# Sometimes a farmer's best friend is a trusted companion

Dennis Miller 28 yrs. | JoAnn Vosse 30 yrs. | Ken Finkle 32 yrs. | John Hartman 25 yrs. | Rick Swearingen 30 yrs.

Farm Credit Services
OF ILLINOIS
WE UNDERSTAND

# 2004 Annual Report

# 2004 ANNUAL REPORT

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### Farm Credit Services of Illinois, ACA



**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 contact us at 2101 West Park Court, P.O. Box 3849, Champaign, Illinois, 61821, (217) 352-1378 or contact AgriBank, FCB at 375 Jackson Street, St. Paul, MN 55101, (651) 282-8800, or via electronic mail to AGRIBANKMN@farmcredit.com. The reports are also available through AgriBank, FCB's website at www.agribank.com.**

**To request a free copy of our annual or quarterly reports contact us as stated above. The quarterly reports are available 45 days after the end of each calendar quarter.**

# MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

To our valued Shareholders:

We are again pleased to provide you with an update of your association's operations for 2004. We are in our third full year of operations as Farm Credit Services of Illinois, ACA. The merger of our two former Associations has brought together many talented individuals who are committed to growing our business and increasing awareness about Farm Credit Services of Illinois. That commitment to growth and excellence resulted in another record for new business development set in 2004. We are optimistic as we head into 2005 that our collective efforts will continue to grow.

The Association posted $267.8 million in new long-term loan volume in 2004, more than $23 million above the $244.4 record set in 2003. This increase in new loan production did not come at the expense of credit quality. In fact, overall credit quality remained strong at 98.6% and the Association reported $39.832 million in net earnings, which included a net reversal of $20.693 million of provision expense.

Farm Credit Services of Illinois customers experienced one of the better production years in recent history, although significant rainfall plagued many areas of the state which delayed harvest in some regions. Illinois farmers raised 2.088 billion bushels of corn and 499.95 million bushels of soybeans.

In addition to increased crop yields over 2003, we experienced higher interest rates as the Federal Reserve Board raised rates five times between July and December 2004. A continued strong economy may result in gradual rate increases in 2005. We will remain focused on keeping our interest rates as low as possible, while challenging the competition to stay extremely competitive.

We continued to work with young, beginning and small farmers in 2004 and are pleased to report strong growth in this area. We have surpassed our goals in each program area. The Farm Credit Services of Illinois program offers greater opportunity to obtain loans at reduced interest rates for up to five years to allow young and beginning farmers time to build equity in their operations. The young, beginning and small farmer programs are part of the nationwide Farm Credit System charter to serve the unique financial needs of agriculture. If you know of someone that may not yet be aware of the advantages to our YBS program, please tell them. We are committed to helping the next generation of farmers succeed.

We value our relationship with you. We pledge to bring you the expertise and exceptional service that you need to be successful, at a very competitive price. And as you have already discovered, it is brought to you by the finest people in farm lending. Our employees live near you, on farms or in the small communities that they care about and are involved in – places at the heart of Illinois agriculture. They understand your business and what you need and expect from a lender and service provider. By now you have probably noticed we have expanded our WE UNDERSTAND print and broadcast advertising campaign. "We Understand" is more than an advertising tagline. It is the recognition that Farm Credit Services is owned by the customers who use it. It is all about understanding what it takes, year in and year out to be exclusively involved with and successful in agriculture.

The Directors and employees of Farm Credit Services of Illinois recognize that a strong Association means that we are able to stay with our customers in good times and bad. The strong capital position that your Association enjoys means it will continue to be responsive, competitive, and innovative. As we enter the second year of our 10-year vision we are excited about the prospects for increasing our market share, maintaining a high level of customer and employee satisfaction with our services and our culture, enhancing the awareness of Farm Credit Services and telling our story. We are proud to be part of an organization that understands customer service, relationships, agriculture, farm life, family values and dreams.

Thank you for your continued support and commitment to Farm Credit Services of Illinois. We look forward to building a successful future together.

Sincerely,

Lance C. Beery
Chairperson of the Board
Farm Credit Services of Illinois, ACA

Ronald W. Frenn
Chief Executive Officer
Farm Credit Services of Illinois, ACA

February 18, 2005

# CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

*Farm Credit Services of Illinois, ACA*
*(Dollars in thousands)*

| | **2004** | 2003 | 2002 | 2001 | 2000* |
|---|---|---|---|---|---|
| **Statement of Condition Data** | | | | | |
| Loans | **$1,350,417** | $1,270,109 | $1,166,756 | $999,739 | $851,231 |
| Allowance for loan losses | **3,333** | 25,377 | 24,223 | 22,106 | 19,659 |
| Net loans | **1,347,084** | 1,244,732 | 1,142,533 | 977,633 | 831,572 |
| Investment in AgriBank, FCB | **26,388** | 26,388 | 26,388 | 20,554 | 26,915 |
| Other property owned | **7** | 7 | 7 | 150 | 157 |
| Other assets | **27,092** | 28,479 | 33,391 | 34,045 | 36,493 |
| Total assets | **$1,400,571** | $1,299,606 | $1,202,319 | $1,032,382 | $895,137 |
| Obligations with maturities of one year or less | **$1,137,162** | $1,075,608 | $996,167 | $849,955 | $731,133 |
| Obligations with maturities greater than one year | **--** | -- | -- | -- | -- |
| Total liabilities | **1,137,162** | 1,075,608 | 996,167 | 849,955 | 731,133 |
| Protected members' equity | **346** | 384 | 436 | 515 | 623 |
| Capital stock and participation certificates | **9,875** | 10,258 | 10,880 | 11,786 | 12,085 |
| Allocated surplus | **--** | -- | -- | -- | -- |
| Unallocated surplus | **253,188** | 213,356 | 194,836 | 170,126 | 151,296 |
| Total members' equity | **263,409** | 223,998 | 206,152 | 182,427 | 164,004 |
| Total liabilities and members' equity | **$1,400,571** | $1,299,606 | $1,202,319 | $1,032,382 | $895,137 |
| **Statement of Income Data** | | | | | |
| Net interest income | **$33,776** | $32,516 | $30,338 | $27,131 | $25,686 |
| (Reversal of) provision for loan losses | **(20,693)** | 1,089 | 1,872 | 2,179 | 547 |
| Compensation income | **--** | -- | 427 | 1,717 | 2,930 |
| Patronage and dividend income | **3,116** | 2,746 | 9,555 | 4,011 | 5,329 |
| Other expense, net | **14,810** | 15,026 | 12,431 | 10,752 | 10,059 |
| Provision for income taxes | **2,943** | 627 | 1,307 | 1,098 | 2,350 |
| Extraordinary item | **--** | -- | -- | -- | -- |
| Net income | **$39,832** | $18,520 | $24,710 | $18,830 | $20,989 |
| **Key Financial Ratios** | | | | | |
| Return on average assets | **3.1%** | 1.5% | 2.2% | 1.9% | 2.5% |
| Return on average members' equity | **17.0%** | 8.6% | 12.9% | 10.9% | 13.8% |
| Net interest income as a percentage of average earning assets | **2.7%** | 2.7% | 2.8% | 2.9% | 3.2% |
| Members' equity as a percentqge of assets | **18.8%** | 17.2% | 17.1% | 17.7% | 18.3% |
| Net chargeoffs as a percentage of average loans | **0.1%** | -- | -- | -- | -- |
| Allowance for loan losses as a percentage of loans | **0.2%** | 2.0% | 2.1% | 2.2% | 2.3% |
| Permanent capital ratio | **15.8%** | 15.3% | 15.6% | 16.4% | 17.0% |
| Total surplus ratio | **15.1%** | 14.5% | 14.7% | 15.3% | 15.6% |
| Core surplus ratio | **14.9%** | 14.1% | 13.8% | 14.1% | 13.5% |
| **Other** | | | | | |
| Loans serviced for AgriBank,FCB | **$ --** | $ -- | $ -- | $50,447 | $125,648 |

** Combined for restructure and merger activity as discussed in Note 1.*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Farm Credit Services of Illinois, ACA*
*(Dollars in thousands, except as noted)*

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of Illinois, ACA and its subsidiaries and provides additional specific information. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations.

## Restructure Activity

On July 1, 2001, Farm Credit Services of Central Illinois, FLCA and Farm Credit Services of Southeastern Illinois, FLCA merged to form Farm Credit Services of Illinois, FLCA (the FLCA) and Farm Credit Services of Central Illinois, PCA and Farm Credit Services of Southeastern Illinois, PCA merged to form Farm Credit Services of Illinois, PCA (the PCA). The merged Associations then restructured their operations to create a parent-subsidiaries structure. Under this structure, the FLCA and the PCA became wholly-owned subsidiaries of an ACA parent company, Farm Credit Services of Illinois, ACA. The restructuring provides certain advantages of an ACA structure while maintaining the tax exempt status of the FLCA. Additional information regarding this restructuring is included in Note 1.

## Loan Portfolio

Loan volume totaled $1,350,417 at December 31, 2004. The changes in loan volume for the last two years were as follows:

| Change in loan volume | **2004 vs. 2003** | | 2003 vs. 2002 | |
|---|---|---|---|---|
| Accrual | | | | |
| Mortgage | **$59,846** | **6.1%** | $69,137 | 7.6% |
| Commercial | **36,629** | **14.0%** | $11,990 | 4.8% |
| Nonaccrual | **(16,167)** | **(58.9%)** | 22,226 | 426.7% |
| Total loans | **$80,308** | **6.3%** | $103,353 | 8.9% |

Strong market conditions, a favorable interest rate environment, and a 90-day interest free program for financing equipment resulted in loan volume growth in 2004.

### Portfolio Distribution

We are chartered to operate in certain counties in Illinois. Approximately 11% of our total loan portfolio was in Champaign and Iroquois counties at December 31, 2004.

The Association's portfolio is heavily concentrated in corn and soybean, representing approximately 72% of the total portfolio.

The commercial loan portfolio shows some seasonality. These loans are normally at their lowest levels during the winter months because of operating repayments following harvest. They then increase throughout the year as farmers borrow for operating and capital needs.

### Agricultural Conditions

Agricultural economic conditions were generally good in 2004 as a result of price increases in major commodities and the continued positive impact of government programs. The interest rate environment in recent years has also allowed many borrowers to lower their borrowing costs, which improves their profitability. Prices of many commodities increased significantly during the first half of 2004. The USDA's June 2004 All Farm Products Index of Prices Received by Farmers was at its highest level since records began in 1910. Prices decreased during the second half of the year due to increased production prospects.

The Farm Security and Rural Investment Act of 2002 is now in its third of six years. The Act continued significant federal financial support for wheat, feed grains, cotton, rice, and oilseeds, and expanded assistance to certain specialty crops and certain livestock operations (particularly smaller dairy farms). The Act provides a high degree of income support for major crops, which helps support credit quality. The Act removes some of the uncertainty around continued government support and decreases the volatility of overall farm income.

The 2004 growing season was one of the most favorable on record. Both corn and soybean yields were at record levels, resulting in lower commodity prices. Large carryovers of grain stocks are having a negative impact on prices.

