	37,920
Total	<u>\$ 105,757</u>

Audit fees for PricewaterhouseCoopers LLP were for the annual audit of the consolidated financial statements. Audit fees for Harper, Rains, Knight and Co were for the audit of the Association's internal controls and for testing the Association's Sarbanes-Oxley related controls.

All audit and non-audit service fees incurred by the Association were approved by the Audit Committee.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 28, 2008 and the report of management, which appear in this Annual Report are incorporated herein by reference.

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-419-435-7758, ext. 1023, or writing Dan Ebert, Chief Financial Officer, Ag Credit, Agricultural Credit Association, 610 West Lytle Street, Fostoria, OH 44830 or accessing the web site, www.agcredit.net. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the 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.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this Annual Report to the shareholders.

Shareholder Investment

Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank'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 by going to AgFirst's web site at www.agfirst.com. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

The Audit and Review Committee of the Board of Directors (the Committee) is comprised of three directors (Harold S. Dalton Jr., Committee Chairman; Paul N. Aley, Outside Director and S. Jerry Layman, Director). None of the directors who serve on the Audit and Review Committee is an employee of AG CREDIT, ACA (the Association) and in the opinion of the Board of Directors, each is free of any relationship with a Farm Credit institution or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent auditor for 2007, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with generally accepted accounting principles. The Committee has discussed with PwC the matters that are required to be discussed by *Statement on Auditing Standards No. 114 (The Auditor's Communication With Those Charged With Governance)*. PwC has provided to the Committee the written disclosures and the letter required by *Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees)*, and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual report for 2007. The foregoing report is provided by the following independent directors, who constitute the Audit and Review Committee:



Harold S. Dalton, Jr.
Chairman of the Audit and Review Committee

Members of the Audit and Review Committee

Paul N. Aley
S. Jerry Layman

February 28, 2008

Report of Independent Auditors



PricewaterhouseCoopers LLP
10 Tenth Street, Suite 1400
Atlanta, GA 30309
Telephone (678) 419 1000

Report of Independent Auditors

To the Board of Directors and Members
of Ag Credit Agricultural Credit Association

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of Ag Credit Agricultural Credit Association (the Association) and its subsidiaries at December 31, 2007, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 28, 2008

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Ag Credit Agricultural Credit Association (the Association or ACA) is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified purposes in the counties of Huron, Erie, Lorain, Paulding, Putnam, Van Wert, Henry, Lucas, Wood, Hancock, Ottawa, Sandusky, Seneca, Wyandot, Marion, Hardin, Crawford and Morrow in the state of Ohio.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2007, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and ninety-four Associations.

AgFirst Farm Credit Bank (Bank) and its related Associations are collectively referred to as the "District." The Bank provides funding to associations within the District and is responsible for supervising certain activities of the Association, as well as the other Associations operating within the District. The District consists of the Bank and twenty-three Agricultural Credit Associations (ACAs), all of which are structured as ACA parent-companies, which have two wholly owned subsidiaries, a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA). FLCAs are tax-exempt while ACAs and PCAs are taxable.

ACA parent-companies provide financing and related services through its FLCA and PCA subsidiaries. However, the Association's PCA is dormant. Thus, the ACA makes short- and intermediate term loans for agricultural production and operating purposes. The FLCA makes collateralized long-term agricultural real estate and rural home mortgage loans.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising Bank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on

Systemwide debt obligations (Insured debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average loan principal outstanding until the monies in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (Systemwide debt obligations) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on net income or total members' equity of prior years. The Consolidated Financial Statements include the accounts of the FLCA and the ACA. All significant inter-company transactions have been eliminated in consolidation.

A. **Cash:** Cash, as included in the statements of cash flows, represents cash on hand and on deposit at banks.

B. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have original maturities ranging from 5 to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Loan origination fees and direct loan origination costs are deferred as part of the carrying amount of the loan and the net fee or cost is amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses existing as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The Association considers the following factors when adjusting the historical charge-offs experience:

- Changes in credit risk classifications,
- Changes in collateral values,
- Changes in risk concentrations,
- Changes in weather related conditions, and
- Changes in economic conditions.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

A specific allowance may be established for impaired loans under Statement of Financial Accounting Standards No. 114. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs.

