



# Farm Credit Services of Illinois, ACA

Quarterly Report  
June 30, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of Illinois, ACA and its subsidiaries. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. You should also read our 2008 annual report for a description of our organization, operations and significant accounting policies.

AgriBank FCB's financial condition and results of operations materially affect shareholders' investment in Farm Credit Services of Illinois, ACA. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our report contact us at 1100 Farm Credit Drive, Mahomet, Illinois 61853, (217) 590-2200. You may also contact AgriBank, FCB at 375 Jackson Street, St. Paul, Minnesota 55101-1810, (651) 282-8800, or via electronic mail to [AGRIBANKMN@agribank.com](mailto:AGRIBANKMN@agribank.com). The combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank, FCB's website at [www.agribank.com](http://www.agribank.com).

### Loan Portfolio

Loan volume totaled \$1.9 billion at June 30, 2009, a \$97.3 million decrease from December 31, 2008. This decrease is due to the seasonal credit needs of farmers and liquidity in the marketplace.

In May 2008, we sold \$500.0 million of a participation interest in a pool of real estate loans to AgriBank, FCB (AgriBank). AgriBank has established a separate patronage pool for these assets. Any patronage declared on these pools is solely at the discretion of the AgriBank Board of Directors. AgriBank expects to pay patronage in an amount that approximates the net earnings of these loans. As required by our agreement with AgriBank, we purchased additional AgriBank common stock equal to 8% of the pool assets. The sale of these assets was designed to improve our regulatory capital measures and increase AgriBank's net collateral ratio.

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands):

As of	June 30 2009	December 31 2008
Loans:		
Accruing restructured	\$49	\$54
Past due 90 days or more still accruing	1,152	1,570
Nonaccrual	12,624	25,132
Total risk loans	\$13,825	26,756
Other property owned	12,611	7
Total risk assets	\$26,436	\$26,763
Risk loans as a % of total loans	0.7%	1.3%
Total delinquencies as a % of total loans	0.4%	0.3%

Our risk assets have decreased slightly from December 31, 2008, and remain at acceptable levels.

Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection.

Total risk loans as a percentage of total loans remains well within our established risk management guidelines. The volume of nonaccrual loans remained at an acceptable level at June 30, 2009, and represented 0.7% of our total portfolio. At June 30, 2009, 74.2% of our nonaccrual loans were current. In April 2009, we foreclosed on a portion of our nonaccrual volume, representing our interest in certain ethanol loans. The acquired properties are held in limited liability corporations formed by the lenders for that purpose. The total amount of our share of the acquired properties was \$12.6 million, of which \$3.6 million were sold in July 2009.

As a result of recognition of additional risk in the ethanol portfolio, the credit quality of our portfolio has declined from December 31, 2008. Adversely classified assets increased from 1.6% of the portfolio at December 31, 2008, to 2.4% of the portfolio at June 30, 2009. Adversely classified assets are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In some circumstances, we use various governmental guarantee programs to reduce the risk of loss. At June 30, 2009, \$16.6 million of our loans were, to some level, guaranteed under these governmental programs.

The wet spring planting conditions continued into early summer, with an estimated 5% of the tillable acres south of Interstate 70 unable to be planted for the 2009 crop year. Of the remainder of the acreage in our 60 county service territory, late plantings of corn and soybeans will result in reduced yields for the 2009 crop. The amount of loss will be determined during the critical pollination period in the last half of July and early August, along with normal weather variations. Crop conditions in the far western and eastern portions of our service territory are more normal, with the central and southern areas experiencing much stress and below average crops at this point in the growing season. Overall crop progress is well behind that of a normal year due to the inability to plant the crop during the optimal planting period.

Following the financial market upheaval of the second half of 2008, financial markets improved during the first half of 2009. Policy actions of the Federal Reserve and US Treasury contributed to increased liquidity and stabilization of financial markets. The treasury yield curve steepened, swap spreads tightened and stabilized, and Farm Credit bond cost spreads to both treasuries and the swap curve improved. During the first half of 2009, the Bank was able to issue debt at all desired maturities, including over \$3 billion of 7-20 year bonds. This enabled the Bank to maintain adequate liquidity and a narrow asset/liability risk profile, while continuing to offer a full array of fixed-rate products.

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, portfolio quality and current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

	June 30 2009	December 31 2008
Allowance as a percentage of:		
Loans	0.4%	0.3%
Nonaccrual loans	54.4%	23.1%
Total risk loans	49.7%	21.7%

The increase in allowance percentages reflect the impact of additional allowance added during the first two quarters of 2009 as a result of increasing adverse loan volume.

