

State of the Fund Report
Primary Share Insurance

2007



A M E R I C A N S H A R E I N S U R A N C E

freedom

growth

choice

edge



Introduction

This State of the Fund Report provides an overview of the operating and financial performance of American Share Insurance (ASI), and a snapshot of the summary consolidated statistics and ratios for its primary insured member credit unions, for the year ended December 31, 2007. To the extent possible, we have also made observations as to what we may anticipate in the coming year.

ASI finished its 33rd year of operations with record levels of net income, retained earnings, total assets, loss reserves and liquidity... all benchmarks of stability. At year-end 2007, total fund assets were \$267.4 million, retained earnings had increased to \$46.5 million, net income for the year was nearly \$5.7 million, reserves for guaranty losses (substantially unallocated) increased to \$9.4 million and liquidity stood at 23% of total assets. Additionally, no losses were incurred from failed or merged institutions in 2007. Despite these positive financial factors, the company remains committed to its risk monitoring and field examination functions, while continuing to aggressively fund reserves for possible future losses.

ASI's record net income – teamed with slower member share growth in 2007 – resulted in a marked improvement in our primary insurance equity ratio (a key measure of the fund's stability and capacity), to 1.35% at December 31, 2007, reflecting \$1.35 in on-book equity for each \$100 of insured shares. This is up from 1.33% at December 31, 2006. Regarding our equity ratio, it is also important to note that the Corporation's largest primary insured credit union voluntarily terminated its coverage with ASI effective January 1, 2008 as a result of its conversion to federal insurance. This transfer of risk results in the Corporation's primary equity ratio further increasing to 1.47% at January 1, 2008, while ASI's risk concentration within a single insured credit union drops precipitously from 24% to 7%. This change also diminishes our geographic concentration of primary insurance in any one state from 42% to 25% as of the same date.

ASI's member credit unions also had a good year in 2007, finishing the year reporting an average net capital-to-assets ratio of over 11%. When combined with the solid performance of our insured credit unions, the above-mentioned corporate record results and financial accomplishments should offer great comfort to our member credit unions as to the safety and soundness of ASI-insured credit unions and the ASI share insurance fund.

During 2007, we all read stories about mounting losses at financial institutions due to failed sub-prime lending and loan participation programs. ASI is pleased to report that ASI member credit unions generally have very limited exposure to these types of risks, as confirmed by our numerous in-depth, on-site field examinations

this past year. Extra due diligence was emphasized during 2007, as ASI's examiners visited primary insured credit unions representing almost 80% of the \$14.4 billion in ASI's total primary insured shares.

Economic weakness in the United States in 2007 has resulted in lower loan demand and slower share growth in both ASI's primary insured credit unions and credit unions throughout the country. Loans grew at about the same rate as shares in 2007 as contrasted with loan growth rates of one and one-half to three times share growth rates in the previous four years. Despite the slower growth in these areas, real estate loans continue to account for the majority of our credit unions' loan portfolios. Due to sound interest rate risk management and loan underwriting practices, and the use of more hybrid-type loans, the concentration in real estate-backed loans did not adversely affect our insured institutions' net income or net capital levels. The reduced loan demand has resulted in greater credit union liquidity; and, as a result of the shortened duration of their investment portfolios, our credit unions are well-positioned to participate in a resurgence in loan demand when it occurs.

In 2008 it will be necessary for credit union management to continue to ensure that their ALM programs and loan underwriting and collections processes are effectively operating and monitored. As a result of weak economic conditions, loan demand will likely remain weak throughout 2008, as evidenced by flat loan growth already reported in the first quarter of 2008. Stronger share growth of approximately 5% has also already been reported for the first quarter of 2008 due to the tumultuous stock market and consumers' "flight to quality." Continued share growth without a corresponding increase in loans, will lead to greater liquidity levels at the expense of reduced net interest margins, which could adversely impact net income if credit unions do not effectively manage their operations.

ASI remains committed to our member credit unions and is confident that our partnership with them will provide for their continued good health and the stability of the ASI insurance fund in the coming years.