C. **Investment in AgFirst Farm Credit Bank:** The Association is required to maintain ownership in the Bank in the form of Class C stock. Accounting for this investment is on the cost plus allocated equities basis. Patronage refunds from the Bank are accrued as earned. The receivable for such patronage refunds is classified as due from AgFirst Farm Credit Bank.

D. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Revised estimates to the fair

value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in gains (losses) on other property owned, net.

- E. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.
- F. **Advanced Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as interest-bearing liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.
- G. **Employee Benefit Plans:** Substantially all employees of the Association, along with three other Associations, may participate in the "Independent Associations' Retirement Plan" (Plan), which is a defined benefit plan, and is considered a multi-employer plan. The Plan is noncontributory and includes eligible District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The cost of the Plan is allocated based on the individual Association's pension obligation.

Substantially all employees of the Association may also be eligible to participate in the District's thrift/deferred compensation plan (Thrift Plan); a percentage of employee contributions is matched by the Association. Thrift Plan costs are expensed as funded.

Effective January 1, 2006 the Districtwide 401(k) Plan known as the AgFirst Farm Credit Employee Thrift Plan merged with the Farm Credit Bank of Texas Thrift Plus Plan. The new plan is known as the AgFirst/FCBT 401(k) Employee Benefit Plan.

The Association may provide certain health care and life insurance benefits to eligible retired employees. Substantially all employees may become eligible for these benefits if they reach early retirement age while working for the Association.

- H. **Income Taxes:** The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

- I. **Patronage Refund from AgFirst:** The Association records patronage refunds from the Bank on an accrual basis.
- J. **Recently Issued Accounting Pronouncements:** In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109*" (FIN 48 or Interpretation) that was effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies how an enterprise should recognize, measure, present and disclose in its financial statements uncertain tax positions that the enterprise has taken or expects to take on a tax return. Under the Interpretation, the financial statements reflect expected future tax consequences of income tax positions presuming the relevant taxing authority's full knowledge of the position and all relevant facts, but without considering time values. FIN 48 is applicable to all uncertain positions for taxes accounted for under FASB Statement No. 109. The Association adopted FIN 48 on January 1, 2007 and determined that interest and penalties would be classified as a component of income taxes.

There were no uncertain positions for income taxes at January 1, 2007 identified as a result of the adoption and therefore no cumulative adjustment to beginning members' equity was required. The tax years that remain open for federal and major state income tax jurisdictions are 2004 and forward.

In September 2006, the FASB also issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As a result, there is now a common definition of fair value to be used throughout generally accepted accounting principles. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. This Statement clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure. In measuring fair value for a financial statement item, the Statement sets forth a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The highest priority is given to quoted prices in active markets and the lowest priority to unobservable inputs. Additional disclosure requirements will be required for the lowest priority level. The Statement became effective as of January 1, 2008, and will be applied to the Association's Consolidated Financial Statements on a prospective basis.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "Fair Value Option for Financial Assets and Financial Liabilities." The Standard permits entities to choose on an instrument-by-instrument basis, at specified election dates, to measure financial assets and liabilities and certain other items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected must be reported in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. This Standard became effective as of January 1, 2008. The Association has not made any elections under the fair value option, thus there will be no impact of the initial adoption of the Standard. However, the Association may elect to apply the fair value option to financial instruments acquired in future periods.

Note 3 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31,		
	2007	2006	2005
Real estate mortgage	\$ 399,776	\$ 361,980	\$ 340,262
Production and intermediate term	290,442	268,942	237,818
Processing and marketing	21,499	14,364	1,697
Farm related business	14,862	12,254	10,336
Rural residential real estate	50,506	49,220	50,538
Lease receivables	1,895	1,074	960
Total loans	\$ 778,980	\$ 707,834	\$ 641,611

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is

collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

Total loans at December 31, 2007, 2006 and 2005 consisted of the following commodity types:

Commodity Type	December 31,		
	2007	2006	2005
General Cash Grain	60%	61%	63%
Livestock	15	15	14
Landlords	7	7	6
Horticulture	6	7	7
Rural Home	6	7	8
Other	6	3	2
Total	100%	100%	100%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms.

