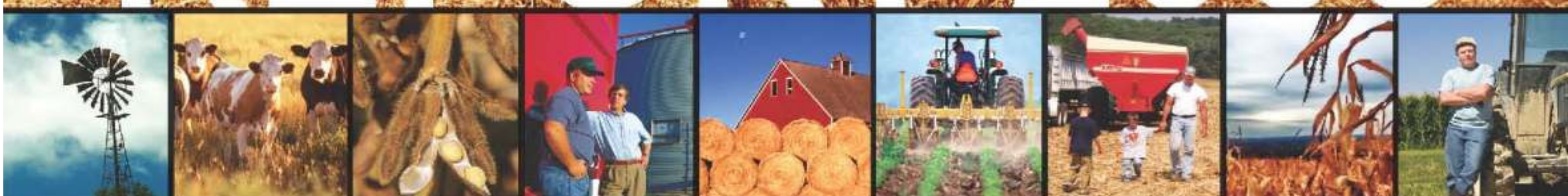
ANNUAL REPORT 2008



Farm Credit Services
OF ILLINOIS
We Understand

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Farm Credit Services of Illinois, ACA

AgriBank, FCB's financial condition and results of operations materially affect members' 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 1100 Farm Credit Drive, Mahomet, Illinois 61853, (217) 590-2200 or contact AgriBank, FCB at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to AGRIBANKMN@AGRIBANK.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 annual report is available on our website 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the year. The quarterly reports are available 40 days after the end of each calendar quarter.

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Dear Farm Credit Customer,

Change and uncertainty are simply a part of agriculture. You may remember the optimism that existed at this time last year. Commodity prices were good and expected to improve; input costs were on the rise, but there was optimism about improved margins. Livestock operators were feeling the pinch of higher feed costs, but there was hope of some downsizing and price improvements. Well, the rest is history. Mother Nature dealt the first blow with unrelenting spring rains. Weather problems are always possible, but the spring of 2008 was an exception. The rain just kept coming and impacted most of our service area. By mid-year, both commodity grain prices and farm input costs skyrocketed and set new records. Then, the global financial crisis sent commodity prices spiraling back down while leaving input costs at uncomfortable levels. Through all of this turmoil, Illinois still delivered a very strong corn and soybean harvest. The pork industry sustained financial losses in each quarter of 2008 while managing record feed price volatility and decreasing global demand during the world's economic slowdown.

In response to the challenging spring planting season, Farm Credit Services of Illinois established a low-interest (3.5% rate for up to six months) *Weather The Storm* operating loan program to provide financial relief to farmers. In total, 1,157 loans were enrolled in the program with operating loan commitments totaling more than $96 million. While this relief did not offset all of the escalating input costs, it did help pay some of the bills.

Despite the considerable challenges of 2008, Farm Credit Services of Illinois experienced another year of exceptional financial results. The escalating land values and input costs created unprecedented demand for credit. In fact, the loan portfolio grew by more than $421 million, a 21% increase over 2007. This level of growth requires a tremendous amount of capital. We were able to meet the overall loan demand and retain a strong capital position by participating a large pool of loans to our affiliate bank; Agribank, in St Paul. This transaction provided the necessary capital while maintaining the equivalent level of earnings on the pool of loans participated.

By the end of the year, the Association owned and managed (through the AgriBank capital management initiative) more than $2.4 billion of loans. This incredible growth did not come at the expense of declining credit quality. In fact, the quality of the Association loan portfolio remains very strong at 98.71% acceptable. Quite an accomplishment considering the status of the financial industry overall. Our crop insurance business also set new records with more than $48 million of crop and hail insurance premiums on 1,605,000 acres. In total, as an association, we recorded nearly $37 million of net earnings in 2008, while maintaining competitive interest rates in the market place for our customer owners. We are pleased to present you with these outstanding 2008 financial results.

Another highlight of 2008 was relocating our Association's central office from Champaign to a significantly larger and newly renovated facility in Mahomet. We are proud to be based in a prominent building that is highly visible and easily accessible. The new facility provides ample room to grow in the coming years and it can accommodate up to 125 attendees at meetings or conferences held by Farm Credit Services or other agricultural groups.

