



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 2007 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) 892-6060. 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. The combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank, FCB's website at www.agribank.com.

Loan Portfolio

Loan volume totaled \$1.9 billion at September 30, 2008, a \$144.9 million decrease from December 31, 2007. On May 27, 2008, we sold \$551.7 million of a participation interest in real estate loans to AgriBank. AgriBank has established a separate patronage pool for these assets and intends to pay the net earnings back as patronage to us. We anticipate our net income after pool patronage will not be affected. We purchased additional common stock equal to 8% of the pool assets. The sale of the assets will improve our regulatory capital ratios. The decrease in loan volume due to the sale to AgriBank, FCB was offset by an increase in loan volume due to strong demand for mortgage loans.

The following table summarizes risk asset and delinquency information (in thousands):

As of	September 30 2008	December 31 2007
Loans:		
Accruing restructured	\$53	\$124
Past due 90 days or more still accruing	424	197
Nonaccrual	4,045	2,931
Total risk loans	\$4,522	3,252
Other property owned	7	7
Total risk assets	\$4,529	\$3,259
Risk loans as a % of total loans	0.2%	0.2%
Total delinquencies as a % of total loans	0.2%	0.2%

Our risk assets have increased from December 31, 2007, due to an increase in nonaccrual loan volume, but remain at acceptable levels. At September 30, 2008, 38.4% of our nonaccrual loans were current.

The 2008 harvest started well behind schedule across most of our territory given the excess moisture that delayed planting in the spring. There were crop losses due to flooding and ponding in many areas. However, the weather conditions for the remainder of the growing season were nearly ideal which has resulted in average to above average crop yields for both corn and soybeans. Volatility in the commodity markets has had a negative impact on the value of the crop with the market price of both corn and soybeans falling dramatically. This drop in the commodity markets has reduced feed costs to the livestock sector, but sales prices have also deteriorated for finished livestock which will continue to stress this sector and challenge it to meet its cost of production.

Financial Market Volatility

To date, the Farm Credit System has been able to fulfill its mission and continues to be a reliable source of debt capital for the farmers, ranchers and other rural businesses that we serve. However, during the third quarter of 2008, negative economic developments in the global financial markets have created a high level of volatility and uncertainty among global financial institutions in general. This volatility is affecting the Farm Credit System's access to debt markets, restricting our ability to issue debt at preferred maturities and structures that we have traditionally used to fund our loan portfolio. Responses by the Federal Government, including explicit actions to protect the housing Government Sponsored Entities (GSEs) and to capitalize and guarantee the liabilities of commercial banks, may have an unintended consequence of increasing our funding cost and reducing our ability to issue debt at preferred maturities and structures. Due to our sound financial position, we expect to continue to be able to issue debt securities as necessary to meet our funding needs. However, the cost of such debt securities is expected to remain at higher levels than our historical experience.

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:

Allowance as a percentage of:	September 30 2008	December 31 2007
Loans	0.2%	0.1%
Nonaccrual loans	70.2%	77.7%
Total risk loans	62.8%	70.0%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in the loan portfolio at September 30, 2008.

Results of Operations

Net income for the nine months ended September 30, 2008 totaled \$29.3 million compared to \$19.2 million for the same period of 2007. The following table illustrates profitability information:

As of September 30	2008	2007
Return on average assets	1.9%	1.5%
Return on average members' equity	11.2%	8.1%

The following table summarizes the changes in components of net income for the nine months ended September 30, 2008 compared to September 30, 2007 (in thousands):

Increase (decrease) in net income	2008 vs 2007
Net interest income	\$3,923
Provision for loan losses	(276)
Patronage income	3,220
Financially related services and miscellaneous income, net	5,003
Operating expenses	(1,207)
Provision for income taxes	(524)
Total change in net income	\$10,139

Net interest income was \$35.0 million for the nine months ended September 30, 2008. The following table quantifies changes in net interest income for the nine months ended September 30, 2008 compared to September 30, 2007 (in thousands):

Change in net interest income	2008 vs 2007
Changes in volume	\$3,437
Changes in rates	483
Changes in nonaccrual income and other	3
Net change	\$3,923

The change in the provision for loan losses is related to our estimate of losses in our portfolio. The increase in patronage income is due to increased patronage income from AgriBank, FCB. The increase is due to \$2.7 million of patronage income received as of September 30, 2008, on participations sold to AgriBank, FCB during the second quarter as well as due to an increase in our note payable amount. The increase in financially related services and miscellaneous income, net is primarily due to an increase in multi-peril crop insurance income. The operating expense increases were primarily related to purchased services expense, furniture and equipment expense, compensation to associations' expense and Farm Credit System insurance expense. The change in provision for income taxes is related to an increase in taxable income.