### Analysis of Risk

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

| As of December 31 | **2004** | 2003 | 2002 |
|---|---|---|---|
| Loans: | | | |
| Accruing restructured | **$607** | $265 | $284 |
| Past due 90 days or more still accruing | **--** | 75 | -- |
| Nonaccrual | **11,268** | 27,435 | 5,209 |
| Total risk loans | **11,875** | 27,775 | 5,493 |
| Other property owned | **7** | 7 | 7 |
| Total risk assets | **$11,882** | $27,782 | $5,500 |
| Risk loans as a % of total loans | **0.9%** | 2.2% | 0.5% |
| Total delinquencies as a % of total loans | **0.5%** | 1.6% | 0.2% |

The decrease in nonaccrual loans is due to the liquidation of two large loans during 2004. The volume of nonaccrual loans remained at an acceptable level at December 31, 2004 and represented less than 1% of our total portfolio. At December 31, 2004, 61.9% of our nonaccrual loans were current.

The credit quality of our portfolio rose during 2004. Adversely classified loans decreased from 3.3% of the portfolio at December 31, 2003 to 1.4% of the portfolio at December 31, 2004. Adversely classified loans are loans that 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 certain circumstances, we use various government guarantee programs to reduce the risk of loss. At December 31, 2004, $17,991 of our loans contained some level of guarantee under these government guarantee programs.

### Analysis of the Allowance for Loan Losses

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 the periodic evaluation of factors such as:

- Loan loss history
- Portfolio quality
- Current economic and environmental conditions

We, along with other Farm Credit System institutions, conducted a study during 2004 to further refine our allowance for loan loss methodology taking into account recently issued Farm Credit Administration requirements, as well as the Securities and Exchange Commission and Federal Financial Institutions Examination Council guidelines. As a result of these studies, we significantly reduced our allowance for loan losses during the fourth quarter of 2004, resulting in net reversal of provision expense of $20,693, on the Consolidated Statement of Income for the year ended December 31, 2004.

Unusually adverse economic factors affecting American agriculture had a severe impact on the financial condition of our borrowers in the mid-to-late 1980s. Consequently, we experienced significant deterioration in the credit quality of our loan portfolio during this period. Consistent with the trend of portfolio credit quality deterioration and resulting net chargeoffs, significant loan loss provisions were recorded and resulted in an allowance for loan losses which represented a level considered adequate by management to provide for estimated losses inherent in the loan portfolio.

Our allowance for loan loss methodology was adjusted and revised in the late 1980s to take into account recent credit losses. Given the long cyclical nature of the agricultural economy, loss factors utilized to determine the allowance for loan losses subsequent to 1989 continued to reflect, to some extent, the loss history of the mid-to-late 1980s, which resulted in a conservative estimate of the allowance for loan losses. The allowance for loan losses methodology utilized throughout the period was in accordance with generally accepted accounting principles and was consistently applied.

While conservative in estimating the allowance for loan losses on the statement of condition, the methodology used over the periods resulted in annual provisions for loan losses in the statement of income that reflected changes in credit quality, loss experience and loan volume growth. Accordingly, the reserves provided in the mid-to-late 1980s had, in effect, remained as part of the allowance for loan losses. The allowance for loan losses methodology has consistently adhered to proper accounting policies, under the regulatory supervision of the Farm Credit Administration in its role as a “safety and soundness” regulator. It was the Farm Credit Administration’s view that the allowance for loan losses methodology should include an assessment of probable losses, historical loss experience, economic conditions and other factors.

Accounting for loan loss allowances has recently been a particular area of focus for Bank regulators, the Securities Exchange Commission and the accounting industry standard setters. The Farm Credit System is not subject to oversight by the Securities Exchange Commission or various banking regulators. Of particular relevance to the Farm Credit System are the views of the American Institute of Certified Public Accountants and the Farm Credit Administration. The guidance proposed by the accounting standard setters and issued by the other regulators in recent years focused on the determination of the allowance for loan losses based on current loss experience rather than a more historical view of loss experience. Thus, in November 2003, Farm Credit System institutions determined that studies should be conducted during 2004 to further refine the methodologies for calculating allowances for loan losses.

In April 2004, the Farm Credit Administration, the Farm Credit System's regulator, issued an "Informational Memorandum" to Farm Credit System institutions regarding the criteria and methodologies that would be used in evaluating the adequacy of a Farm Credit System institutions’ allowance for loan losses. The Farm Credit Administration endorsed the direction provided by other bank regulators and the Securities and Exchange Commission and indicated the conceptual framework addressed in their guidance would be included as part of their examination process.

We, along with other Farm Credit System institutions, completed our study during the fourth quarter of 2004 and refined our methodologies to be consistent with the guidance in the preceding paragraph. The methodology refinement resulted in a calculated allowances for loan losses that was significantly less than the previously recorded balance due to revised loss factors that are more indicative of actual loss experience in recent years and current borrower analysis. The factors considered in determining the revised level of allowance for loan loss are based on recent historical chargeoff experience adjusted for relevant environmental factors.

Comparative allowance coverage of various loan categories follows:

| As of December 31 | **2004** | 2003 | 2002 |
|---|---|---|---|
| Allowance as a % of: | | | |
| Loans | **0.2%** | 2.0% | 2.1% |
| Nonaccrual loans | **29.6%** | 92.5% | 465.0% |
| Total risk loans | **28.1%** | 91.4% | 441.0% |
| Net chargeoffs as a % of average loans | **0.1%** | -- | -- |
| Adverse assets to risk funds | **8.0%** | 18.8% | 18.4% |

In our opinion, the allowance for loan losses was reasonable in relation to the risk in the loan portfolio at December 31, 2004. The allowance as a percentage of loans, as a percentage of nonaccrual loans and as a percentage of risk loans as of December 31, 2004 declined in part due to the reduction of the allowance for loan losses during the fourth quarter of 2004 under the refined methodology. This reversal of allowance for loan losses moves the long-term inherent risk of lending out of the allowance for loan losses and into surplus. This is reflected in the change in the ratio of adverse assets to risk funds which represents the amount of adverse assets divided by the sum of the allowance for loan losses and permanent capital.

### Young, Beginning and Small Farmers and Ranchers

We have specific programs in place to serve the credit and related needs of young, beginning and small farmers and ranchers in our territory. The definitions of young, beginning and small farmers and ranchers follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 in annual gross sales of agricultural or aquatic products.

### Demographics

We have used the 1997 USDA Ag-census as our source of demographic data for Young, Beginning, and Small farmers (YBS). Based on December 31, 2004 numbers, 13.3% of the loans in our portfolio are to young farmers. This exceeds the census data indicating 10.2% of the farmers in our territory are young farmers. 14.8% of our loan portfolio is to beginning farmers, just slightly below the census data of 17.3% for beginning farmers in our territory. The small farmer portfolio of 57.2% is below the census data of 81.4% but is above our goal of 50%.

## Mission Statement

Our mission is to provide competitive and dependable credit and related services. This applies to all eligible customers, and specifically to young, beginning and small farmers. We will accomplish this mission by:

- Providing discounted rates for up to a maximum period of five years through our YBS Loan Program for young and/or beginning farmers,
- Making full use of guaranteed loan programs through the State of Illinois and the USDA Farm Service,
- Establishing both quantitative portfolio goals, and qualitative goals for services offered and,
- Continuing to participate in numerous outreach programs which benefit YBS farmers.

## Quantitative Goals

As of December 31, 2004 we have established the following annual quantitative targets for credit to young and beginning farmers and ranchers:

| Young Beginning Farmers and Ranchers - Number/Volume of Loans Outstanding | | | | |
|---|---|---|---|---|
| Category | Number of Loans | Percent Total | Volume Outstanding | Percent Total |
| Total loans and commitments | 19,182 | 100.0% | $1,548,271 | 100.0% |
| Young farmers and ranchers | 2,558 | 13.3% | 209,373 | 13.5% |
| Beginning farmers and ranchers | 2,701 | 14.1% | 223,805 | 14.5% |

| Young Beginning Farmers and Ranchers - Gross New Business during 2004 | | | | |
|---|---|---|---|---|
| Category | Number of Loans | Percent Total | Volume Outstanding | Percent Total |
| Total number new loans and commitments made during 2004 | 10,825 | 100.0% | $566,026 | 100.0% |
| Total loans and commitments made to young farmers and ranchers | 1,114 | 10.3% | 81,378 | 14.4% |
| Total loans and commitments made to beginning farmers and ranchers | 1,170 | 10.8% | 84,369 | 14.9% |

As of December 31, 2004 our targets for small farmers and ranchers are as follows:

| Small Farmers and Ranchers - Number/Volume of Laons Outstanding by Loan size December 31, 2004 | | | | |
|---|---|---|---|---|
| Number/Volume Outstanding | $0 to $50,000 | $50,001 to 100,000 | $100,001 to 250,000 | $250,001 and greater |
| Total loans and commitments | 9,977 | 4,711 | 3,126 | 1,368 |
| Total loans to small farmers and ranchers | 6,942 | 2,497 | 1,275 | 250 |
| Percentage | 69.6% | 53.0% | 40.8% | 18.3% |

| Small Farmers and Ranchers - Gross New Business by Loan Size December 31, 2004 | | | | |
|---|---|---|---|---|
| Number/Volume Outstanding | $0 to $50,000 | $50,001 to 100,000 | $100,001 to 250,000 | $250,001 and greater |
| Total loans and commitments made during 2004 | 5,694 | 2,666 | 1,427 | 1,038 |
| Total loans made to small farmers and ranchers in 2004 | 4,134 | 1,224 | 500 | 88 |
| Percentage | 72.6% | 45.9% | 35.0% | 8.5% |
| Total gross loan volume of all new loans made during 2004 | $64,446 | $108,118 | $161,342 | $232,120 |
| Total gross loan volume to small farmers and ranchers during 2004 | $43,639 | $55,982 | $66,796 | $37,069 |
| Percentage | 67.7% | 51.8% | 41.4% | 16.0% |

## Outreach Program

Our marketing plan includes special emphasis on the Young, Beginning and Small Farmer Loan Program and we participate in several outreach programs to promote our products and services to this segment of the market. We are launching a new program in 2005, "Cultivating Master Farmer Program," in conjunction with other agricultural companies. This program will bring together 10 young farmers and 10 "Master Farmers" for discussions and farm tours to exchange ideas.

## Safety and Soundness of the Program

In order to limit our risk for loans approved under the Young, Beginning and Small Farmer Loan Program we have established specific lending limits and credit standards for clients who use the program.

## Additional Loan Information

Additional loan information is included in Note 3, Note 13 and Note 14.

# Results of Operations

The following table illustrates profitability information:

| For the year ended December 31 | **2004** | 2003 | 2002 |
|---|---|---|---|
| Net income | **$39,832** | $18,520 | $24,710 |
| Return on average assets | **3.1%** | 1.5% | 2.2% |
| Return on average members' equity | **17.0%** | 8.6% | 12.9% |

Changes to our return on average assets and return on average members' equity related directly to the changes in income as discussed below, to the changes in assets discussed in the Loan Portfolio section, and to the changes in members' equity discussed in the Capital Adequacy section.