We are once again optimistic that the Association and our members will have a financially solid year in 2009. Agriculture is the one bright spot in the domestic and global financial markets and we should be proud of that. The current global recession and financial crisis is expected to continue and there is every reason to believe the agricultural economy will eventually be impacted by these events. Even as we anticipate uncertain and challenging times in the future, the Association and the Farm Credit System are well positioned to continue delivering on our mission of providing competitive credit and related services to agriculture and Rural America.

Your Board of Directors and management team is committed to serving the ever-changing needs of our customer-owners in what is sometimes an unpredictable economy or environment. Thank you for your commitment to Farm Credit Services of Illinois. We value your membership as a shareholder and customer and we wish you a successful 2009.

Sincerely,

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

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

February 27, 2009

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

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

	2008	2007	2006	2005	2004
Statement of Condition Data					
Loans	**$1,965,059**	$2,007,552	$1,612,209	$1,417,432	$1,350,417
Allowance for loan losses	**5,805**	2,278	1,725	2,044	3,333
Net loans	**1,959,254**	2,005,274	1,610,484	1,415,388	1,347,084
Investment in AgriBank, FCB	**77,814**	40,343	32,342	26,885	26,388
Other property owned	**7**	7	7	7	7
Other assets	**42,644**	53,695	44,947	36,888	27,092
Total assets	**$2,079,719**	$2,099,319	$1,687,780	$1,479,168	$1,400,571
Obligations with maturities of one year or less	**$1,707,239**	$1,764,024	$1,381,037	$1,196,233	$1,137,162
Total liabilities	**1,707,239**	1,764,024	1,381,037	1,196,233	1,137,162
Protected members' equity	**41**	50	64	67	346
Capital stock and participation certificates	**7,156**	6,759	6,401	6,237	9,875
Unallocated surplus	**365,283**	328,486	300,278	276,631	253,188
Total members' equity	**372,480**	335,295	306,743	282,935	263,409
Total liabilities and members' equity	**$2,079,719**	$2,099,319	$1,687,780	$1,479,168	$1,400,571
Statement of Income Data					
Net interest income	**$45,618**	$41,884	$37,493	$35,483	$33,776
Provision for (reversal of) loan losses	**3,723**	521	(140)	(1,275)	(20,693)
Patronage and dividend income	**9,045**	4,972	3,837	3,580	3,116
Other expense, net	**12,888**	17,301	16,689	16,018	14,810
Provision for income taxes	**1,255**	826	1,134	877	2,943
Net income	**$36,797**	$28,208	$23,647	$23,443	$39,832
Key Financial Ratios					
Return on average assets	**1.8%**	1.6%	1.6%	1.7%	3.1%
Return on average members' equity	**10.4%**	8.8%	8.0%	8.6%	17.0%
Net interest income as a percentage of average earning assets	**2.4%**	2.4%	2.6%	2.7%	2.7%
Members' equity as a percentage of assets	**17.9%**	16.0%	18.2%	19.1%	18.8%
Net chargeoffs as a percentage of average loans	**--**	--	--	--	0.1%
Allowance for loan losses as a percentage of loans	**0.3%**	0.1%	0.1%	0.1%	0.2%
Permanent capital ratio	**13.7%**	13.8%	15.4%	16.0%	15.8%
Total surplus ratio	**13.3%**	13.4%	15.0%	15.6%	15.1%
Core surplus ratio	**13.3%**	13.4%	15.0%	15.6%	14.9%

No income was distributed to members in the form of cash, dividends, stock or allocated surplus during these time periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farm Credit Services of Illinois, ACA

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.

Forward-Looking Information

Certain sections of this Annual Report contain forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipates", "believes", "could", "estimates", "may", "should", "will", or other variations on these terms are intended to identify such forward-looking statements. These statements are based on assumptions and analyses made in light of experience, historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties; many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, and economic conditions and developments in the United States and abroad,
- fluctuations in the agricultural and general economies,
- periodically occurring weather-related conditions and plant and animal disease that impact agricultural productivity and income and consumer demand,
- changes in United States government support of the agricultural industry, and
- bio-terrorism and other terrorism.

Loan Portfolio

Loan volume totaled $2.0 billion at December 31, 2008. The changes in loan volume for the last two years were as follows (in thousands):

Change in loan volume	**2008 vs. 2007**		2007 vs. 2006	
Accrual				
Mortgage	**($174,362)**	**(11.4%)**	$295,316	23.8%
Commercial	**109,668**	**23.4%**	99,263	26.8%
Nonaccrual	**22,201**	**757.5%**	764	35.3%
Total loans	**($42,493)**	**(2.1%)**	$395,343	24.5%

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

Growth in loan volume was strong in all segments of the portfolio during 2008. Marketplace conditions offered exceptional opportunities in the capital markets portfolio.