Respectfully submitted,



Dennis R. Adams
President/CEO
June 2008

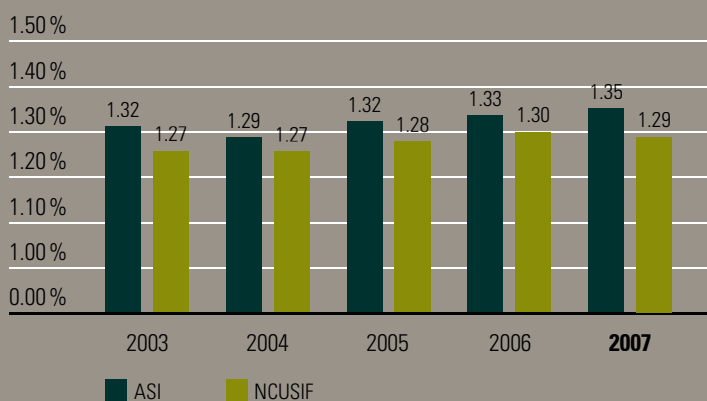
ASI Corporate Data

PRIMARY INSURANCE EQUITY RATIO ANALYSIS

The financial condition of the ASI share insurance fund has never been more secure than it is now. We are proud to report a very strong primary insurance equity ratio of 1.35% at December 31, 2007 (Chart 1). The upward trend for ASI's equity ratio shown in Chart 1 has continued into 2008, with the March 31, 2008 ratio reported at 1.48%. ASI's year-end 2008 ratio is anticipated to be over 1.50%, which, when combined with the overall safe and sound operations and financial strength of ASI's insured credit unions, ensures the continued stability and soundness of the fund in 2008 and beyond.

The significant improvement in ASI's equity ratio over the past several years is positively correlated with the company's record earnings trends and the slower industry share growth. Also favorably impacting the equity ratio beginning January 1, 2008, is the voluntary termination of coverage for the Corporation's largest primary insured credit union as a result of its conversion to federal insurance on that date. This event results in an improvement in risk concentration within a single insured credit union, as the percent of the fund's primary insurance-in-force represented by its largest primary insured credit union declines from 24% to 7%.

Chart 1: Primary Insurance Equity Ratio (Ratio of fund equity to primary insured shares)

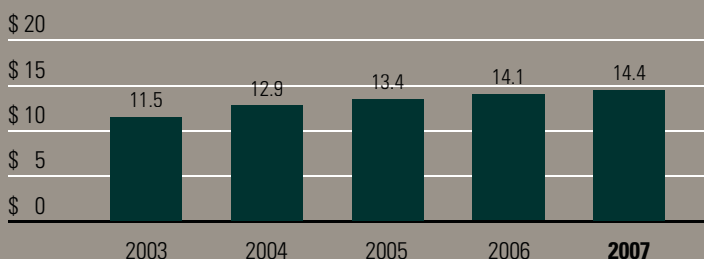


PRIMARY SHARE INSURANCE-IN-FORCE

ASI's primary insurance-in-force increased over 2% in 2007, down from prior years' growth levels but consistent with the more moderate growth rate exhibited by the credit union movement in 2007. As interest rates stabilized over the course of 2006, and most of 2007, the stock market heated up and increased competition for consumer deposits in the financial services industry. Overall,

credit unions have experienced slower share growth in the last few years than they did earlier in the decade. Despite this pronounced slowdown in industry share growth, ASI's total primary share insurance-in-force increased to a record level of \$14.4 billion at year-end 2007 (Chart 2).

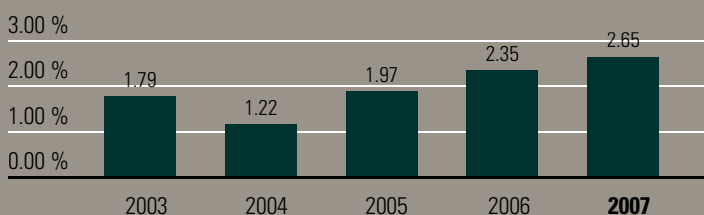
Chart 2: Primary Share Insurance-in-Force (in Billions)



PRE-TAX RETURN ON AVERAGE ASSETS

In 2007, ASI reported another record level of pre-tax earnings which were in excess of \$6.9 million, for an increase of 19% over 2006. Our pre-tax return on average assets was 2.65% in 2007 as compared to 2.35% a year ago (Chart 3). ASI's pre-tax income from 2003 through 2005 was lower than historical levels due to the impact of historically low market interest rates paid on the fund's investment portfolio. Rising market interest rates, which began in 2005 and continued through the first half of 2007, helped pre-tax income rebound significantly during the last two years. More importantly, ASI has reported 33 consecutive years of positive earnings and has achieved a record level of retained earnings of \$46.5 million.