The following table summarizes the changes in components of net income:

| Increase (decrease) in net income | **2004 vs. 2003** | 2003 vs. 2002 |
|---|---|---|
| Net interest income | **$1,260** | $2,178 |
| Provision for loan losses | **21,782** | 783 |
| Compensation income | **--** | (427) |
| Patronage and dividend income | **370** | (6,809) |
| Financially related services and miscellaneous income, net | **598** | 50 |
| Operating expenses | **(382)** | (2,645) |
| Provision for income taxes | **(2,316)** | 680 |
| Total change in net income | **$21,312** | ($6,190) |

## Net Interest Income

Net interest income was $33,776 for the year ended December 31, 2004. The following table quantifies changes in net interest income:

| Changes in net interest income due to: | **2004 vs. 2003** | 2003 vs. 2002 |
|---|---|---|
| Changes in volume | **$1,873** | $3,395 |
| Changes in rates | **(1,368)** | (1,289) |
| Changes in nonaccrual income and other | **755** | 72 |
| Net change | **$1,260** | $2,178 |

Net interest income included income on nonaccrual loans that totaled $903 in 2004, $1,395 in 2003, and $561 in 2002. Nonaccrual income is recognized when:

- Received in cash
- Collection of the recorded investment is fully expected, and
- Prior chargeoffs have been recovered

Net interest margin (net interest income divided by average earning assets) was 2.7% in 2004, 2.7% in 2003, and 2.8% in 2002.

### Provision for Loan Losses

The change in the provision for loan losses includes a significant fourth quarter 2004 reversal resulting from a refined methodology, as discussed further in the Loan Portfolio – Analysis of Allowance for Loan Losses section. This reversal resulted in a net reversal of provision expense of $20,693 for the year ended December 31, 2004.

### Patronage and Dividend Income

We received patronage income based on the average balance of our note payable to AgriBank, FCB. AgriBank, FCB's Board of Directors sets the patronage rate. We recorded patronage refunds of $2,997 in 2004, $2,508 in 2003, and $2,924 in 2002. Changes in the patronage rate and, to a lesser extent, changes in our note payable to AgriBank, FCB caused the variances in the patronage refund amounts. The patronage rates paid by AgriBank, FCB were 28.3 basis points in 2004, 24.8 basis points in 2003, and 32.0 basis points in 2002.

We received a second component of patronage, referred to as equalization, from AgriBank, FCB effective January 1, 2003. The quarterly average balance of our preferred stock investment in AgriBank, FCB is used to determine this amount. AgriBank, FCB's Board of Directors sets the equalization rate. The targeted rate equals the average cost of funds for all associations as a group. Equalization income totaled $119 for 2004 and $238 for 2003. Prior to 2003, we received dividends on our entire AgriBank, FCB investment. Dividend income totaled $797 in 2002. We did not receive dividend income in 2004 or 2003, nor do we expect to in future years.

In addition, in December of 2002 and prior to the AgriBank, FCB merger discussed in the Relationship with AgriBank, FCB section, we recorded a special stock patronage refund of $5,834 from AgriBank, FCB. This refund represented our share of a one-time, $100 million distribution to provide greater surplus equalization between shareholders of AgriBank, FCB and AgAmerica, FCB. The distribution was based on the average balance of our note payable to AgriBank, FCB and the average loans serviced for AgriBank, FCB measured over a three-year period ending December 31, 2001.

### Financially Related Services and Miscellaneous Income, Net

The increase in financially related services and miscellaneous income, net is primarily due to an increase in multi-peril insurance.

We originated rural home loans for resale to the secondary market. We sold loans through the secondary market totaling $7,161 in 2004, $11,758 in 2003, and $15,067 in 2002. The fee income from this activity totaled $149 in 2004, $223 in 2003, and $250 in 2002.

### Operating Expenses

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets) for the past three years:

| For the year ended December 31 | **2004** | 2003 | 2002 |
|---|---|---|---|
| Salaries and benefits | **$10,093** | $8,689 | $8,191 |
| Purchased and vendor services | **2,513** | 2,458 | 2,203 |
| Advertising and promotion | **1,013** | 1,399 | 954 |
| Communications | **268** | 310 | 313 |
| Occupancy and equipment | **1,462** | 1,293 | 1,260 |
| Examination | **453** | 415 | 392 |
| System insurance | **660** | 1,443 | 332 |
| Other | **1,892** | 1,965 | 1,682 |
| Total | **$18,354** | $17,972 | $15,327 |
| Operating rate | **1.4%** | 1.5% | 1.4% |

The operating expense increases were primarily related to increased salaries and benefits and occupancy and equipment expenses.

### Provision for Income Taxes

We recorded tax expense of $2,943 for the year ended December 31, 2004, compared to $627 for 2003, and $1,307 for 2002. See Note 9 for additional discussion.

## Funding and Liquidity

We borrow from AgriBank, FCB under a note payable, in the form of a line of credit, as described in Note 7. During 2004, our average balance was $1.058 billion with an average interest rate of 2.4%. Our other source of lendable funds is from unallocated surplus.

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank, FCB. At December 31, 2004, we had $223,722 available under our line of credit. We generally apply excess cash to this line of credit.

We offer variable, fixed, capped, indexed, and adjustable interest rate loans and lease programs to our borrowers. We determine interest margins charged on each lending program based on:

- Our cost of funds
- Market conditions
- The need to generate sufficient earnings

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.

## Capital Adequacy

Total members' equity increased $39,411 during 2004 due to net income for the period, partially offset by a decrease in capital stock and participation certificates outstanding.

Members' equity position information is as follows:

| As of December 31 | **2004** | 2003 | 2002 |
|---|---|---|---|
| Members' equity | **$263,409** | $223,998 | $206,152 |
| Surplus as a % of members' equity | **96.1%** | 95.2% | 94.5% |
| Permanent capital ratio | **15.8%** | 15.3% | 15.6% |
| Total surplus ratio | **15.1%** | 14.5% | 14.7% |
| Core surplus ratio | **14.9%** | 14.1% | 13.8% |

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

At December 31, 2004, our permanent capital ratio, total surplus ratio and core surplus ratio significantly exceeded the regulatory minimum requirements. See Note 8 for further discussions of these regulatory ratios.

In addition to these regulatory requirements, we establish an optimum permanent capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2004, our optimum permanent capital target was 14%.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio section for further discussion of the changes in assets. Additional members' equity information is included in Note 8.

## Initiatives

We are involved in a number of initiatives designed to improve our credit delivery, related services and marketplace presence.

### ProPartners Financial

We participate in ProPartners Financial with various other associations in North Dakota, Minnesota, Illinois, Wisconsin, and Michigan. ProPartners Financial provides supplier and term credit financing programs for regional and national agribusiness companies to finance purchases by their producer customers. ProPartners Financial is directed by representatives from the participating associations. The income, expense and loss sharing arrangements are based on each association's participation interest of ProPartners Financial volume. Each association's allocation is established according to a prescribed formula which includes risk funds of the associations as well as program volume within their territories. At December 31, 2004, we had approximately $31 million of ProPartners Financial volume.

### Farm Cash Management

We offer Farm Cash Management to our members. Farm Cash Management links a member's revolving line of credit with an AgriBank, FCB Investment Bond to optimize a member's use of funds.

### Image Campaign

In the second half of 2002 the Association retained the services of Chandler Ehrlich, an advertising agency from Memphis, Tennessee. The Association is investing in an image campaign to increase name recognition in the marketplace and relate the benefits and value the Association brings to the marketplace.

### Capital Market Loans

Through an agreement with 1st Farm Credit Services the Association participates in employing an individual to assist in marketing capital market loans. Under this agreement, the Association shares loan participations on an equal basis with 1st Farm Credit Services.

### Illinois Auctioneers Association

The Association has formed an alliance with the Illinois Auctioneers Association. Through this alliance the Illinois Auctioneers Association has access to the classifieds section of the Association's internet website that is shared with 1st Farm Credit Services.

## Relationship with AgriBank, FCB

### Borrowings

In accordance with the Farm Credit Act of 1971, as amended, we borrow from AgriBank, FCB to fund our lending operations. A General Financing Agreement, as discussed in Note 7, governs this lending relationship. Approval from AgriBank, FCB would be required for us to borrow elsewhere. The cost of funds on our note payable to AgriBank, FCB includes:

- A marginal cost of debt component
- A cost of servicing component
- A bank spread component
- A risk premium component, if applicable

The marginal cost of debt approach simulates match funding the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This methodology substantially protects us from interest rate risk.

### Investment

We are required to invest in AgriBank, FCB capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank, FCB surplus. As of December 31, 2004, we were required to maintain a common stock investment equal to 2.2% of the average quarterly balance of our note payable to AgriBank, FCB. Current projections indicate that this required percentage will increase periodically, reaching 2.5% by December 31, 2006. AgriBank, FCB's current bylaws allow the required investment to increase to 4%. At December 31, 2004, our entire investment in AgriBank, FCB consisted of stock representing distributed AgriBank, FCB surplus. Through 2002, the entire stock investment in AgriBank, FCB was dividend bearing. We received no dividend income in 2004 and 2003, and we do not anticipate any in future years.

### Patronage

Beginning January 1, 2003, we receive, as part of AgriBank, FCB's patronage program, equalization income based on the amount of investment in AgriBank, FCB over the required amount of investment. Additionally, we receive a second component of patronage income based on our average note payable to AgriBank, FCB. AgriBank, FCB's Board of Directors sets the patronage rates.

### Purchased Services

We purchase various services from AgriBank, FCB. Purchased services include:

- Information systems
- Certain financial services
- Certain accounting and reporting services
- Selected retail product processing and support
- Selected human resource services

### Affect on Shareholder's Investment

Due to the nature of our financial relationship with AgriBank, FCB, the financial condition and results of operations of AgriBank, FCB materially affect our shareholders' investment. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at 2101 West Park Court, P.O. Box 3849, Champaign, Illinois, 61821, (217) 352-1378 or contact AgriBank, FCB at 375 Jackson Street, St. Paul, MN 55101, (651) 282-8800, or via electronic mail to AGRIBANKMN@farmcredit.com. The reports are also available through AgriBank, FCB's website at www.agribank.com.

### AgriBank, FCB Merger Activity

Effective January 1, 2003, AgriBank, FCB and AgAmerica, FCB merged and retained the AgriBank, FCB name. As part of the merger transaction, one of AgAmerica, FCB's two Association shareholders, Northwest Farm Credit Services, reaffiliated from AgAmerica, FCB to CoBank, ACB on the effective date of the merger. AgriBank, FCB and AgAmerica, FCB had been operating under a joint management agreement since January 1, 2002.

# REPORT OF MANAGEMENT

***Farm Credit Services of Illinois, ACA***

The consolidated financial statements of Farm Credit Services of Illinois, ACA (the Association) are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. The consolidated financial statements, in the opinion of management, fairly present the financial condition of Farm Credit Services of Illinois, ACA. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet our responsibility for reliable financial information, management depends on accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audits the consolidated financial statements. They also conduct a review of internal controls to the extent necessary to comply with generally accepted auditing standards in the United States of America. The Farm Credit Administration also performs an examination.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors consults regularly with management and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify that Farm Credit Services of Illinois, ACA's 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.