The following table presents information relating to impaired loans.

	December 31,		
	2007	2006	2005
Nonaccrual loans:			
Current as to principal and interest	\$ 151	\$ 176	\$ 92
Past due	806	475	205
Total nonaccrual loans	957	651	297
Impaired accrual loans:			
Restructured accrual loans	330	346	360
Accrual loans 90 days or more past due	46	105	—
Total impaired accrual loans	376	451	360
Total impaired loans	\$ 1,333	\$ 1,102	\$ 657

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2007.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

	Year Ended December 31,		
	2007	2006	2005
Interest income recognized on nonaccrual loans	\$ 13	\$ -	\$ 291
Interest income on impaired accrual loans	25	30	6
Interest income recognized on impaired loans	\$ 38	\$ 30	\$ 297

The following table presents information concerning impaired loans as of December 31,

	2007	2006	2005
Impaired loans with related allowance	\$ 481	\$ 556	\$ 151
Impaired loans with no related allowance	852	546	506
Total impaired loans	\$ 1,333	\$ 1,102	\$ 657
Allowance on impaired loans	\$ 231	\$ 336	\$ 66

The following table summarizes impaired loan information for the year ended December 31,

	2007	2006	2005
Average impaired loans	\$ 986	\$ 761	\$ 572

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

	Year Ended December 31,		
	2007	2006	2005
Interest income which would have been recognized under the original loan terms	\$ 115	\$ 90	\$ 356
Less: interest income recognized	13	-	291
Foregone interest income	\$ 102	\$ 90	\$ 65

The changes in the allowance for loan losses are as follows:

	Year Ended December 31,		
	2007	2006	2005
Balance at beginning of year	\$ 3,432	\$ 3,039	\$ 4,433
Charge-offs:			
Real estate mortgage	(99)	-	-
Production and intermediate term	(1)	(29)	(2)
Total charge-offs	(100)	(29)	(2)
Recoveries:			
Production and intermediate term	22	22	8
Total recoveries	22	22	8
Net (charge-offs) recoveries	(78)	(7)	6
Provision for (reversal of allowance for) loan losses	146	400	(1,400)
Balance at end of year	\$ 3,500	\$ 3,432	\$ 3,039
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.011)%	(0.001)%	0.001%

In addition, the following is a breakdown of the allowance for loan losses for the end of the last three fiscal years:

	December 31, 2007		December 31, 2006	
	Amount	%	Amount	%
Real estate mortgage	\$ 279	8.0%	\$ 523	15.2%
Production and intermediate term	2,659	76.0	2,452	71.5
Agribusiness	186	5.3	240	7.0
Rural residential real estate	371	10.6	217	6.3
Lease receivables	5	0.1	-	-
Total	\$ 3,500	100.0%	\$ 3,432	100.0%

	December 31, 2005	
	Amount	%
Real estate mortgage	\$ 658	21.7%
Production and intermediate term	2,090	68.8
Agribusiness	146	4.8
Rural residential real estate	140	4.6
Lease receivables	5	0.1
Total	\$ 3,039	100.0%

Note 4 — Investment in AgFirst Farm Credit Bank

The Association is required to maintain ownership in the Bank of Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements.

Note 5 — Premises and Equipment

Premises and equipment consisted of the following:

	December 31,		
	2007	2006	2005
Land	\$ 481	\$ 481	\$ 461
Buildings and improvements	2,542	2,477	2,468
Furniture and equipment	1,480	1,365	1,276
	4,503	4,323	4,205
Less: accumulated depreciation	2,815	2,708	2,614
Total	\$ 1,688	\$ 1,615	\$ 1,591

Note 6 — Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by a general financing agreement. Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and Association. The weighted average interest rates on the variable rate notes were 5.81 percent for LIBOR-based loans, 5.74 percent for Prime-based loans, and the weighted average remaining maturities were 3.8 years and 4.4 years, respectively, at December 31, 2007. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) notes payable which are match funded by the Bank was 5.31 percent and the weighted average remaining maturity was 8.8 years at December 31, 2007. The weighted average interest rate on all interest-bearing notes

payable was 5.45 percent and the weighted average remaining maturity was 7.4 years at December 31, 2007.