### Results of Operations

Net income for the six months ended June 30, 2009 totaled \$16.8 million compared to \$19.5 million for the same period of 2008. The following table illustrates profitability information:

As of June 30	2009	2008
Return on average assets	1.7%	1.9%
Return on average members' equity	8.8%	11.3%

The following table summarizes the changes in components of net income for the six months ended June 30, 2009 compared to June 30, 2008 (in thousands):

Increase (decrease) in net income	2009 vs 2008
Net interest income	(\$620)
Provision for loan losses	(2,728)
Patronage income	1,963
Financially related services and miscellaneous income, net	(638)
Operating expenses	(860)
Provision for income taxes	189
Total change in net income	(\$2,694)

Net interest income was \$23.6 million for the six months ended June 30, 2009. The following table quantifies changes in net interest income for the six months ended June 30, 2009 compared to June 30, 2008 (in thousands):

Change in net interest income	2009 vs 2008
Changes in volume	(\$1,640)
Changes in rates	790
Changes in nonaccrual income and other	230
Net change	(\$620)

The change in the provision for loan losses is related to provision for loan losses recorded in the first two quarters of 2009 as a result of charge-offs and increases in specific reserves in the ethanol portfolio as well as the continued decline of the general economy. The increase in patronage income is primarily related to \$3.8 million of patronage received on participations sold to AgriBank, offset by a decrease in regular patronage. The decrease in financially related services and miscellaneous income, net is primarily due to a decrease in multi-peril crop insurance income. The operating expense increases were primarily related to increased salary and benefits and FCS insurance expense. The change in provision for income taxes is related to changes in income subject to taxation.

Changes in our return on average assets and return on average members' equity are directly related to the changes in income discussed above, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Capital section below.

### Funding, Liquidity and Capital

We borrow from AgriBank, FCB in the form of a line of credit. Our promissory note matured on June 30, 2009, and was renewed for \$2.2 billion with a maturity date of July 31, 2010. The note will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Total members' equity increased \$16.9 million from December 31, 2008, due to net income for the period and an increase in capital stock and participation certificates.

Farm Credit Administration Regulations require us to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7% and a core surplus ratio of at least 3.5%. The calculation of these ratios according to Farm Credit Administration Regulations is discussed below:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At June 30, 2009, our ratio was 14.4%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At June 30, 2009, our ratio was 14.1%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any preferred stock investment in AgriBank, FCB divided by average risk-adjusted assets. At June 30, 2009, our ratio was 14.1%.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained above and the changes in assets as further discussed in the Loan Portfolio section.

The undersigned certify they have reviewed Farm Credit Services of Illinois, ACA's June 30, 2009 quarterly report and it has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Subsequent events have been evaluated through August 7, 2009, which is the date the financial statements were issued.



Jack Hastings  
Chairperson of the Board  
Farm Credit Services of Illinois, ACA



David M. Owens  
Chief Executive Officer  
Farm Credit Services of Illinois, ACA



Steven D. Ray  
Chief Financial Officer  
Farm Credit Services of Illinois, ACA

August 7, 2009

**CONSOLIDATED STATEMENT OF CONDITION**

Farm Credit Services of Illinois, ACA

(Dollars in thousands)

(Unaudited)

	June 30 2009	December 31 2008
<b>ASSETS</b>		
Loans	\$1,867,737	\$1,965,059
Allowance for loan losses	6,867	5,805
Net loans	1,860,870	1,959,254
Investment in AgriBank	74,255	77,814
Accrued interest receivable	22,426	25,939
Premises and equipment, net	9,042	8,683
Other property owned	12,611	7
Other assets	9,679	8,022
Total assets	\$1,988,883	\$2,079,719
<b>LIABILITIES</b>		
Note payable to AgriBank	\$1,583,708	\$1,684,622
Accrued interest payable	9,074	13,604
Net deferred income tax liability	286	809
Other liabilities	6,480	8,204
Total liabilities	1,599,548	1,707,239
Contingencies		
<b>MEMBERS' EQUITY</b>		
Protected members' equity	37	41
Capital stock and participation certificates	7,221	7,156
Unallocated surplus	382,077	365,283
Total members' equity	389,335	372,480
Total liabilities and members' equity	\$1,988,883	\$2,079,719

**CONSOLIDATED STATEMENT OF INCOME**

Farm Credit Services of Illinois, ACA

(Dollars in thousands)

(Unaudited)