Lance C. Beery
Chairperson of the Board
Farm Credit Services of Illinois, ACA

Ronald W. Frenn
Chief Executive Officer
Farm Credit Services of Illinois, ACA

February 18, 2005

# REPORT OF AUDIT COMMITTEE

***Farm Credit Services of Illinois, ACA***

The Audit Committee is composed of the entire Board of Directors of Farm Credit Services of Illinois, ACA (the Association). In 2004, the Audit Committee met four times. In addition, the full board addressed audit topics during four other meetings, including two audit training sessions, a report from FCA and discussions about future Audit Committee structure. The Audit Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. In addition, the Audit Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as our independent auditor for 2004. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the financial statements in accordance with generally accepted auditing standards in the United States of America and to issue their report based on the audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2004 with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communication with Audit Committees), and both PwC and the internal auditors directly provided reports on significant matters to the Audit Committee.

The Audit Committee received the written disclosures and the letter from PwC in accordance with Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees), and discussed with PwC its independence. The Audit Committee also reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditors' independence. The Audit Committee has discussed with management and PwC such other matters and received such assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Annual Report for the year ended December 31, 2004.

Lance C. Beery
Chairperson of the Audit Committee
Farm Credit Services of Illinois, ACA

Audit committee members:
Ben Conrady, Don Barttelbort, Kent Brinkmann, Dave Champion, Jack Crumrin, Don Dice, J. Dale Edwards, Dennis Frey, Dr. Kim Harris, Jack Hastings, Mark Miller, Robert Pharis, Russell Roosevelt, John Schable, Don Sievers, Larry Thomas

February 18, 2005

# REPORT OF INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

To the Board of Directors and Members of
Farm Credit Services of Illinois, ACA

We have audited the accompanying consolidated statement of condition of Farm Credit Services of Illinois, ACA (the Association) and its subsidiaries as of December 31, 2004, 2003 and 2002, and the related consolidated statements of income, of changes in members' equity and of cash flows for each of the three years in the period ended December 31, 2004. 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 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit Services of Illinois, ACA and its subsidiaries at December 31, 2004, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

February 18, 2005
Minneapolis, Minnesota

## CONSOLIDATED STATEMENT OF CONDITION

*Farm Credit Services of Illinois, ACA*

*(Dollars in thousands)*

| | December 31 | | |
|---|---|---|---|
| | **2004** | 2003 | 2002 |
| **ASSETS** | | | |
| Loans | **$1,350,417** | $1,270,109 | $1,166,756 |
| Allowance for loan losses | **3,333** | 25,377 | 24,223 |
| Net loans | **1,347,084** | 1,244,732 | 1,142,533 |
| Investment in AgriBank, FCB | **26,388** | 26,388 | 26,388 |
| Accrued interest receivable | **19,356** | 18,937 | 20,968 |
| Premises and equipment, net | **3,101** | 2,909 | 3,134 |
| Other property owned | **7** | 7 | 7 |
| Net deferred income tax asset | **--** | 1,952 | 1,620 |
| Other assets | **4,635** | 4,681 | 7,669 |
| Total assets | **$1,400,571** | $1,299,606 | $1,202,319 |
| **LIABILITIES** | | | |
| Note payable to AgriBank, FCB | **$1,123,968** | $1,063,948 | $984,057 |
| Accrued interest payable | **7,313** | 6,247 | 7,382 |
| Net deferred income tax liability | **481** | -- | -- |
| Other liabilities | **5,400** | 5,413 | 4,728 |
| Total liabilities | **1,137,162** | 1,075,608 | 996,167 |
| Contingencies | | | |
| **MEMBERS' EQUITY** | | | |
| Protected members' equity | **346** | 384 | 436 |
| Capital stock and participation certificates | **9,875** | 10,258 | 10,880 |
| Unallocated surplus | **253,188** | 213,356 | 194,836 |
| Total members' equity | **263,409** | 223,998 | 206,152 |
| Total liabilities and members' equity | **$1,400,571** | $1,299,606 | $1,202,319 |

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

# CONSOLIDATED STATEMENT OF INCOME

*Farm Credit Services of Illinois, ACA*

*(Dollars in thousands)*

| Year ended December 31 | **2004** | 2003 | 2002 |
|---|---|---|---|
| **Interest income** | **$59,353** | $57,793 | $60,957 |
| **Interest expense** | **25,577** | 25,277 | 30,619 |
| Net interest income | **33,776** | 32,516 | 30,338 |
| **(Reversal of) provision for loan losses** | **(20,693)** | 1,089 | 1,872 |
| Net interest income after provision for loan losses | **54,469** | 31,427 | 28,466 |
| **Other income** | | | |
| Compensation income | **--** | -- | 427 |
| Patronage and dividend income | **3,116** | 2,746 | 9,555 |
| Financially related services and miscellaneous income, net | **3,544** | 2,946 | 2,896 |
| Total other income | **6,660** | 5,692 | 12,878 |
| **Operating expense** | | | |
| Salaries and employee benefits | **10,093** | 8,689 | 8,191 |
| Other operating | **8,261** | 9,283 | 7,136 |
| Total operating expense | **18,354** | 17,972 | 15,327 |
| Income before income taxes | **42,775** | 19,147 | 26,017 |
| **Provision for income taxes** | **2,943** | 627 | 1,307 |
| Net income | **$39,832** | $18,520 | $24,710 |

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

# CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

*Farm Credit Services of Illinois, ACA*

*(Dollars in thousands)*

| | Protected Members' Equity | Capital Stock and Participation Certificates | Unallocated Surplus | Total Members' Equity |
|---|---|---|---|---|
| **Balance at December 31, 2001** | $515 | $11,786 | $170,126 | $182,427 |
| Net income | -- | -- | 24,710 | $24,710 |
| Capital stock/participation certificates issued | -- | 684 | -- | $684 |
| Capital stock/participation certificates retired | (79) | (1,590) | -- | (1,669) |
| **Balance at December 31, 2002** | 436 | 10,880 | 194,836 | 206,152 |
| Net income | -- | -- | 18,520 | 18,520 |
| Capital stock/participation certificates issued | -- | 738 | -- | 738 |
| Capital stock/participation certificates retired | (52) | (1,360) | -- | (1,412) |
| **Balance at December 31, 2003** | 384 | 10,258 | 213,356 | 223,998 |
| Net income | **--** | **--** | **39,832** | **39,832** |
| Capital stock/participation certificates issued | **--** | **726** | **--** | **726** |
| Capital stock/participation certificates retired | **(38)** | **(1,109)** | **--** | **(1,147)** |
| **Balance at December 31, 2004** | **$346** | **$9,875** | **$253,188** | **$263,409** |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

*Farm Credit Services of Illinois, ACA*

*(Dollars in thousands)*

| Year ended December 31 | **2004** | 2003 | 2002 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income | **$39,832** | $18,520 | $24,710 |
| Adjustments to reconcile net income to cash flows from operating activities: | | | |
| Depreciation on premises and equipment | **513** | 499 | 477 |
| Depreciation on assets held for lease | **240** | 341 | 355 |
| (Reversal of) provision for loan losses | **(20,693)** | 1,089 | 1,872 |
| Stock patronage received | **--** | -- | (5,834) |
| (Increase) decrease in accrued interest receivable | **(764)** | 1,231 | 387 |
| Decrease (increase) in other assets | **1,734** | 1,818 | (876) |
| Increase (decrease) in accrued interest payable | **1,066** | (1,135) | (1,841) |
| Increase in other liabilities | **468** | 685 | 505 |
| (Loss) on sale of premises and equipment | **(9)** | (1) | (7) |
| (Loss) gain on disposal of assets held for lease | **--** | (20) | 12 |
| Total adjustments | **(17,445)** | 4,507 | (4,950) |
| Net cash provided by operating activities | **22,387** | 23,027 | 19,760 |
| **Cash flows from investing activities** | | | |
| Increase in loans, net | **(81,459)** | (102,893) | (167,118) |
| Disposals of assets held for lease | **24** | 517 | 573 |
| Decrease in other property owned | **--** | -- | 143 |
| Purchases of premises and equipment, net | **(696)** | (273) | (449) |
| Net cash used in investing activities | **(82,131)** | (102,649) | (166,851) |
| **Cash flows from financing activities** | | | |
| Increase in note payable to AgriBank, FCB | **60,020** | 79,891 | 147,548 |
| Capital stock and participation certificates retired, net | **(276)** | (269) | (457) |
| Net cash provided by financing activities | **59,744** | 79,622 | 147,091 |
| Net change in cash | **--** | -- | -- |
| Cash at beginning of year | **--** | -- | -- |
| Cash at end of year | **$ --** | $ -- | $ -- |
| **Supplemental schedule of non-cash activities** | | | |
| Stock financed by loan activities | **$661** | $678 | $645 |
| Stock applied against loan principal | **801** | 1,081 | 1,161 |
| Stock applied against interest | **5** | 2 | 12 |
| Interest transferred to loans | **340** | 798 | 170 |
| **Supplemental information** | | | |
| Interest paid | **$24,511** | $26,412 | $32,460 |
| Taxes paid | **424** | 908 | 867 |

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Farm Credit Services of Illinois, ACA*
*(Dollars in thousands, except as noted)*

## NOTE 1: ORGANIZATION AND OPERATIONS

### Farm Credit System and District

**Farm Credit System Lending Institutions**: The Farm Credit System is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2004, the Farm Credit System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and numerous associations. AgriBank, FCB and its related associations are collectively referred to as the District. At December 31, 2004, the District consisted of 18 Agricultural Credit Associations that each have wholly-owned Federal Land Credit Association and Production Credit Association subsidiaries. Federal Land Credit Associations are authorized to originate long-term real estate mortgage loans. Production Credit Associations are authorized to originate short-term and intermediate-term loans. Agricultural Credit Associations are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are also authorized to provide lease financing options for agricultural purposes. AgriBank, FCB provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly, or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related service businesses.

**Farm Credit System Regulator:** The Farm Credit Administration is authorized by Congress to regulate the Farm Credit System banks and associations. We are examined by the Farm Credit Administration and certain association actions are subject to the prior approval of the Farm Credit Administration and AgriBank, FCB.

**Farm Credit Insurance Fund:** The Farm Credit Act of 1971, as amended, established the Farm Credit System Insurance Corporation to administer the Farm Credit Insurance Fund. The Farm Credit Insurance Fund is used:

- to insure the timely payment of principal and interest on Farm Credit Systemwide debt obligations
- to insure the retirement of protected borrower capital at par or stated value
- for other specified purposes

At the discretion of the Farm Credit System Insurance Corporation, the Farm Credit Insurance Fund is also available to provide assistance to certain troubled Farm Credit System institutions and for the operating expenses of the Farm Credit System Insurance Corporation. Each Farm Credit System bank is required to pay premiums into the Farm Credit Insurance Fund, based on its annual average loan principal outstanding, until the assets in the Farm Credit Insurance Fund equal 2% of Farm Credit System wide debt obligations. AgriBank, FCB, in turn, assesses the associations premiums each year based on the average principal outstanding of accrual and nonaccrual loans of the associations.