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 May 29, 2008, and was renewed for \$2.5 billion with a maturity date of July 31, 2009. 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 \$29.6 million from December 31, 2007, due to net income for the period along with 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 September 30, 2008, our ratio was 13.6%.
- 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 September 30, 2008, our ratio was 13.3%.
- 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 September 30, 2008, our ratio was 13.3%.

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.

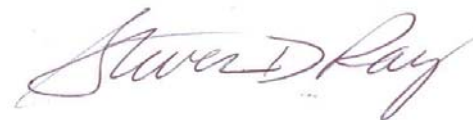
The undersigned certify they have reviewed Farm Credit Services of Illinois, ACA's September 30, 2008 quarterly report and it has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Lance C. Beery
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

October 31, 2008

CONSOLIDATED STATEMENT OF CONDITION

Farm Credit Services of Illinois, ACA

(Dollars in thousands)

(Unaudited)

	September 30 2008	December 31 2007
ASSETS		
Loans	\$1,862,616	\$2,007,552
Allowance for loan losses	2,839	2,278
Net loans	1,859,777	2,005,274
Investment in AgriBank	76,377	40,343
Accrued interest receivable	32,410	40,887
Premises and equipment, net	8,723	6,884
Other property owned	7	7
Other assets	6,614	5,924
Total assets	\$1,983,908	\$2,099,319
LIABILITIES		
Note payable to AgriBank	\$1,596,249	\$1,734,654
Accrued interest payable	13,252	20,929
Net deferred income tax liability	632	960
Other liabilities	8,831	7,481
Total liabilities	1,618,964	1,764,024
Contingencies		
MEMBERS' EQUITY		
Protected members' equity	42	50
Capital stock and participation certificates	7,092	6,759
Unallocated surplus	357,810	328,486
Total members' equity	364,944	335,295
Total liabilities and members' equity	\$1,983,908	\$2,099,319

CONSOLIDATED STATEMENT OF INCOME

Farm Credit Services of Illinois, ACA

(Dollars in thousands)

(Unaudited)

Period ended September 30	Three Months		Nine Months	
	2008	2007	2008	2007
Interest income	\$24,011	\$30,376	\$83,599	\$86,484
Interest expense	13,252	19,883	48,588	55,396
Net interest income	10,759	10,493	35,011	31,088
Provision for (reversal of) loan losses	571	31	630	354
Net interest income after provision for loan losses	10,188	10,462	34,381	30,734
Other income				
Patronage income	2,682	1,007	6,071	2,851
Financially related services and miscellaneous income, net	4,478	1,657	9,896	4,893
Total other income	7,160	2,664	15,967	7,744
Operating expense				
Salaries and employee benefits	3,528	3,908	10,604	10,647
Other operating	3,201	3,051	9,339	8,089
Total operating expense	6,729	6,959	19,943	18,736
Income before income taxes	10,619	6,167	30,405	19,742
Provision for income taxes	783	135	1,081	557
Net income	\$9,836	\$6,032	\$29,324	\$19,185

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
Balance at December 31, 2006	\$64	\$6,401	\$300,278	\$306,743
Net income	--	--	19,185	19,185
Capital stock/participation certificates issued	--	554	--	554
Capital stock/participation certificates retired	(14)	(271)	--	(285)
Balance at September 30, 2007	\$50	\$6,684	\$319,463	\$326,197
Balance at December 31, 2007	\$50	\$6,759	\$328,486	\$335,295
Net income	--	--	29,324	29,324
Capital stock/participation certificates issued	--	697	--	697
Capital stock/participation certificates retired	(8)	(364)	--	(372)
Balance at September 30, 2008	\$42	\$7,092	\$357,810	\$364,944

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 2007 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, 2007. You should read these unaudited third quarter 2008 consolidated financial statements in conjunction with the 2007 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 nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the year ended December 31, 2008.

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 Development

In September 2006, the Financial Accounting Standards Board 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. 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. There is no material impact on our financial position resulting from the adoption of this Statement.

In February 2007, the Financial Accounting Standards Board 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. We have not made any elections under the fair value option, thus there is no impact of the adoption of the Standard.

NOTE 2: Allowance for Loan Losses

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

Nine months ended September 30	2008	2007
Balance at beginning of year	\$2,278	\$1,725
Provision for loan losses	630	354
Loan recoveries	27	75
Loan chargeoffs	(42)	(9)
Balance at end of period	<u>\$2,893</u>	<u>\$2,145</u>

NOTE 3: 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 4: Income Taxes

In June 2006, the Financial Accounting Standards Board released Interpretation No. 48 – *Accounting for Uncertainty in Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition of an uncertain tax position taken or expected to be taken in a tax return. In January 2008, the Board delayed the effective date of this Interpretation for nonpublic companies until the 2008 calendar year. Upon adoption of this Interpretation during the first three quarters of 2008, we had no uncertain income tax positions to recognize.