Period ended June 30	Three Months		Six Months	
	2009	2008	2009	2008
<b>Interest income</b>	<b>\$21,072</b>	\$27,766	<b>\$42,550</b>	\$59,588
<b>Interest expense</b>	<b>9,074</b>	15,735	<b>18,918</b>	35,336
Net interest income	11,998	12,031	23,632	24,252
<b>Provision for (reversal of) loan losses</b>	<b>(92)</b>	81	<b>2,787</b>	59
Net interest income after provision for loan losses	12,090	11,950	20,845	24,193
<b>Other income</b>				
Patronage income	2,540	2,227	5,352	3,389
Financially related services and miscellaneous income, net	2,495	3,428	4,780	5,418
Total other income	5,035	5,655	10,132	8,807
<b>Operating expense</b>				
Salaries and employee benefits	3,599	3,689	7,464	7,076
Other operating	3,076	2,931	6,610	6,138
Total operating expense	6,675	6,620	14,074	13,214
Income before income taxes	10,450	10,985	16,903	19,786
<b>Provision for income taxes</b>	<b>(61)</b>	73	<b>109</b>	298
Net income	\$10,511	\$10,912	\$16,794	\$19,488

**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**

Farm Credit Services of Illinois, ACA

(Dollars in thousands)

(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Surplus	Total Members' Equity
<b>Balance at December 31, 2007</b>	\$50	\$6,759	\$328,486	\$335,295
Net income	--	--	19,488	19,488
Capital stock/participation certificates issued	--	463	--	463
Capital stock/participation certificates retired	(4)	(272)	--	(276)
<b>Balance at June 30, 2008</b>	\$46	\$6,950	\$347,974	\$354,970
<b>Balance at December 31, 2008</b>	\$41	\$7,156	\$365,283	\$372,480
Net income	--	--	16,794	16,794
Capital stock/participation certificates issued	--	362	--	362
Capital stock/participation certificates retired	(4)	(297)	--	(301)
<b>Balance at June 30, 2009</b>	\$37	\$7,221	\$382,077	\$389,335

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: Organization and Significant Accounting Policies

Our 2008 annual report contains a description of our organization and operations, significant accounting policies followed, and financial condition and results of operations as of and for the year ended December 31, 2008. You should read these unaudited second quarter 2009 consolidated financial statements in conjunction with the 2008 annual report.

The accompanying consolidated financial statements contain all information necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and the prevailing practices within the financial services industry. The results of the six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the year ended December 31, 2009.

The consolidated financial statements present the consolidated financial results of Farm Credit Services of Illinois, ACA (the parent) and Farm Credit Services of Illinois, FLCA and Farm Credit Services of Illinois, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

#### Recent Accounting Developments

Effective January 1, 2009, we adopted FSP No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures, but did not have an impact on our financial condition or results of operations.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Under this Standard, subsequent events that arise from conditions that existed at the date of the balance sheet are recognized in the financial statements, while subsequent events that arise from conditions that did not exist as of the balance sheet date are not recognized in the financial statements. This Standard, which includes a required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009.

### NOTE 2: Loans and Investment Securities

The following table presents information concerning risk loans (in thousands):

As of June 30	2009	2008
Volume with specific reserves	\$1,186	\$2,387
Volume without specific reserves	12,639	2,533
Total risk loans	\$13,825	\$4,920
Total specific reserves	\$684	\$644
For the six months ended June 30	2009	2008
Income on accrual risk loans	\$16	\$10
Income on nonaccrual loans	190	107
Total income on risk loans	\$206	\$117
Average recorded investment	\$21,996	\$2,825

The increase in risk loans was due to two large participation loans that were moved to nonaccrual status at the end of 2008.

### NOTE 3: Allowance for Loan Losses

A summary of changes in the allowance for loan losses follows (in thousands):

Six months ended June 30	2009	2008
Balance at beginning of year	\$5,805	\$2,278
Provision for loan losses	2,787	59
Loan recoveries	10	(3)
Loan chargeoffs	(1,735)	(16)
Balance at end of period	\$6,867	\$2,318

The increase in allowance for loan losses was primarily due an increase in adverse loan volume.

### NOTE 4: Contingencies

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which are not reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

### NOTE 5: Fair Value Measurements

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. The Statement also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. See Notes 2 and 13 to the 2008 Annual Report to Stockholders for a more complete description.

We do not have any assets or liabilities measured at fair value on a recurring basis. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. The following table provides information on assets measured at fair value on a non-recurring basis that were still held at June 30, 2009 (in thousands):

	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
Loans *	\$0	\$479	\$131	\$610	\$1,551
Other property owned**	--	--	13,115	13,115	--

\* Represents the carrying amount and related write-downs of loans for which adjustments are based on the appraised value of the collateral. The fair value market measurement process uses independent appraisals and other market-based information. As a result, these fair value measurements fall within Level 2 of the hierarchy. However, in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

\*\* Represents the fair value and related losses of foreclosed assets that were measured at fair value subsequent to their initial classification as other property owned.