### Association

Farm Credit Services of Illinois, ACA (ACA) and its subsidiaries, Farm Credit Services of Illinois, FLCA (FLCA) and Farm Credit Services of Illinois, PCA (PCA) are lending institutions of the Farm Credit System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible shareholders for qualified agricultural purposes in the counties of Alexander, Bond, Calhoun, Cass, Champaign, Christian, Clark, Clay, Clinton, Coles, Crawford, Cumberland, DeWitt, Douglas, Edgar, Edwards, Effingham, Fayette, Ford, Franklin, Gallatin, Greene, Hamilton, Hardin, Iroquois, Jackson, Jasper, Jefferson, Jersey, Johnson, Lawrence, Logan, Macon, Macoupin, Madison, Marion, Massac, Menard, Monroe, Montgomery, Morgan, Moultrie, Perry, Platt, Pope, Pulaski, Randolph, Richland, Saline, Sangamon, Scott, Shelby, St. Clair, Union, Vermillion, Wabash, Washington, Wayne, White and Williamson in the state of Illinois.

We borrow from AgriBank, FCB and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans and provides lease financing options. The FLCA also serviced certain long-term real estate loans owned by AgriBank, FCB in our territory prior to the purchase of these assets on May 1, 2002. The PCA makes short-term and intermediate-term loans and provides lease financing options for agricultural production or operating purposes.

We offer various risk management services, including credit life, crop hail, and multi-peril crop insurance for borrowers and those eligible to borrow. We also offer fee appraisals to our members.

### Merger Activity

On July 1, 2001, Farm Credit Services of Central Illinois, FLCA and Farm Credit Services of Southeastern Illinois, FLCA merged to form Farm Credit Services of Illinois, FLCA and Farm Credit Services of Central Illinois, PCA and Farm Credit Services of Southeastern Illinois, PCA merged to form Farm Credit Services of Illinois, PCA. The merged Associations then restructured their operations to create a parent-subsidiaries structure. Under this structure, the FLCA and the PCA became wholly-owned subsidiaries of an ACA parent company, Farm Credit Services of Illinois, ACA. The restructuring provides certain advantages of an ACA structure while maintaining the tax exempt status of the FLCA. The restructuring was accounted for on a historical cost basis similar to that of a pooling of interests.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Preparing financial statements in conformity with accounting principles generally accepted requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

The following are our significant accounting policies:

**Loans:** Mortgage loan terms range from 5 to 40 years. Almost all commercial loans are made for agricultural production or operating purposes with loan terms of 10 years or less.

Loans are carried at their principal amount outstanding. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Loan fees are recorded as an offset to the related origination costs. The net amount of these fees and expenses is not material to the financial statements taken as a whole.

We place loans in nonaccrual status when:

- Principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or
- Circumstances indicate that full collection is not expected

When a loan is placed in nonaccrual status, we reverse accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan asset, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior chargeoffs. Nonaccrual loans may be returned to accrual status when:

- Principal and interest are current
- Prior chargeoffs have been recovered
- The ability of the borrower to fulfill the contractual repayment terms is fully expected, and
- The loan is not classified as doubtful or loss

**Allowance for Loan Losses:** 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
- Current economic and environmental conditions

Loans in our portfolio that are considered impaired are analyzed individually under Statement of Financial Accounting Standard No. 114 to establish a specific allowance for impaired loans. A loan is impaired when it is probable that all amounts due under the contractual terms of the loan agreement will not be collected. We measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- Nonaccrual loans
- Formally restructured loans
- Loans that are 90 days or more past due and still accruing

We record a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral. When collection is unlikely, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

We apply Statement of Financial Accounting Standard No. 5 to loans that are not individually assessed as impaired. An allowance is set up for probable and estimable credit losses as of the financial statement date.

Changes in the allowance for loan losses are recorded as "Provision for or reversal of loan losses" in the Consolidated Statement of Income.

**Investment in AgriBank, FCB:** Accounting for our investment in AgriBank, FCB is on a cost plus allocated equities basis. The investment in AgriBank, FCB is in the form of Class P common stock and Class D cumulative preferred stock.

**Premises and Equipment:** The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in current operating results. Maintenance and repairs are included in operating expense and improvements are capitalized.

**Other Property Owned:** We record other property owned, which consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, at the lower of the carrying amount or the fair value less estimated selling costs. Income and expense from operations and carrying value adjustments are included in miscellaneous income, net.

**Leases:** We have finance and operating leases. Under finance leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance income to earnings on the interest method. The carrying amount of finance leases is included in "Loans" on the Consolidated Statement of Condition and represents lease rent receivables net of the unearned income plus the residual receivable. We recognize operating lease revenue evenly over the term of the lease. We charge depreciation and other expenses against revenue as incurred. The carrying amount of operating leases is included in the "Other assets" line on the Consolidated Statement of Condition and represents the asset cost net of accumulated depreciation.

**Employee Benefit Plans:** Our employees participate in the defined benefit retirement plan of the Seventh Farm Credit District. Effective in 2002, employees who elected and all new employees are under a cash balance formula. Other employees are on a final average pay formula. The District Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting purposes and the "Entry Age Normal Cost" method for funding purposes.

We also provide certain health and life insurance benefits to eligible retired employees under District Plans. The anticipated costs of these benefits are accrued during the employees' active service period.

**Income Taxes:** The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences or temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act of 1971, as amended.

**Statement of Cash Flows:** For purposes of reporting cash flow, cash includes cash on hand.

## NOTE 3: LOANS

Loans consisted of the following:

| As of December 31, 2004 | Amount | Percentage |
|---|---|---|
| Long-term agricultural mortgage | $882,399 | 62.1% |
| Production | 204,156 | 14.4% |
| Intermediate term | 182,859 | 12.9% |
| Processing and marketing | 2,928 | 0.2% |
| Finance leases | 597 | 0.1% |
| Participations purchased | 143,793 | 10.1% |
| Other | 3,108 | 0.2% |
| Subtotal | 1,419,840 | 100.0% |
| Participations sold | (69,423) | |
| Total loans | $1,350,417 | |

| As of December 31, 2003 | Amount | Percentage |
|---|---|---|
| Long-term agricultural mortgage | $881,131 | 65.6% |
| Production | 232,022 | 17.3% |
| Intermediate term | 88,173 | 6.5% |
| Processing and marketing | 3,795 | 0.3% |
| Finance leases | 828 | 0.0% |
| Participations purchased | 133,726 | 10.0% |
| Other | 3,620 | 0.3% |
| Subtotal | 1,343,295 | 100.0% |
| Participations sold | (73,186) | |
| Total loans | $1,270,109 | |

| As of December 31, 2002 | Amount | Percentage |
|---|---|---|
| Long-term agricultural mortgage | $826,095 | 66.6% |
| Production | 219,158 | 17.7% |
| Intermediate term | 80,338 | 6.5% |
| Processing and marketing | 4,449 | 0.4% |
| Finance leases | 559 | 0.0% |
| Participations purchased | 104,129 | 8.4% |
| Other | 5,073 | 0.4% |
| Subtotal | 1,239,801 | 100.0% |
| Participations sold | (73,045) | |
| Total loans | $1,166,756 | |

We purchased long-term real estate mortgage loans and related assets from AgriBank, FCB during 2002 totaling $46 million. We had originated and serviced these loans for AgriBank, FCB. The purchase of these assets was financed through our line of credit with AgriBank, FCB.

We participate in the Illinois State Linked Deposit Program to provide reduced rate loan funds to eligible borrowers. Loans outstanding under this state program were $14,843 at December 31, 2004, $77,102 at December 31, 2003, and $103,603 at December 31, 2002.

## Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration Regulations or General Financing Agreement limitations. The following table presents information regarding participations purchased and/or sold:

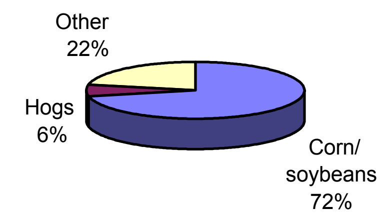
| | Participations | |
|---|---|---|
| **As of December 31, 2004** | **Purchased** | **Sold** |
| Participations purchased from / sold to: | | |
| Other Farm Credit institutions | **$143,793** | **$69,423** |
| Total participations purchased/sold | **$143,793** | **$69,423** |

## Portfolio Concentrations

We have concentrations with individual borrowers, within various agricultural commodities and within our chartered territory. At December 31, 2004, total volume plus commitments to our ten largest borrowers represented 42% of total capital.

Our agricultural commodity concentrations at December 31, 2004, were as follows:

**Concentrations of Agricultural Commodities**




The commodity concentrations have not changed materially from prior years.

We are chartered to operate in certain counties in Illinois. Approximately 11% of our total loan portfolio was in Champaign and Iroquois counties at December 31, 2004.

While these concentrations represent our maximum potential credit risk as it relates to recorded loan principal, a substantial portion of our lending activities is collateralized. This reduces our exposure to credit loss associated with our lending activities. We consider credit risk exposure in establishing the allowance for loan losses.

## Risk Loans

A loan is considered a risk loan if it is probable that we will be unable to collect all principal and interest according to the loan agreement. The following table presents risk loan information:

| As of December 31 | 2004 | 2003 | 2002 |
|---|---|---|---|
| Nonaccrual loans: | | | |
| Current as to principal and interest | **$6,973** | $8,489 | $4,702 |
| Past due | **4,295** | 18,946 | 507 |
| Total nonaccrual loans | **11,268** | 27,435 | 5,209 |
| Accruing restructured loans | **607** | 265 | 284 |
| Loans past due 90 days or more still accruing | **--** | 75 | -- |
| Total risk loans | **$11,875** | $27,775 | $5,493 |
| Volume with specific reserves | **$5,707** | $11,367 | $226 |
| Volume without specific reserves | **6,168** | 16,408 | 5,267 |
| Total risk loans | **$11,875** | $27,775 | $5,493 |
| Total specific reserves | **$1,450** | $4,130 | $191 |

| For the year ended December 31 | 2004 | 2003 | 2002 |
|---|---|---|---|
| Income on accrual risk loans | **$28** | $28 | $22 |
| Income on nonaccrual loans | **903** | 1,395 | 561 |
| Total income on risk loans | **$931** | $1,423 | $583 |
| Average recorded investment | **$15,269** | $19,618 | $6,738 |

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2004.

