

**FEDERAL LAND BANK ASSOCIATION
OF SOUTH ALABAMA, FLCA**

**2007
Quarterly Report
First Quarter**



For the Quarter Ended March 31, 2007




* Part of the Farm Credit System

REPORT OF MANAGEMENT

The undersigned certify that this 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 his or her knowledge and belief.



Douglas Thiessen, Chief Executive Officer
May 8, 2007



J.K. Love, CPA, Chairman, Audit Committee
May 8, 2007



M. Scott Sellers, CPA, Chief Financial Officer
May 8, 2007

FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA, FLCA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Federal Land Bank Association of South Alabama, FLCA (Federal Land Credit Association), referred to as the Association, for the quarter and the three months ended March 31, 2007. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2006 Annual Report of the Association.

The financial statements were prepared under the oversight of the Association's audit committee.

Results of Operations:

The Association had net income of \$2,984,432 for the three months ended March 31, 2007, as compared to net income of \$2,741,866 for the same period in 2006 reflecting an increase of 8.9 percent, respectively. Net interest income was \$3,989,174 for the three months ended March 31, 2007, compared to \$3,600,196 for the same period in 2006. Interest income increased by \$1,439,449 or 17.3 percent, from the first three months of 2006, primarily due to an increase in yields on earning assets and an increase in average loan volume. Interest expense for the first three months of 2007 increased by \$1,050,471, or 22.3 percent, from the same period of 2006 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the first quarter of 2007 was \$503,173,341, compared to \$461,557,274 in the first quarter of March 31, 2006.

Noninterest income for the three months ended March 31, 2007 increased by \$42,787, or 9.6 percent, over the same period of 2006. This is due primarily to higher patronage income from Farm Credit Bank of Texas (the Bank) in the first three months of 2007 as compared to the first three months of 2006, an increase in loan fees caused by proportionately higher activity in loan closings, and an increase in other noninterest income from the Association's pro-rata share of earnings in the Farm Credit System Association Captive Insurance Company (the Captive).

Noninterest expenses for the three months ended March 31, 2007 increased by \$239,770, or 18.4 percent, as compared to the same period in 2006. The increase is due primarily to an increase in salaries and employee benefits costs, purchased services expense, and Farm Credit System Insurance Corporation (FCSIC) premium expense. The increase in salaries and employee benefits is primarily due to the Association having a larger workforce than in the prior year, plus normal annual increase in compensation rates. Purchased services increased primarily due to legal and consulting fees incurred in connection with protecting the Association's interests in credit-related matters with borrowers with large credits from the Association, as noted below in the "Loan Portfolio" section of the Management's Discussion and Analysis. FCSIC premiums increased on the basis of the Association having higher loan volume in the first quarter of 2007 than the first quarter of 2006.

The Association recorded no charge-offs or recoveries for the quarter ending March 31, 2007, and no charge-offs or recoveries for the same period in 2006. The Association's allowance for loan losses was 0.1 percent and 0.1 percent of total loans outstanding as of March 31, 2007, and 2006, respectively.

The Association's return on average assets for the three months ended March 31, 2007, was 2.32 and 2.33 percent for the same period in 2006. The Association's return on average equity for the three months ended March 31, 2007, was 13.45 and 13.75 percent for the same period in 2006.

Loan Portfolio:

The Association's loan portfolio at March 31, 2007 consisted of 3,715 loans that totaled \$514,655,558. The total loan volume, stated as recorded investment plus accrued interest, increased \$6.1 million (1.2 percent) since December 31, 2006, primarily due to the continued demand for real estate, increases in marketing and service efforts, and participation opportunities through the Capital Markets of the South group (CMS). For further discussion on CMS, see Note 4 to this quarterly report.

The following table reflects the credit quality of the Association's loan volume as of:

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Acceptable	97.6 %	97.6 %
Special Mention	1.1 %	1.7 %
Substandard	1.3 %	0.7 %
Total	<u>100.0 %</u>	<u>100.0 %</u>

The major commodity concentrations within the Association's loan volume are timber, cattle, poultry, and field crops.