Variable rate and fixed rate notes payable represent approximately 18.20 percent and 81.80 percent, respectively, of total notes payable at December 31, 2007.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2007, the Association's notes payable were within the specified limitations.

Note 7 — Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. Capital Stock and Participation Certificates

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to 2 percent of the member's outstanding principal balance or \$1 thousand whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after January 30, 1997 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

B. Regulatory Capitalization Requirements and Restrictions

FCA's capital adequacy regulations require the Association to achieve permanent capital of 7 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the 7 percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association

is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of 7 percent and of core surplus as a percentage of risk-adjusted assets of 3.5 percent. The Association's permanent capital, total surplus and core surplus ratios at December 31, 2007 were 18.96 percent, 17.50 percent and 15.66 percent, respectively.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

C. Description of Equities

The Association is authorized to issue or have outstanding Class A Preferred Stock, Class B Common Stock, Class C Common Stock, Class C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars (\$5.00) per share.

The Association had the following shares outstanding at December 31, 2007:

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
A Preferred/Nonvoting	No	926,794	\$ 4,634
C Common/Voting	No	830,534	4,153
C Participation Certificates/Nonvoting	No	76,863	384
Total Capital Stock and Participation Certificates		1,834,191	\$ 9,171

At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The Board determines the minimum aggregate amount of these two accounts. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings accounts in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2007, allocated members' equity consisted of \$4,883 of qualified surplus, \$23,671 of nonqualified allocated surplus and \$36,864 of nonqualified retained surplus. Nonqualified distributions are tax deductible only when redeemed.

Dividends

The Association may declare dividends on its capital stock and participation certificates. Dividend declaration, dividend rates and method of payment are at the discretion of the Board in accordance with the Association's bylaws.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. The Association declared dividends for each of the periods included in these consolidated financial statements.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless the Board approves another proportionate patronage basis.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board.

A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Transfer

Class A Preferred Stock, Class B Common Stock, Class C Common Stock and Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Class B Common Stock; Class C Common Stock and Participation Certificates
2. Class A Preferred Stock

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed consistent with the Association's bylaws and pro rata to the holders of the outstanding stock and participation certificates in the following order:

1. Class A Preferred Stock
2. Class B Common Stock; Class C Common Stock and Participation Certificates
3. Allocated surplus evidenced by qualified written notices of allocation on the basis of oldest allocations first
4. Allocated surplus evidenced by nonqualified notices of allocation on the basis of oldest allocations first
5. Unallocated surplus accrued after March 31, 1997 on a patronage basis
6. Any remaining assets of the Association after such distribution ratably to the holders of all classes of stock and participation certificates

Note 8 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2007	2006	2005
Current:			
Federal	\$ 27	\$ (113)	\$ 135
State	155	155	155
	<u>182</u>	<u>42</u>	<u>290</u>
Deferred:	<u>—</u>	<u>—</u>	<u>—</u>
Total provision (benefit) for income taxes	<u>\$ 182</u>	<u>\$ 42</u>	<u>\$ 290</u>

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31,		
	2007	2006	2005
Federal tax at statutory rate	\$ 7,178	\$ 6,397	\$ 6,795
State tax, net	102	102	102
Patronage distributions	(2,419)	(1,659)	(1,909)
Tax-exempt FLCA earnings	(4,966)	(4,652)	(4,862)
Change in deferred tax asset valuation allowance	239	326	-
Other	48	(472)	164
Provision (benefit) for income taxes	<u>\$ 182</u>	<u>\$ 42</u>	<u>\$ 290</u>

Deferred tax assets and liabilities result from the following at:

	December 31,		
	2007	2006	2005
Deferred income tax assets:			
Allowance for loan losses	\$ 928	\$ 859	\$ 759
Annual leave	110	101	95
Nonaccrual loan interest	189	163	153
Pensions and other postretirement benefits	631	580	519
Other	-	4	-
Gross deferred tax assets	<u>1,858</u>	<u>1,707</u>	<u>1,526</u>
Less: valuation allowance	<u>(1,792)</u>	<u>(1,553)</u>	<u>(1,227)</u>
Gross deferred tax assets, net of valuation allowance	<u>66</u>	<u>154</u>	<u>299</u>
Deferred income tax liabilities:			
Loan origination fees	(18)	-	-
Pensions and other postretirement benefits	(8)	(120)	(245)
Depreciation	(40)	(34)	(49)
Other	-	-	(5)
Gross deferred tax liability	<u>(66)</u>	<u>(154)</u>	<u>(299)</u>
Net deferred tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2007, deferred income taxes had not been provided by the Association on approximately \$3.5 million of its investment in the Bank. Management expected that these earnings would not be converted to cash.

The Association recorded a valuation allowance of \$1,792, \$1,553 and \$1,227 during 2007, 2006 and 2005, respectively. The Association will continue to evaluate the realizability of its deferred tax assets and adjust the valuation allowance accordingly.

The Association adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," on January 1, 2007. As a result of the adoption, there were no uncertain positions for income taxes identified and therefore the Association recognized no change in the liability for unrecognized tax benefits and no reduction to the January 1, 2007 balance of retained earnings. The Association recognizes interest and penalties related to unrecognized tax benefits as a component of

income tax expense. There were no uncertain tax positions identified related to the current year. The tax years that remain open for federal and major state income tax jurisdictions are 2004 and forward.

Note 9 — Employee Benefit Plans

The employees of the Association may participate in a defined benefit retirement plan with three other District associations. This plan, which covers substantially all employees, is noncontributory. Benefits are based on salary and years of service. As a participant in the Independent Associations' Retirement Plan, the Association funded \$0 for 2007, \$38 for 2006, and \$225 for 2005, through its note payable to the Bank. Plan expenses included in salaries and employee benefits were \$488 for 2007, \$599 for 2006, and \$510 for 2005. Additional financial information for the Plan may be found in the District's Annual Report.

The Association also participates in a districtwide Thrift Plan. The Thrift Plan requires the Association to match 100 percent of employee optional contributions up to a maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. Employer contributions to this plan were \$220, \$210, and \$185 for the years ended December 31, 2007, 2006 and 2005, respectively.

The District sponsors a plan providing certain benefits (primarily health care) to its retirees. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. Postretirement benefits other than pensions (primarily health care benefits) included in salaries and employee benefits were \$305 for 2007, \$290 for 2006 and \$437 for 2005. Additional financial information for the Plan may be found in the District's Annual Report.

Note 10 — Intra-System Financial Assistance

The Farm Credit Act provided for capital assistance to System institutions experiencing severe financial stress through the issuance, prior to October 1, 1992, by the Financial Assistance Corporation of U.S. Treasury-guaranteed 15-year bonds, of which \$1.261 billion in principal amount was originally issued. The last remaining Financial Assistance Corporation bonds matured and were repaid on June 10, 2005.

Pursuant to the Farm Credit Act, the U.S. Treasury paid \$440 million, on behalf of the System, in interest costs on \$844 million of the Financial Assistance Corporation bonds issued for purposes other than funding Capital Preservation Agreement accruals. The Banks had irrevocably set aside funds, including interest earned, that totaled the \$440 million needed to repay the interest advanced by the U.S. Treasury. On June 10, 2005, the Banks repaid the U.S. Treasury the interest advanced. The Farm Credit Administrative Board cancelled the Financial Assistance Corporation's charter as of December 31, 2006.

Note 11 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons at December 31, 2007 amounted to \$6,989. During 2007, \$3,192 of new loans were made and repayments totaled \$3,545. In the opinion of management, none of these loans outstanding at December 31, 2007 involved more than a normal risk of collectibility.