## NOTE 4: ALLOWANCE FOR LOAN LOSSES

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

| For the year ended December 31 | 2004 | 2003 | 2002 |
|---|---|---|---|
| Balance at beginning of year | **$25,377** | $24,223 | $22,106 |
| (Reversal of) provision for loan losses | **(20,693)** | 1,089 | 1,872 |
| Loan recoveries | **68** | 123 | 83 |
| Loan chargeoffs | **(1,419)** | (58) | (74) |
| Other | -- | -- | 236 |
| Balance at end of year | **$3,333** | $25,377 | $24,223 |

Our allowance for loan losses historically has represented a conservative view of the allowance which was reflective of the loss history in the 1980's under the regulatory supervision of the Farm Credit Administration in its role as a "safety and soundness" regulator. Accounting for loan loss allowances has recently been a particular area of focus for Bank regulators, the Securities Exchange Commission and the accounting industry standard setters. The Farm Credit System is not subject to oversight by the Securities Exchange Commission or various banking regulators. Of particular relevance to the Farm Credit System are the views of the American Institute of Certified Public Accountants and the Farm Credit Administration. The guidance proposed by the accounting standard setters and issued by the other regulators in recent years focused on the determination of the allowance for loan losses based on current loss experience rather than a more historical view of loss experience. Thus, in November 2003, Farm Credit System institutions determined that studies should be conducted during 2004 to further refine the methodologies for calculating allowances for loan losses.

In April 2004, the Farm Credit Administration, the Farm Credit System's regulator, issued an "Informational Memorandum" to Farm Credit System institutions regarding the criteria and methodologies that would be used in evaluating the adequacy of a Farm Credit System institutions' allowance for loan losses. The Farm Credit Administration endorsed the direction provided by other bank regulators and the Securities and Exchange Commission and indicated the conceptual framework addressed in their guidance would be included as part of their examination process.

We, along with other Farm Credit System institutions, completed our study during the fourth quarter of 2004 and refined our methodologies to be consistent with the guidance in the preceding paragraph. The methodology refinement resulted in a calculated allowances for loan losses that was significantly less than the previously recorded balance due to revised loss factors that are more indicative of actual loss experience in recent years and current borrower analysis. The factors considered in determining the revised level of allowance for loan loss is based on recent historical chargeoff experience adjusted for relevant environmental factors. As a result of these studies, we significantly reduced our allowance for loan losses during the fourth quarter of 2004, resulting in net reversal of provision expense of $20,693 on the statement of income for the year ended December 31, 2004.

## NOTE 5: INVESTMENT IN AGRIBANK, FCB

At December 31, 2004 we were required by AgriBank, FCB to maintain an investment equal to 2.20% of the average quarterly balance of our note payable to AgriBank, FCB. This is an increase over the previous requirement of 2.05% of the average quarterly balance of our note payable at December 31, 2003 and 1.75% of the average quarterly balance of our note payable at December 31, 2002.

The following summarizes investment balances and dividend income:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| **As of December 31:** | | | |
| Common stock | **$24,066** | $21,538 | $16,858 |
| Preferred stock | **2,322** | 4,850 | 9,530 |
| Total investment | **$26,388** | $26,388 | $26,388 |
| **For the year ended December 31:** | | | |
| Dividend income | **$ --** | $ -- | $797 |

## NOTE 6: PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

| As of December 31 | 2004 | 2003 | 2002 |
|---|---|---|---|
| Land, buildings and improvements | **$5,210** | $5,098 | $5,051 |
| Furniture and equipment | **2,838** | 2,445 | 2,738 |
| Subtotal | **8,048** | 7,543 | 7,789 |
| Less: accumulated depreciation | **(4,947)** | (4,634) | (4,655) |
| Total | **$3,101** | $2,909 | $3,134 |

## NOTE 7: NOTE PAYABLE TO AGRIBANK, FCB

Our note payable to AgriBank, FCB represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a General Financing Agreement and almost all of our assets serve as collateral. The line of credit was $1.355 billion and the outstanding principal under the line of credit was $1.124 billion as of December 31, 2004. The interest rate is adjusted monthly and was 2.7% at December 31, 2004. The maturity date is June 30, 2005 for our note payable, at which time the note will be renegotiated.

The General Financing Agreement provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. We cannot exceed these limitations without approval from AgriBank, FCB. At December 31, 2004, we were within the specified limitations and in compliance with all debt covenants.

## NOTE 8: MEMBERS' EQUITY

### Capitalization Requirements

In accordance with the Farm Credit Act of 1971, as amended, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act of 1987 and shareholder-approved capitalization bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2% of the customer's total loans or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all customers to whom a lease is issued and of all non-stockholder customers who purchase financial services. In addition, we continue to carry loans which had a 3% stock requirement at the time they were originated or when stock was converted from protected to at-risk stock. If necessary in order to meet our capital needs, the Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan/lease is made, but usually does not make a cash investment. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

### Protection Mechanisms

Under the Farm Credit Act of 1971, as amended, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If an association was unable to retire protected borrower equity at par value or stated value, the Farm Credit Insurance Fund would provide the amounts needed to retire this equity.

### Regulatory Capitalization Requirements

Under capital adequacy regulations, each association is required 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 in accordance with Farm Credit Administration Regulations is discussed below:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2004, our ratio was 15.8%.
- 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 December 31, 2004, our ratio was 15.1%.
- The core surplus ratio is average unallocated surplus less our investment in AgriBank, FCB divided by average risk-adjusted assets. At December 31, 2004, our ratio was 14.9%.

We have an agreement with AgriBank, FCB which defines how our investment in AgriBank, FCB is allocated in calculating regulatory capital ratios. According to the agreement, we include in our ratios the amount of investment in AgriBank, FCB that is in excess of the required amount. At December 31, 2004, we included 8.8%, at December 31, 2003 we included 18.4%, and at December 31, 2002 we included 36.1% of our investment in AgriBank, FCB as capital. As discussed in Note 5, the decline in the amount included correlates to the increases in the required amount of investment in AgriBank, FCB. These changes did not have a material impact on our regulatory capital ratios.

### Description of Equities

The following table presents information regarding classes and number of shares of stock and participation certificates outstanding as of December 31, 2004. All shares and participation certificates were $5.00 par value.

| As of December 31, 2004 | Shares Outstanding |
|---|---|
| Class A common stock (protected) | **68,871** |
| Class C common stock (at-risk) | **1,954,532** |
| Participation certificates (at-risk) | **20,434** |
| Series 1 participation certificates | **284** |

Under our bylaws, we are also authorized to issue Class B and Class D common stock. The Class B common stock is at-risk and nonvoting with a $5.00 par value per share, the Class D common stock is at-risk and nonvoting with a $1,000.00 par value per share, while the Series 1 participation certificate is protected and nonvoting with a $5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared during the last three years.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of the Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2004, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed pro rata to all classes of common stock and participation certificates.

In the event of impairment, losses will be absorbed by concurrent impairment of all classes of common stock and participation certificates.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

### Patronage Distributions

The Farm Credit Administration prohibits the distribution of patronage refunds to the extent that such distributions would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. We do not foresee any events that would result in this prohibition in 2005. However, we do not have a patronage program to make such distributions.

## NOTE 9: INCOME TAXES

### Provision for Income Taxes

Our provision for income taxes follows:

| For the year ended December 31 | 2004 | 2003 | 2002 |
|---|---|---|---|
| Current: | | | |
| Federal | **$415** | $784 | $715 |
| State | **95** | 175 | 163 |
| Total current | **510** | 959 | 878 |
| Deferred: | | | |
| Federal | **1,982** | (272) | 349 |
| State | **451** | (60) | 80 |
| Total deferred | **2,433** | (332) | 429 |
| Total provision for income taxes | **$2,943** | $627 | $1,307 |
| Effective tax rate | **6.9%** | 3.3% | 5.0% |

The following table quantifies the differences between the provision for income taxes and income taxes at the statutory rates:

| For the year ended December 31 | 2004 | 2003 | 2002 |
|---|---|---|---|
| Federal tax at statutory rate | **$14,544** | $6,510 | $8,846 |
| State tax, net | **368** | 75 | 159 |
| Effect of non-taxable entity | **(11,947)** | (5,974) | (7,704) |
| Other | **(22)** | 16 | 6 |
| Provision for income taxes | **$2,943** | $627 | $1,307 |

### Deferred Income Taxes

Deferred tax assets and liabilities are composed of the following:

| As of December 31 | 2004 | 2003 | 2002 |
|---|---|---|---|
| Allowance for loan losses | **$311** | $2,994 | $2,979 |
| SFAS 106 accrual | **375** | 341 | 310 |
| Leasing income | **--** | (23) | (66) |
| Accrued patronage income not received | **(107)** | (82) | (341) |
| AgriBank, FCB 2002 allocated stock | **(529)** | (527) | (527) |
| Accrued pension asset | **(239)** | (289) | (294) |
| Depreciation | **(113)** | (140) | (138) |
| Other | **(179)** | (322) | (303) |
| Net deferred tax (liabilities) assets | **($481)** | $1,952 | $1,620 |
| Gross deferred tax assets | **$704** | $3,340 | $3,293 |
| Gross deferred tax liabilities | **($1,185)** | ($1,388) | ($1,673) |

A valuation reserve for the deferred tax assets was not necessary at December 31, 2004, December 31, 2003 or December 31, 2002.

As discussed in Note 4, during 2004 we reduced the allowance for loan losses resulting in a significant reduction in our deferred tax asset.

We have not provided deferred incomes taxes on approximately $20,554 of patronage allocations received from AgriBank, FCB prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank, FCB. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $201,467 as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

## NOTE 10: EMPLOYEE BENEFIT PLANS

We participate in a District-wide defined benefit retirement plan. The plan is noncontributory and includes eligible District employees. The assets, liabilities and costs of the plan are not segregated by participating entities. Costs are allocated by a proportionate share of payroll expenses.

We recorded $341 of pension expense for the year ended December 31, 2004 and $34 for the year ended December 31, 2003. We recorded $243 of pension income for 2002. The increase in pension expense in 2004 and the change to pension expense during 2003 reflects losses on plan assets, the addition of a lump-sum payment option to the plan, and changes to the plan discount rate.

District employers also provide certain health and life insurance benefits to eligible retired employees. We recorded expenses of $166 in 2004, $158 in 2003, and $166 in 2002 for the cost of postretirement benefits other than pensions.
The measurement date is September 30 for the District-wide defined benefit and other postretirement benefit plans. While information on the District plans is not available for our association individually, the following represents the information of the postretirement benefit plans at a District level.

### Obligations and Funded Status

The obligations and funded status of the District's postretirement benefit plans follows:

| **As of December 31, 2004** | **Pension Benefits** | **Other Benefits** |
|---|---|---|
| Fair value of plan assets | **$384,225** | **$7,557** |
| Benefit obligation | **480,592** | **38,132** |
| Funded status | **($96,367)** | **($30,575)** |
| Prepaid (accrued) benefit cost recognized in the District's Statement of Condition | **$67,236** | **($42,644)** |
| **Weighted-average assumptions used to determine benefit obligations** | | |
| Discount rate | **6.00%** | **6.00%** |
| Expected return on plan assets | **8.75%** | **6.00%** |
| Rate of compensation increase | **4.50%** | **n/a** |

The accumulated benefit obligation for the pension plan was $381,119 for the year ended December 31, 2004.