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	<u>March 31, 2007</u>		<u>December 31, 2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	3,650,426	100.0%	595,219	100.0%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	-	0.0%	-	0.0%
Total	<u>3,650,426</u>	<u>100.0%</u>	<u>595,219</u>	<u>100.0%</u>

Nonaccrual loans as a percentage of total loans outstanding were 0.7 percent at March 31, 2007, compared to 0.1 percent at December 31, 2006.

The Association originated a loan to one borrower through CMS and participated the loan to 13 other Farm Credit associations, with the Association serving as the lead lender. The total loan principal outstanding is \$68,500,000 at March 31, 2007, and the Association's portion is \$3,805,555. In 2006 it was determined that the loan is significantly under-collateralized. At March 31, 2007, the loan was contractually current, and we are currently discussing a restructuring or potential refinancing of the loan. The negotiations are ongoing and final resolution is not known at this time.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Note payable to the Bank	\$ 426,082,596	\$ 423,598,301
Accrued interest on note payable	1,926,090	1,925,238
Total	<u>\$ 428,008,686</u>	<u>\$ 425,523,539</u>

Capital Resources:

The Association's capital position increased by \$39,900 at March 31, 2007, compared to December 31, 2006. The Association's debt as a ratio to members' equity was 4.81:1 as of March 31, 2007, compared to 4.74:1 as of December 31, 2006.

In January 2007, the Association's board of directors declared a cash patronage of \$3,000,000 of the Association's 2006 earnings to be paid to the stockholders. The patronage distribution was completed in April 2007. See Note 3 to the financial statements included in this quarterly report and Note 6 to the financial statements included in the 2006 Annual Report for further discussion.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2007, was 15.9 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2007, were 15.3 and 15.3 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Other Accounting Issues:

On September 30, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 – Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans. Beginning in 2007, FAS 158 requires certain disclosures about the funded status of the Association’s postretirement plans, as well as a change in the measurement date of related plan liabilities. For further discussion on the Association’s Defined Benefit and other employee benefit plans, see Notes 1 and 5 to the financial statements included in this quarterly report, and Notes 2 and 8 to the financial statements included in the December 31, 2006 Annual Report.

Relationship with the Farm Credit Bank of Texas:

The Association’s financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder’s investment in the Association. The Management’s Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2006 Annual Report of Federal Land Bank Association of South Alabama, FLCA more fully describe the Association’s relationship with the Bank.

The Tenth Farm Credit District’s (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District’s quarterly and annual stockholder reports also can be requested by e-mail at fcb@farmcreditbank.com. The District makes its annual and quarterly stockholder reports available on its Web site at www.farmcreditbank.com.

The Association’s annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Federal Land Bank Association of South Alabama, FLCA, P.O. Box 241687, Montgomery, Alabama, 36124-1687, or by calling (334) 270-8687. Copies of the reports can also be requested by e-mailing awolf@farmcreditbank.com. The Association makes its annual and quarterly stockholder reports available on its Web site at www.alabamalandloan.com.

Other Significant Events:

In the fourth quarter of 2006, long-time president/chief executive officer (CEO) Spencer D. Swan announced his retirement from the Association, effective June 1, 2007. In December 2006, the board named Douglas Thiessen as Mr. Swan’s successor. Mr. Thiessen officially became CEO on February 5, 2007 and Mr. Swan was named as a consultant to the board of directors until his retirement date.

Farm Credit Administration regulations require System entities with total assets greater than \$500 million to have two outside directors. Accordingly, at its meeting on January 25, 2007, the board of directors appointed Ray Petty as an additional outside director of the Association. Mr. Petty is retired after a 34 year career in commercial banking, including 15 years of teaching commercial lending at a banking school. During his career, Mr. Petty’s positions included 20 years as city president and 9 years as a regional president of a large commercial bank.

FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA, FLCA

BALANCE SHEET

	March 31, 2007 (UNAUDITED)	December 31, 2006
<u>ASSETS</u>		
Cash	\$ 1,669,899	\$ 1,699,487
Loans	506,917,800	500,257,260
Less: allowance for loan losses	405,495	455,588
Net loans	<u>506,512,305</u>	499,801,672
Accrued interest receivable	7,737,758	8,344,502
Investment in and receivable from the Bank:		
Capital stock	8,047,100	8,047,100
Accrued patronage receivable	-	267,470
Premises and equipment	1,671,217	1,710,844
Other assets	360,220	185,478
Total assets	<u><u>\$ 525,998,499</u></u>	<u><u>\$ 520,056,553</u></u>
 <u>LIABILITIES</u>		
Note payable to the Bank	\$ 426,082,596	\$ 423,598,301
Accrued interest payable	1,926,090	1,925,238
Drafts outstanding	2,248,702	1,311,196
Patronage distributions payable	3,000,000	15,143
Other liabilities	2,162,275	2,667,739
Total liabilities	<u>435,419,663</u>	<u>429,517,617</u>
 <u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	3,191,190	3,150,865
Unallocated retained earnings	87,387,646	87,388,071
Total members' equity	<u>90,578,836</u>	<u>90,538,936</u>
Total liabilities and members' equity	<u><u>\$ 525,998,499</u></u>	<u><u>\$ 520,056,553</u></u>

The accompanying notes are an integral part of these financial statements

FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA, FLCA

**STATEMENT OF INCOME
(UNAUDITED)**

	For the Three Months Ended March 31,	
	<u>2007</u>	<u>2006</u>
<u>INTEREST INCOME</u>		
Loans	\$ 9,750,785	\$ 8,311,336
<u>INTEREST EXPENSE</u>		
Note payable to the Bank	<u>5,761,611</u>	4,711,140
Net interest income	<u>3,989,174</u>	3,600,196
<u>PROVISION FOR LOSSES</u>		
Provision for loan losses	<u>(50,093)</u>	478
Net interest income after provision for loan losses	<u>4,039,267</u>	<u>3,599,718</u>
<u>NONINTEREST INCOME</u>		
Income from the Bank:		
Patronage income	109,207	87,093
Loan fees	332,558	324,159
Financially related services income	1,593	1,833
Other noninterest income	<u>44,878</u>	<u>32,364</u>
Total noninterest income	<u>488,236</u>	<u>445,449</u>
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	947,019	816,131
Directors' expense	60,573	53,752
Purchased services	196,971	114,948
Travel	67,313	55,442
Occupancy and equipment	53,885	53,299
Communications	20,164	17,674
Advertising	15,311	22,763
Public and member relations	36,930	37,573
Supervisory and exam expense	46,655	43,985
FCSIC insurance expense	208,680	185,254
Other noninterest expense	18,478	17,942
CMS expense reimbursements	<u>(128,908)</u>	<u>(115,462)</u>
Total noninterest expenses	<u>1,543,071</u>	<u>1,303,301</u>
Net income	<u>\$ 2,984,432</u>	<u>\$ 2,741,866</u>

The accompanying notes are an integral part of these financial statements

FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA, FLCA

**STATEMENT OF CHANGES IN MEMBERS' EQUITY
(UNAUDITED)**

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Total Members' Equity</u>
Balance at December 31, 2005	\$ 2,888,490	\$ 77,298,045	\$ 80,186,535
Net income	-	2,741,866	2,741,866
Capital stock/participation certificates issued	165,730	-	165,730
Capital stock/participation certificates retired	(103,225)	-	(103,225)
Patronage refunds:			
Cash	-	(1,200,000)	(1,200,000)
Balance at March 31, 2006	<u>\$ 2,950,995</u>	<u>\$ 78,839,911</u>	<u>\$ 81,790,906</u>
Balance at December 31, 2006	\$ 3,150,865	\$ 87,388,071	\$ 90,538,936
Net income	-	2,984,432	2,984,432
Capital stock/participation certificates issued	159,430	-	159,430
Capital stock/participation certificates retired	(119,105)	-	(119,105)
Patronage refunds:			
Cash	-	(3,000,000)	(3,000,000)
Change in patronage declared and paid	-	15,143	15,143
Balance at March 31, 2007	<u>\$ 3,191,190</u>	<u>\$ 87,387,646</u>	<u>\$ 90,578,836</u>