Chart 3: Consolidated Pre-tax Return on Average Assets



ASI Corporate Data

DISTRIBUTION OF PRIMARY INSURANCE RISK

ASI's primary insurance coverage of \$250,000 per account has allowed our insured credit unions to attract and serve an ever-growing number of individual members. The nine states where ASI primary share insurance has been approved and is in effect are: Alabama, California, Idaho, Illinois, Indiana, Maryland, Nevada, Ohio and Texas. These states represent four distinct regions of the country that provide geographical diversification for the fund (Chart 4). As a result of the previously discussed voluntary termination of coverage for the Corporation's largest primary insured credit union effective January 1, 2008, ASI's geographic dispersion became better balanced, with the largest concentration

in any one state reduced from 42% (California) to 25% (Illinois). Also, in March 2008, ASI insured its first credit union in the state of Texas since it received authorization to do business in that state in June 2006.

We recognize that diversification is an important factor to the long-term success of the insurance fund. In addition to geographic diversification, as noted above, our insured credit unions' individual members represent a wide array of sponsor groups and sponsoring industries (Chart 5). This diversity mitigates the risk of loss due to an economic downturn within any one particular industry or business sector.

Chart 4: Distribution of Primary Insured Shares by State

State	2007	2006
California	42 %	42 %
Illinois	18	18
Nevada	15	15
Ohio	11	11
Indiana	8	8
Alabama	4	4
Idaho	1	1
Maryland	1	1
Total	100 %	100 %

Chart 5: Distribution of Primary Insured Shares by Main Sponsor

Primary Sponsor Classification	2007	2006
Utilities	32 %	32 %
Associations/Community	20	20
Government	18	18
Manufacturing/Labor	10	10
Education	10	10
Agriculture	6	6
Healthcare	3	3
Others	1	1
Total	100 %	100 %

Primary Insured Credit Union Analysis

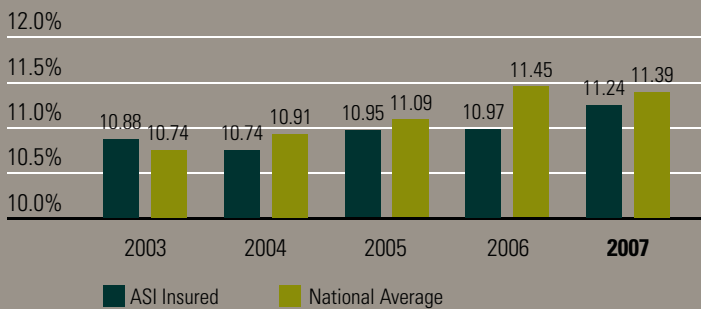
NET CAPITAL RATIO

The net capital-to-total assets ratio remains the core benchmark for measuring a credit union's financial solvency and stability.

Net capital provides a cushion against future loan losses or other operating losses that are often the result of economic factors beyond the control of a credit union's board of directors or management.

The industry-wide decline in share growth in 2007, along with continued positive earnings, contributed to an increase in the overall net capital levels for ASI primary insured credit unions, while on a national level, credit unions reported a slight decline in their net capital ratios. For the year ended December 31, 2007, our primary insured credit unions reported an aggregate net capital ratio of 11.24%; an increase from 10.97% in 2006 (Chart 6).

Chart 6: Net Capital Ratio*



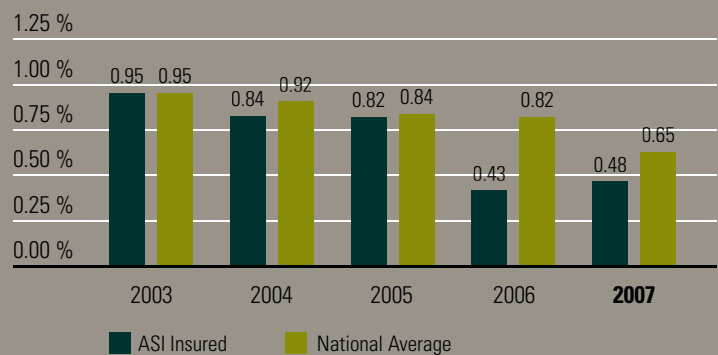
*The net capital ratio is computed to include the effect on net capital of unrealized gains and losses on investments available for sale.