### Benefits Paid, Contributions and Net Periodic Benefit Cost

Additional information on the District's plans follows:

| **For the year ended Dec. 31, 2004** | **Pension Benefits** | **Other Benefits** |
|---|---|---|
| Benefits Paid | **$15,750** | **$2,012** |
| Employer Contributions | **--** | **2,456** |
| Plan Participant Contributions | **--** | **--** |
| Net Periodic Benefit Cost | **7,430** | **2,515** |
| **Weighted-average assumptions used to determine net costs** | | |
| Discount rate | **6.50%** | **6.50%** |
| Expected return on plan assets | **8.75%** | **6.00%** |
| Rate of compensation increase | **5.00%** | **n/a** |

### Future Cash Flows

The amount of total District employer contributions expected to be paid during 2005 is $10.8 million for pension benefits and $2.3 million for other postretirement benefits.

The following benefit payments are expected to be paid by the District plans and reflect expected future service, as appropriate:

| **At December 31, 2004** | **Pension Benefits** | **Other Benefits** |
|---|---|---|
| **Year:** | | |
| 2005 | **$16,080** | **$2,913** |
| 2006 | **16,340** | **2,975** |
| 2007 | **18,740** | **3,015** |
| 2008 | **21,160** | **3,034** |
| 2009 | **22,610** | **3,051** |
| 2010 to 2014 | **164,590** | **15,395** |

### Assumed Health Care Cost Trend Rates

For measurement purposes, a 12% rate of increase in the per capita cost of covered health care benefits was assumed for 2004. The rate was assumed to decrease gradually to 6% by the year 2011 and remain at that level thereafter.

### Plan Assets

The District's pension plan asset allocation by asset category as of the measurement date of September 30, 2004 was 70.6% in equity securities, 29.0% in debt securities and .4% in other. The plan assets for postretirement plans other than pensions were all held in debt securities at September 30, 2004.

The funding objective of the plans is to achieve and maintain assets adequate to cover the accumulated benefit obligation. A Board of Trustees supervises the investment assets of the plans on behalf of the employers. The Board of Trustees is comprised of certain members of senior management and certain members of the Boards of Directors of the participating employers. The Board of Trustees employs a building block approach in determining the long-term rate of return for plan assets. Historical markets are studied and long-term historical relationships between equities and fixed income are preserved congruent with the widely-accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term portfolio return is established via a building block approach and proper consideration of diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonability and appropriateness.

The Board of Trustees employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and bank financial condition. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks as well as growth, value, and small and large capitalizations. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews.

The Board of Trustees has developed an asset allocation policy based on plan objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. The policy is long-term oriented and consistent with the risk exposure. The Board of Trustees reviews the asset mixes periodically and rebalances the portfolio mixes at any time that an asset class deviates materially from the target allocations. The current asset allocation policy of the pension plan is a target of 67%-75% of assets in equity securities, 25%-33% in debt securities and 0% to 5% in other.

### Retirement Savings Plan

We participate in a District-wide retirement savings plan. We match dollar for dollar up to 2% of employee contributions and 50 cents on the dollar on the next 4% on both pre-tax and post-tax contributions. The maximum employer match is 4%. Contributions and recorded expenses were $290 in 2004, $283 in 2003, and $276 in 2002.

### Non-Qualified Retirement Plan

We began participating in a District level non-qualified retirement plan during 2004. This plan is a benefit restoration plan which provides retirement benefits above the Internal Revenue Service compensation limit to certain highly compensated eligible employees. We recorded $32 of nonqualified pension expense for the year ended December 31, 2004. While benefit obligation information is not available for our association individually, the District level benefit obligation at December 31, 2004 was $4.7 million.

## NOTE 11: FINANCIAL ASSISTANCE

The Farm Credit System Financial Assistance Corporation was established in 1988 primarily to provide capital to institutions in the Farm Credit System experiencing financial difficulty. The issuance of $1.261 billion of 15-year U.S. Treasury-guaranteed debt provided the funding for the assistance. The interest rates on this debt ranged from 8.80% to 9.45%. The repayment of this debt and related interest is the responsibility of Farm Credit System Banks. The Banks have subsequently repaid a significant portion of this debt. At December 31, 2004 only $325 million of Farm Credit System Financial Assistance Corporation debt remains outstanding. Although these obligations of AgriBank, FCB are not our obligations, we have a significant investment in AgriBank, FCB. Accordingly, factors that affect AgriBank, FCB's financial condition affect us. We believe these matters are not likely to have a material effect on our financial condition.

## NOTE 12: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in Farm Credit Administration Regulations and are made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with other persons.

Total related party loans at December 31, 2004, amounted to $7,629 with $3,996 of new loans made and repayments of $3,931 during the year. In our opinion, none of these loans outstanding at December 31, 2004 involved more than a normal risk of collectibility.

## NOTE 13: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding which may not be 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.

We participate in commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not recognized in the financial statements. At December 31, 2004, we had commitments to extend credit of $238,365. 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 loan contract. At December 31, 2004, we had standby letters of credit of $15,649 of which $3 is included in "Other liabilities" on the Consolidated Statement of Condition at December 31, 2004. This represents the estimated fair value of liabilities for standby letters of credit issued since January 1, 2003. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

## NOTE 14: DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted market prices are generally not available for our financial instruments. Accordingly, we base fair values on:

- Judgments regarding future expected losses
- Current economic conditions
- Risk characteristics of various financial instruments
- Other factors

These estimates involve uncertainties and matters of judgment and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimating the fair value of our investment in AgriBank, FCB is not practical because the stock is not traded. As discussed in Note 2 and Note 5, the investment is a requirement of borrowing from AgriBank, FCB.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, for which it is practical to estimate that value, follows:

**Loans:** The estimate of the fair value of loan assets is determined by discounting the expected future cash flows using current interest rates. Current interest rates are estimated based on similar loans made or loans repriced to borrowers with similar credit risk. This methodology is used because no active market exists for the loans. Since the discount rates are based upon internal pricing mechanisms and other estimates, we cannot determine whether the fair values presented would equal the value negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of Farm Credit System borrowers, could render our portfolio unmarketable outside the Farm Credit System.

We segregate the loan portfolio into pools of loans with homogenous characteristics for purposes of determining fair value of accruing loans. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of nonaccrual loans, current as to principal and interest, are discounted with appropriately higher rates, reflecting the uncertainty of continued cash flows. We assume that for noncurrent nonaccrual loans, collection will result only from the sale of the underlying collateral. Fair value is estimated to equal the total net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. We use the legal obligation if the net realizable value of the collateral exceeds the legal obligation for a particular loan.

**Note Payable to AgriBank, FCB:** Estimating the fair value of the note payable to AgriBank, FCB is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank, FCB for additional borrowings with similar characteristics.

**Commitments to extend credit and letters of credit:** Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments.

The estimated fair value of our financial instruments is as follows:

| **As of December 31, 2004** | **Carrying Amount** | **Estimated Fair Value** |
|---|---|---|
| **Financial assets:** | | |
| Loans, net | **$1,347,084** | **$1,328,564** |
| **Financial liabilities:** | | |
| Note payable to AgriBank, FCB | **$1,123,968** | **$1,112,886** |
| Standby Letters of credit | **($3)** | **($3)** |
| **Unrecognized financial instruments:** | | |
| Commitments to extend credit and Letters of Credit | | **($298)** |

| As of December 31, 2003 | Carrying Amount | Estimated Fair Value |
|---|---|---|
| **Financial assets:** | | |
| Loans, net | $1,244,732 | $1,259,441 |
| **Financial liabilities:** | | |
| Note payable to AgriBank, FCB | $1,063,948 | $1,062,477 |
| Standby Letters of credit | ($25) | ($25) |
| **Unrecognized financial instruments:** | | |
| Commitments to extend credit and Letters of Credit | | ($262) |

| As of December 31, 2002 | Carrying Amount | Estimated Fair Value |
|---|---|---|
| **Financial assets:** | | |
| Loans, net | $1,142,533 | $1,174,365 |
| **Financial liabilities:** | | |
| Note payable to AgriBank, FCB | $984,057 | $995,366 |
| **Unrecognized financial instruments:** | | |
| Commitments to extend credit | | ($226) |

## NOTE 15: QUARTERLY FINANCIAL INFORMATION (Unaudited)

Quarterly consolidated results of operations for the years ended December 31, 2004, 2003 and 2002 follow:

| **2004** | **First** | **Second** | **Third** | **Fourth** | **Total** |
|---|---|---|---|---|---|
| Net interest income | **$8,035** | **$8,610** | **$8,363** | **$8,768** | **$33,776** |
| (Reversal of) provision for loan losses | **--** | **7** | **2** | **(20,702)** | **(20,693)** |
| Compensation income | **--** | **--** | **--** | **--** | **--** |
| Patronage income | **666** | **680** | **702** | **1,068** | **3,116** |
| Other expense, net | **3,644** | **3,613** | **3,720** | **3,833** | **14,810** |
| Provision for income taxes | **81** | **31** | **143** | **2,688** | **2,943** |
| Net income | **$4,976** | **$5,639** | **$5,200** | **$24,017** | **$39,832** |

| 2003 | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| Net interest income | $8,170 | $8,057 | $8,185 | $8,104 | $32,516 |
| Provision for loan losses | 97 | 977 | 15 | -- | 1,089 |
| Compensation income | -- | -- | -- | -- | -- |
| Patronage income | 725 | 736 | 695 | 590 | 2,746 |
| Other expense, net | 3,223 | 3,639 | 3,666 | 4,498 | 15,026 |
| Provision for income taxes | 198 | 79 | 195 | 155 | 627 |
| Net income | $5,377 | $4,098 | $5,004 | $4,041 | $18,520 |

| 2002 | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| Net interest income | $7,266 | $7,469 | $7,709 | $7,894 | $30,338 |
| Provision for loan losses | 29 | 766 | 408 | 669 | 1,872 |
| Compensation income | 335 | 92 | -- | -- | 427 |
| Patronage and dividend income | 218 | 200 | 198 | 8,939 | 9,555 |
| Other expense, net | 2,698 | 3,181 | 2,850 | 3,702 | 12,431 |
| Provision for income taxes | 245 | 66 | 155 | 841 | 1,307 |
| Net income | $4,847 | $3,748 | $4,494 | $11,621 | $24,710 |

The (reversal of) provision for loan losses in 2004 includes a significant fourth quarter 2004 reversal resulting from a refined methodology, as discussed in Note 4.

# DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

*Farm Credit Services of Illinois, ACA*
*(In whole dollars, except as noted)*

## DESCRIPTION OF BUSINESS

General information regarding the business is discussed in Note 1 of this annual report.

The description of significant business developments, if any, is discussed in the “Management's Discussion and Analysis" portion of this annual report.