Portfolio Distribution

We are chartered to operate in certain counties in Illinois. Approximately 6.8% of our total loan portfolio was in Champaign county at December 31, 2008. No other counties had more than 5% concentration.

Our portfolio is heavily concentrated in corn and soybeans, representing approximately 60.0% 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.

Financial Market Volatility

The System continues to fulfill its mission and be a reliable source of debt capital for the farmers, ranchers and other rural businesses that we serve. However, during the second half of 2008, the culmination of negative economic developments in the global financial markets created a high level of volatility and uncertainty among global financial institutions in general. This volatility has constrained the System's ability to issue debt in the preferred maturities and structures that have traditionally been used to fund our loan portfolios. However, the System has been able to issue debt with a broad enough range of maturities and structures to allow the AgriBank District to continue to offer our complete array of loan products. Responses by the Federal Government, including explicit actions to protect the housing GSEs and to capitalize and guarantee the liabilities of many commercial banks, have had an unintended consequence of increasing our spread over Treasury rates relative to these institutions and reducing our ability to issue debt at preferred maturities and structures. During December 2008 and into January 2009, the spreads to Treasuries have narrowed significantly from levels seen in the fourth quarter of 2008, but still remain "wide" of housing GSE and government guaranteed bank debt. Because of the System's sound financial condition, we expect to continue to issue debt securities as necessary to meet our funding needs. However, spreads relative to Treasuries and swap rates are expected to remain at higher levels than our historical experience.

Agricultural and Economic Conditions

The Food, Conservation, and Energy Act of 2008 (FCEA/farm bill) was enacted into law in June 2008. FCEA includes significant federal financial support for wheat, feed grains, cotton, rice, oilseeds, and dairy, largely continuing the same total level of financial support to agriculture, while changing the distribution and methods of allocating such support. FCEA also contains new, expanded assistance to certain specialty crops, and added price support and trade protection for domestically produced sugar. FCEA continues the direct payment, loan rate, and countercyclical payments (CCP) programs from previous farm support legislation, but the levels of support provided by each program have changed. Also, FCEA provides a new income support program called Average Crop Revenue Election (ACRE).

Strong agricultural economic conditions in 2008 were the result of record high prices for agricultural commodities and the continued positive impact of government programs. The USDA reported $86.8 billion in net farm income in 2007 representing a significant increase over the reported $59.0 billion in net farm income in 2006, and 42% higher than the 10-year average net income of $61.1 billion. Increases in income were due to higher agricultural commodity prices, partially offset by increases in agricultural production costs, including fuel, land, fertilizer and pesticides. Net farm income is forecast to be $86.9 billion (down from $96.6 billion previously forecasted) in 2008 but virtually unchanged from 2007. Net cash income, a more critical statistic for lenders, is forecast to be $90.7 billion in 2008, a $3.3 billion

(4%) increase over 2007 net cash income. Sales of 2007 crops in 2008 account for the larger increase in net cash income compared to the increase in net farm income.

Crop production in our 60-county territory was greatly influenced by near record precipitation during the spring planting season in 2008. Major rivers overflowed their banks and levees and caused flooding over bottom ground. Most other areas experienced wet conditions, and ponds were present in fields until mid-summer. Planting was delayed at least 3 weeks in most regions, and in many locations planting was not complete until mid-July. After the acreage dried, growing conditions were prime across our territory resulting in average to above average yields on well drained or higher elevated farmland. Less drained farmland and bottom ground experienced reduced yields, and in some locations acreage was never planted and remained idle. The wet planting season resulted in a harvest, that while producing average yields, was much later than normal and continued into late November.

Analysis of Risk

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

As of December 31	**2008**	2007	2006
Loans:			
Accruing restructured	**$54**	$124	$317
Past due 90 days or more still accruing	**1,570**	197	219
Nonaccrual	**25,132**	2,931	2,167
Total risk loans	**26,756**	3,252	2,703
Other property owned	**7**	7	7
Total risk assets	**$26,763**	$3,259	$2,710
Risk loans			
as a percentage of total loans	**1.3%**	0.2%	0.2%
Total delinquencies			
as a percentage of total loans	**0.3%**	0.2%	0.3%

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

The increase in nonaccrual loan volume was due to two large participation loans that were moved to nonaccrual status at the end of the year. The volume of nonaccrual loans remained at an acceptable level at December 31, 2008, and represented 1.3% of our total portfolio. At December 31, 2008, 93.7% of our nonaccrual loans were current.