Note 12 — Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2007, \$128,808 of commitments to extend credit and \$0 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2007, the Association had outstanding \$2,663 of standby letters of credit, with expiration dates ranging from April 30, 2008 to September 1, 2018. The maximum potential amount of future payments the Association may be required to make under these existing guarantees is \$2,663.

A guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the guarantee commitment. The Association has determined the fair value of the guarantee commitment based upon the fees to be earned over the life of the guarantee. The fair value is updated periodically to reflect changes in individual guarantee amounts and the remaining life to maturity of the individual guarantees in the Association's inventory. At December 31, 2007, the Association's inventory of standby letters of credit had a fair value of \$80 and was included in other liabilities.

Actions are pending against the Association in which money damages are sought. However, on the basis of information now at hand, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom, would not be material in relation to the overall financial position of the Association.

Note 13 — Disclosures About Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2007, 2006 and 2005. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments are as follows:

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Financial assets:				
Cash	\$ 4,445	\$ 4,445	\$ 7,741	\$ 7,741
Loans	\$ 778,980	\$ 795,032	\$ 707,834	\$ 718,627
Allowance for loan losses	3,500	—	3,432	—
Loans, net	<u>\$ 775,480</u>	<u>\$ 795,032</u>	<u>\$ 704,402</u>	<u>\$ 718,627</u>
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 672,645	\$ 678,695	\$ 614,175	\$ 611,590
	<u>\$ 672,645</u>	<u>\$ 678,695</u>	<u>\$ 614,175</u>	<u>\$ 611,590</u>
	<u>December 31, 2005</u>			
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>		
Financial assets:				
Cash	\$ 8,569	\$ 8,569		
Loans	\$ 641,611	\$ 641,865		
Allowance for loan losses	3,039	—		
Loans, net	<u>\$ 638,572</u>	<u>\$ 641,865</u>		
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 554,453	\$ 546,256		
	<u>\$ 554,453</u>	<u>\$ 546,256</u>		

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate that value follows:

- A. **Cash:** The carrying value is a reasonable estimate of fair value.
- B. **Loans:** Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Bank's loan rates, as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated to be the carrying amount less specific reserves.

The carrying value of accrued interest approximates its fair value.

- C. **Investment in AgFirst Farm Credit Bank:** Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. As described in Note 4, the net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 3.45 percent of the issued stock of the Bank as of December 31, 2007 net of any reciprocal investment. As of that date, the Bank's assets totaled \$26.9 billion and shareholders' equity totaled \$1,457 million. The Bank's earnings were \$192 million during 2007.
- D. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

- E. **Commitments to Extend Credit and Standby Letters of Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

Note 14 — Quarterly Financial Information (Unaudited)

Quarterly results of operations for the years ended December 31, 2007, 2006 and 2005 follow:

	2007				
	First	Second	Third	Fourth	Total
Net interest income	\$ 5,589	\$ 5,701	\$ 5,896	\$ 5,655	\$ 22,841
Provision for (reversal of allowance for) loan losses	172	(266)	95	145	146
Noninterest income (expense), net	(841)	(746)	(671)	493	(1,765)
Net income (loss)	\$ 4,576	\$ 5,221	\$ 5,130	\$ 6,003	\$ 20,930

	2006				
	First	Second	Third	Fourth	Total
Net interest income	\$ 5,123	\$ 5,254	\$ 5,454	\$ 5,407	\$ 21,238
Provision for (reversal of allowance for) loan losses	-	-	-	400	400
Noninterest income (expense), net	(996)	(965)	(686)	580	(2,067)
Net income (loss)	\$ 4,127	\$ 4,289	\$ 4,768	\$ 5,587	\$ 18,771

	2005				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,589	\$ 4,785	\$ 4,941	\$ 4,852	\$ 19,167
Provision for (reversal of allowance for) loan losses	-	-	-	(1,400)	(1,400)
Noninterest income (expense), net	(697)	(828)	(831)	1,485	(871)
Net income (loss)	\$ 3,892	\$ 3,957	\$ 4,110	\$ 7,737	\$ 19,696