## DESCRIPTION OF PROPERTY

The following table sets forth certain information regarding our properties:

| Location | Description | Usage | Lease expiration date | Monthly lease fee |
|---|---|---|---|---|
| Mt. Vernon | Leased | Processing Ctr. | 7/31/2006 | $1,611 |
| Albion | Owned | Branch | | |
| Belleville | Owned | Branch | | |
| Benton | Leased | Branch | 2/28/2006 | 620 |
| Charleston | Leased | Branch | 3/31/2009 | 1,766 |
| Effingham | Owned | Branch | | |
| Harrisburg | Owned | Branch | | |
| Highland | Leased | Branch | 12/31/2007 | 1,650 |
| Lawrenceville | Owned | Branch | | |
| Nashville | Leased | Branch | 6/30/2005 | 733 |
| Paris | Owned | Branch | | |
| Red Bud | Leased | Branch | 1/31/2006 | 880 |
| Shelbyville | Leased | Branch | 12/31/2006 | 1,500 |
| Vandalia | Leased | Branch | 3/31/2009 | 650 |
| Champaign | Owned | Headqtrs/Branch | | |
| Carlinville | Owned | Branch | | |
| Decatur | Leased | Branch | 6/30/2011 | 3,750 |
| Hillsboro | Leased | Branch | 2/28/2007 | 575 |
| Jacksonville | Owned | Branch | | |
| Jerseyville | Leased | Branch | 3/31/2013 | 2,066 |
| Lincoln | Owned | Branch | | |
| Springfield | Owned | Branch | | |
| Taylorville | Owned | Branch | | |
| Watseka | Owned | Branch | | |

## LEGAL PROCEEDINGS

Information regarding legal proceedings is discussed in Note 9 and Note 13 of this annual report. We were not subject to any enforcement actions at December 31, 2004.

## DESCRIPTION OF CAPITAL STRUCTURE

Information regarding our capital structure is discussed in Note 8 of this annual report.

## DESCRIPTION OF LIABILITIES

Information regarding liabilities is discussed in Note 7 and Note 13 of this annual report.

## SELECTED FINANCIAL DATA

The "Consolidated Five-Year Summary of Selected Financial Data” is presented at the beginning of this annual report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the "Management's Discussion and Analysis” portion of this annual report.

## BOARD OF DIRECTORS

Information regarding directors who served as of December 31, 2004, including business experience in the last five years follows:

**Lance Beery,** Chairperson of the Board, is a self-employed grain and livestock farmer. His term on the board expires in 2005.

**Ben D. Conrady,** Vice Chairperson of the Board, is a self-employed grain and livestock farmer. He also serves as a Broadwell Township auditor. His term on the board expires in 2005.

**Don Barttelbort,** is a self-employed grain farmer and livestock farmer. His term on the board expires in 2005.

**Kent Brinkmann,** is a self-employed grain farmer. His term on the board expires in 2007.

**Wm. David Champion, Jr.,** Appointed Director, is the president and CEO of the Eastern Illinois Electric Cooperative in Paxton, IL. He serves as a director of the Soyland Power Cooperative, Inc. and as an alternate director of Continental Cooperative Services, both of which are electricity wholesalers. He also serves on the board of directors of Cooperative Balloon Associates, which is involved in the promotion of electric cooperatives. His term on the board expires in 2007.

**Jack E. Crumrin,** is a self-employed grain and livestock farmer. His term on the board expires in 2007.

**Donald D. Dice,** is a self-employed grain farmer. He serves as Associate Director of Vermilion County Soil and Water Conservation District in Danville, IL, which is engaged in soil and water conservation. His term on the board expires in 2005.

**J. Dale Edwards,** is a self-employed grain and livestock farmer and substitute teacher. He also serves as a director for the Sangamon County Fair. In addition to that he is the clerk for the Lanesville township. His term on the board expires in 2006.

**Dennis Frey,** is a self-employed grain farmer. His term on the board expires in 2005.

**Dr. Kim Harris,** Appointed Director, is an Associate Professor in AgriBusiness Economics at Southern Illinois University in Carbondale, IL. He also serves as a director of Lahoil, Inc. in Mattoon, IL, which is engaged in oil production. His term on the board expires in 2005.

**Jack Hastings,** is a self employed grain farmer. He also serves as a director for the Lincoln Farm Business Farm Management. His term expires in 2006.

**Mark Miller,** is a self-employed grain farmer and park commissioner with the Chestnut-Beason Park District Board. His term on the board expires in 2006.

**Robert Pharis,** is a self-employed grain and livestock farmer and township road commissioner. His term on the board expires in 2007.

**Russell Roosevelt,** is a self-employed grain and livestock farmer. His term on the board expires in 2007.

**John Schable,** is a self-employed grain farmer. His term on the board expires in 2006.

**Donald Sievers,** is a self-employed grain and livestock farmer and seed dealer. His term on the board expires in 2006.

**Larry L. Thomas**, is a self-employed grain and livestock farmer. He serves as vice president of the Mechanicsburg Farmers Grain Co. in Mechanicsburg, IL, and is a dealer for Golden Harvest Seeds in Stonington, IL. He is also president of the Fire Protection District in Edinburg, IL. His term on the board expires in 2007.

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. The Board of Directors has adopted a rate of $350 per day. Board members also receive a $1,000 per quarter retainer fee except for the chairman and vice chairman, whose retainer fee was $1,500 per quarter.

Information regarding compensation for each director who served during 2004 follows:

| | Number of Days Served | | |
|---|---|---|---|
| | Board Meetings | Other Official Activities | Total Compensation Paid in 2004 |
| Beery, Lance | 12 | 15 | $15,450 |
| Conrady, Ben D. | 12 | 13 | 14,750 |
| Barttelbort, Don | 12 | 3.5 | 9,425 |
| Brinkmann, Kent | 12 | 10 | 11,700 |
| Champion, Wm. David Jr. | 11 | 10 | 11,350 |
| Crumrin, Jack E. | 12 | 7 | 10,650 |
| Dice, Donald D. | 12 | 5.5 | 10,125 |
| Edwards, J. Dale | 12 | 5.5 | 10,125 |
| Frey, Dennis | 12 | 10.5 | 11,875 |
| Harris, Dr. Kim | 10 | 12 | 11,700 |
| Hastings, Jack | 12 | 8 | 11,000 |
| Miller, Mark | 12 | 5.5 | 10,125 |
| Pharis, Robert | 12 | 6.5 | 10,475 |
| Roosevelt, Russell | 12 | 5.5 | 10,125 |
| Schable, John | 12 | 18.5 | 14,675 |
| Sievers, Donald | 12 | 2 | 8,900 |
| Thomas, Larry L. | 12 | 5.5 | 10,125 |
| Total | 201 | 143.5 | $192,575 |

## SENIOR OFFICERS

The senior officers include:

Ronald W. Frenn, Chief Executive Officer
David M. Owens, Chief Financial Officer, Executive Vice President
Donald J. Olson, Chief Credit Officer
Loren J. Leskis, Sr. Vice President, Field Operations
Aaron Johnson, Sr. Vice President, Strategic Initiatives

All of the senior officers have been with our association for the past five years.

A summary of compensation paid to the most highly compensated officers including the five senior officers previously noted follows (in thousands):

| Name of individual | Year | Salary | Bonus | Deferred/ Perquisites | Other | Total |
|---|---|---|---|---|---|---|
| Ronald W. Frenn | 2004 | $285 | $119 | $9 | $ -- | $413 |
| | 2003 | 266 | 110 | 8 | -- | 384 |
| | 2002 | 251 | 105 | 5 | -- | 361 |
| Aggregate number of Senior Officers (Includes CEO): | | | | | | |
| Five | 2004 | $779 | $285 | $11 | $ -- | $1,075 |
| Five | 2003 | 744 | 269 | 9 | -- | 1,022 |
| Five | 2002 | 696 | 235 | 7 | -- | 938 |

Shareholders may request information on the compensation paid during 2004 to the individuals listed in the preceding table whose compensation exceeded $50,000.

Senior officer's incentives are paid annually based on performance criteria established by the Board of Directors. The criteria includes return on assets, loan volume, credit quality, personal objectives and performance ratings. We calculate the incentives after the end of the plan year (the plan year is the calendar year). We pay out the incentives within 90 days of year-end.

## TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

Information regarding related party transactions is discussed in Note 12 of this annual report.

## TRAVEL, SUBSISTENCE AND OTHER RELATED EXPENSES

Directors and senior officers are reimbursed for reasonable travel, subsistence and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at 2101 West Park Court, P.O. Box 3849, Champaign, Illinois, 61821, (217) 352-1378. The total directors' travel, subsistence and other related expenses were $71 thousand in 2004, $40 thousand in 2003, and $57 thousand in 2002.

## INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

No material events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2005 or at any time during 2004.

## SHAREHOLDER PRIVACY

Farm Credit Administration Regulations protect shareholders' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our shareholders not normally contained in published reports or press releases.

## RELATIONSHIP WITH INDEPENDENT AUDITORS

There were no changes in independent auditors since the last annual report to shareholders and we are in agreement with the opinion expressed by the independent auditors.

## FINANCIAL STATEMENTS

The "Report of Management", "Report of Independent Auditors," "Consolidated Financial Statements", and "Notes to Consolidated Financial Statements" are presented prior to this portion of the annual report.

## EQUAL EMPLOYMENT OPPORTUNITY

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, national origin, religion, age, sex, sexual orientation, disability, marital status, veteran status, public assistance status, or any other condition or status covered by law. We comply with all state and local equal employment opportunity regulations. We conduct all personnel decisions and processes relating to our employees and job applicants in an environment free of discrimination and harassment.

# Farm Credit Services of Illinois, ACA

## Funds Held Program

The Associations offer a Funds Held Program (Funds Held) that provides for customers to make advance payments on designated real estate and intermediate term loans. The following terms and conditions apply to all Funds Held unless the loan agreement, or related documents, between the Associations and customer provide for other limitations.

**Payment Application**

Loan payments received by the Associations before the loan has been billed will normally be placed into Funds Held and applied against the next installment due. Loan payments received after the loan has been billed will be directly applied to the installment due on the loan and related charges, if any. Funds received in excess of the billed amount will be placed into Funds Held unless the customer has specified the funds to be applied as a special prepayment of principal.

When a loan installment becomes due, monies in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied first. If the balance in Funds Held does not fully satisfy the entire installment, the customer must pay the difference by the installment due date.

**Account Maximum**

The amount in Funds Held may not exceed the unpaid principal balance of the loan.

The following limits also apply:

- Multi Flex Option Loans - Up to 100% of the loan's outstanding balance or the next payment amount, whichever is greater.
- Flex Option Loans - No more than 10% of the loan's original balance.
- Exceptional Rate Option Loans - No more than 10% of the loan's original balance.

**Interest Rate**

Interest will accrue on Funds Held at a simple rate of interest that may be changed by the Associations from time to time. The interest rate may never exceed the interest rate charged on the related loan. The current interest rate is based upon the following criteria:

- Real estate loans and intermediate term loans are paid a rate of interest equal to the loan rate.

Interest rates are currently reported on each customer's year end loan statement.

**Withdrawals**

Funds in Funds Held may be available to be returned to Borrowers upon request. Members may request up to twelve withdrawals in any twelve-month period. The minimum withdrawal amount will be $500.00 or the balance in the Funds Held account, whichever is less.

**Association Options**

In the event of default on any loan or if the Associations discontinue their Funds Held program, the Associations may apply funds in the account to the unpaid loan balance and other amounts due, and shall return any excess funds to the customer.

**Uninsured Account**

Funds Held is not a depository account and is not insured. In the event of liquidation of the Associations, customers having balances in Funds Held shall be notified according to regulations.

**Questions**: Please direct any questions regarding Funds Held to your local FCS representative.

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