RETURN ON AVERAGE ASSETS (ROA)

During 2007, an economic slowdown due to a weak housing market and other factors spurred fears of a recession in the United States which resulted in the Federal Reserve Board of Governors steadily loosening credit through numerous decreases in short-term interest rates in the second half of 2007 and into 2008. Weak loan demand, due to a decline in consumer spending, limited credit unions' ability to expand their holdings of higher-yielding assets and forced them to accept relatively lower yields on their investment portfolios. Further, declining interest rates resulted in callable investment securities being reinvested at lower rates through the end of 2007. Slower than historical levels of share growth in 2007 also adversely impacted the overall net interest margin and its contribution to operating expenses. As a result, credit unions have been experiencing pressure on their net interest margins and continue to report lower ROAs than they did just a few years earlier.

Despite tighter spreads, our insured credit unions successfully generated a sound level of net earnings throughout the year 2007 by more closely managing operating expenses. The collective return on assets for all ASI primary insured credit unions in 2007 was 0.48%, up from 0.43% in 2006 (Chart 7). It is worthwhile to note that four of ASI's five largest credit unions paid interest rebates and/or bonus dividends to their members in 2007. This member benefit negatively affected consolidated return on assets, but had no meaningful effect on capital adequacy.

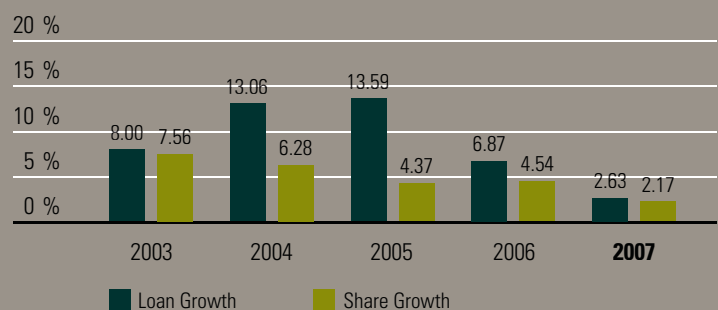
Chart 7: Return on Average Assets (ROA)



LOAN AND SHARE GROWTH

Reflecting the economic slowdown that began in 2007, loan growth was only fractionally higher than share growth rates, as compared to loan growth rates of one and one-half to three times the share growth rates during the period 2003-2006 (Chart 8). Share growth rates through 2007 continued to be impacted by member funds flowing into the stock market and other uninsured investment vehicles. Based on the financial data reported by ASI primary insured credit unions through March 2008, and the general economic conditions, we anticipate that loan demand will continue to be low in 2008 while share growth, fueled by a "flight to quality" by consumers, will increase to their highest levels in at least the past 3-4 years, which will likely result in higher liquidity levels for credit unions in 2008.

Chart 8: Loan and Share Growth Rates



Primary Insured Credit Union Analysis

ASSET DISTRIBUTION

Net loans at the end of 2007 accounted for approximately 70% of the collective total assets of all ASI primary insured credit unions, approximately the same percentage as 2006 and for all credit unions nationally. Real estate loans continue to comprise a significant portion of the average loan portfolio of ASI's insured credit unions, representing more than 58% of total loans, up from 54% just two years ago. The mix of credit card and unsecured loans to total loans has remained relatively stable over the past few years, while cautionary consumer spending has resulted in a decline in the mix of auto and other loans (Charts 9 and 10).

ASI's primary insured credit unions have little or no direct exposure to many of the problems plaguing the financial markets and have avoided the direct impact of the sub-prime mortgage loans. Our credit unions will, however, need to be vigilant against the expected fallout from the current economic conditions and its impact on their members and their operations caused by higher unemployment and escalating loan delinquency rates. This can best be accomplished by continuing to maintain stronger than normal operations and safe and sound lending and collections programs.

Chart 9: Percent of Total Loans

Real Estate-secured	58.85 %
Misc. Secured	18.71 %
New Auto	13.86 %
Unsecured	3.24 %
Credit Card	5.34 %
Total	100.00 %

Chart 10: Asset Distribution

Net Loans	69.76 %
Cash	8.97 %
Investments less than 1 year	13.51 %
Investments more than 1 year	3.51 %
Fixed/Other	4.25 %
Total	100.00 %

LOANS/SHARES, DELINQUENCIES AND NET CHARGE-OFFS

The effects of increased mortgage-based and non-traditional lending programs, combined with slower share growth, caused the aggregate loan-to-share ratio of ASI-insured credit unions to climb to 81% at year-end 2007 (Chart 11); a rate that approximates the national average of 83%.