The accompanying notes are an integral part of these financial statements

FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA, FLCA
NOTES TO THE FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Federal Land Bank Association of South Alabama, FLCA (Federal Land Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Autauga, Baldwin, Barbour, Bibb, Bullock, Butler, Chambers, Chilton, Choctaw, Clarke, Coffee, Conecuh, Coosa, Covington, Crenshaw, Dale, Dallas, Elmore, Escambia, Geneva, Greene, Hale, Henry, Houston, Lee, Lowndes, Macon, Marengo, Mobile, Monroe, Montgomery, Perry, Pickens, Pike, Russell, Sumter, Tallapoosa, Tuscaloosa, Washington and Wilcox in the state of Alabama. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

A description of the Association's significant accounting policies and the financial condition and results of operations as of December 31, 2006 are contained in the 2006 Annual Report to the stockholders. These unaudited first quarter 2007 financial statements should be read in conjunction with the 2006 Annual Report to the stockholders.

On September 30, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Association will be required to implement the Standard for the year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Association uses a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Association is currently evaluating the impact of implementing this Standard. It is anticipated that the implementation of this Standard will have no impact on the income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the balance sheet.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these financial statements.

The preparation of these financial statements requires the use of management's estimates. The results for the quarter and the three months ended March 31, 2007, are not necessarily indicative of the results to be expected for the year ended December 31, 2007. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. 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. An analysis of the allowance for loan losses follows:

	March 31, 2007	March 31, 2006
Balance at beginning of quarter	\$ 455,588	\$ 512,865
Provision for loan losses	(50,093)	478
Charge-offs	-	-
Recoveries	-	-
Balance at end of quarter	<u>\$ 405,495</u>	<u>\$ 513,343</u>

The following table presents information concerning impaired loans:

	March 31, 2007	March 31, 2006
Impaired loans with related allowance	\$ 343,349	\$ 405,757
Impaired loans with no related allowance	3,307,077	293,627
Total impaired loans	<u>\$ 3,650,426</u>	<u>\$ 699,384</u>
Allowance on impaired loans	\$ 120,549	\$ 272,253
Average impaired loans	\$ 2,600,344	\$ 690,772
Interest income on impaired loans for the quarter	\$ 21,787	\$ 614

NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb losses inherent within the loan portfolio; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

In January 2007, the board declared a \$3,000,000 cash patronage to be paid to stockholders from the Association's 2006 earnings. This patronage was disbursed in April 2007.

NOTE 4 — CAPITAL MARKETS:

The Association participates in the Capital Markets of the South (CMS), a joint venture created for the purpose of expanding the participants' lending opportunities. Created in 2003, the CMS group is comprised of the Association, the Federal Land Bank Association of North Alabama, FLCA, the Land Bank of North Mississippi, FLCA, Land Bank South, FLCA, and the Louisiana Federal Land Bank Association, FLCA.

Pursuant to the terms of the alliance, each of the five CMS participating associations generally share equally in the costs of operating the venture. All CMS noninterest expenses are recorded gross on the Association's books and then reimbursed 80% by the other four associations. The total amount of reimbursements is included on the statement of income in the line item entitled "CMS expense reimbursements." The Association's pro-rata share of income from CMS operations are recorded in the statement of income in their respective line items.

As of March 31, 2007 and 2006, the Association had CMS-related loan volume outstanding of \$33,724,244 and \$31,813,851, respectively. In addition, the Association had remaining commitments on CMS loans to lend an additional \$22,718,248 as of March 31, 2007.

NOTE 5 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three months ended March 31, 2007:

	Other Benefits	
	2007	2006
Service cost	\$ 11,242	\$ 13,021
Interest cost	15,697	13,498
Expected return on plan assets	-	-
Amortization of prior service costs	(10,875)	(10,593)
Amortizations of net (gain) loss	197	1,194
Net periodic benefit cost	<u>\$ 16,261</u>	<u>\$ 17,120</u>

The Association previously disclosed in its Annual Report to the stockholders for the year ended December 31, 2006, that it expected to contribute \$13,119 to its post-retirement health and welfare benefits plan in 2007. As of March 31, 2007, \$1,615 of contributions have been made. The Association's liability for the plan's unfunded accumulated benefit obligation at March 31, 2007 was \$1,328,437 and is included in "Other liabilities" in the balance sheet.