Reflecting the current economic climate, both delinquency and net charge-off ratios have increased in 2007 to 0.95% and 0.54%, respectively, and approximate the national average ratios (Chart 11). In the first quarter of 2008, ASI's delinquency and net charge-off ratios have declined to 0.90% and 0.47%, respectively, compared to the national averages of 0.91% and 0.67%, respectively, at March 31, 2008.

Chart 11: Loan and Delinquency Ratios

Year	Loans/Shares Ratio	Delinquency Ratio	Net Charge-off Ratio
2007	81.01 %	0.95 %	0.54 %
2006	80.65 %	0.74 %	0.30 %
2005	78.88 %	0.72 %	0.38 %
2004	72.48 %	0.68 %	0.38 %
2003	67.12 %	0.80 %	0.44 %

SHARE ACCOUNT DISTRIBUTION

Approximately 41% of ASI's primary insured credit unions' shares are in regular shares ("core" deposits) at December 31, 2007, with a growing portion of the share base in IRAs (26%) and other shares (Chart 12), which approximates the national averages and current trends.

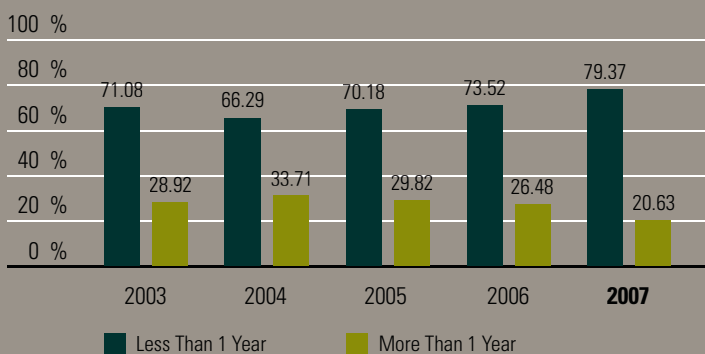
Chart 12: Share Account Distribution

Year	Regular Shares	Time Deposits	Other (IRAs/MMAs)	Total
2007	40.52 %	33.39 %	26.09 %	100%
2006	44.12 %	31.28 %	24.60 %	100%
2005	48.92 %	26.59 %	24.49 %	100%
2004	48.45 %	25.84 %	25.71 %	100%
2003	49.02 %	34.56 %	16.42 %	100%

INVESTMENT MATURITIES AND LIQUIDITY

Over the course of 2007, as a result of the decline in loan demand and slow share growth, credit union cash and investment portfolio balances have remained relatively stable at 26% of total assets. Liquidity ratios are on the rise and this trend is likely to continue into 2008 as credit union share growth is anticipated to exceed loan demand. Aggregate cash and investments with maturities of less than one year for ASI's primary insured credit unions increased to 22.5% of total assets from 21.4% at the end of 2006, while borrowed funds continue to be an insignificant part of most credit union's balance sheets, as it has been over the past five years. By maintaining a greater proportion of funds short-term as compared to prior years, credit unions are well-positioned to meet higher loan demand when it occurs in the future (Chart 13).

Chart 13: Investment Maturities



INCOME AND EXPENSE RATIOS

Despite the Federal Reserve's move from credit tightening (2004-2006) to the recent easing in the second half of 2007, fluctuating interest rates only modestly affected ASI-insured credit unions' net interest margins, as the spread between interest-earning assets and cost of funds has consistently remained in a tight range above 4.0% over the past five years. Fortunately, ASI-insured credit unions were able to offset the burden of rising dividend rates over the past several years by gradually increasing loan rates and securing sufficient returns on invested funds. On average, gross income as a percentage of assets increased to 6.91% in 2007, the highest level in the past five years, while the average cost of funds has also increased to a five-year high of 2.88% (Chart 14).

Chart 14: Income and Expense Ratios

Year	Gross Income/Assets	Operating and PLL	Cost of Funds
2007	6.91 %	3.58 %	2.88 %
2006	6.61 %	3.42 %	2.45 %
2005	6.04 %	3.36 %	1.90 %
2004	5.77 %	3.31 %	1.58 %
2003	5.86 %	3.18 %	1.76 %

Additionally, credit union management has generally been successful in controlling operating expenses; however, the weak economic conditions in the United States, that are impacting all financial institutions, have resulted in higher provision for loan losses (PLL), which, when compared to the previous four years, nearly doubled to 0.43% of total assets in 2007. The 2007 increase in PLL of 0.17% of assets is greater than the increase in the operating and PLL expense from 3.42% of assets in 2006 to 3.58% in 2007 (Chart 14).



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