The credit quality of our portfolio declined during 2008. Adversely classified assets increased from .3% of the portfolio at December 31, 2007, to 1.6% of the portfolio at December 31, 2008. Adversely classified assets are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, we use various government guarantee programs to reduce the risk of loss. At December 31, 2008, $15.8 million of our loans were, to some level, guaranteed under these government 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, and
- current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

As of December 31	**2008**	2007	2006
Allowance as a percentage of:			
Loans	**0.3%**	0.1%	0.1%
Nonaccrual loans	**23.1%**	77.7%	79.6%
Total risk loans	**21.7%**	70.0%	63.8%
Net chargeoffs as a percentage			
of average loans	**--**	--	--
Adverse assets to risk funds	**10.3%**	2.7%	2.8%

During the 4th quarter the allowance for loan loss was increased due to the specific allowance needed on ethanol participation loans, along with the following factors affecting the portfolio in total:

- General economy has been in decline since December 2007 and is currently in a deep recession,
- Crisis in the financial markets, and
- Uncertainty in the agricultural economy due to extreme volatility in input and commodity prices.

Therefore, in our opinion, the allowance for loan losses was reasonable in relation to the probable losses in the loan portfolio at December 31, 2008.

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 (YBS). 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 thousand in annual gross sales of agricultural or aquatic products.

Demographics

We have used a special tabulation of the 2002 USDA Census of Agriculture as our source of demographic data for comparison to our performance in serving young, beginning, and small farmers and ranchers (YBS). This special tabulation included only those farms in our chartered territory that have debt and annual gross sales of at least $10,000.

The following table is a comparison of our results compared to the 2002 USDA Census data for our territory:

Percentages by Number			
As of December 31, 2008	Young	Beginning	Small
FCS of Illinois	15.51%	16.10%	45.99%
2002 Census data	12.90%	3.95%	73.60%

As shown in the above table, based on year-end numbers, our business activity with young and beginning farmers exceeds the demographics of the marketplace, whereas our business activity with small farmers is below the demographics of the marketplace. Although the business activity with the small farmers was below the census data, it still exceeded our targets as established in our business plan.

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 and ranchers. We will accomplish this mission by:

- providing discounted interest 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 Agency,
- establishing both quantitative portfolio targets and qualitative goals for services offered and,
- continuing to participate in numerous outreach programs which benefit YBS farmers.

Quantitative Targets and Qualitative Goals

Quantitative targets and qualitative goals for YBS loans are established on an annual basis for the succeeding 3 years. The following targets and goals were established for 2008:

Young Beginning Farmers and Ranchers - Target and Goals for the Year 2008

Category	Number of New Loans Closed	Number of Loans Outstanding	Total Loan Volume (000)	Percent of Total Loans
Young Farmer	750	2,500	$240,000	10.0%
Beginning Farmer	750	2,500	240,000	10.0%
Small Farmer	2,700	8,000	545,000	45.0%
Outreach Program - Goal for total number of activities			50	

As of December 31, 2008, all targets and goals for the YBS program were met.

The following tables detail the level of new business generated in 2008 plus the level of business outstanding as of December 31, 2008, both by number of loans and by volume for young and beginning farmers and ranchers:

Young Beginning Farmers and Ranchers - Gross New Business during 2008

Category	Number of Loans	Percent Total	Volume Outstanding	Percent Total
Total gross new loans and commitments made during 2008(a)	15,958	100.0%	$1,893,634	100.0%
Total loans and commitments made to young farmers and ranchers	2,139	13.4%(b)	189,688	10%(b)
Total loans and commitments made to beginning farmers and ranchers	1,944	12.2%(c)	195,004	10.3%(c)

(a) For FCBs and CoBank ACB, amounts reported on this line are to exclude direct loans to associations. CoBank, ACB should also exclude direct loans to cooperatives.
(b) Line 2 / line 1 * 100 = 0.00%
(c) Line 3 / line 1 * 100 = 0.00%

Young Beginning Farmers and Ranchers - Number/Volume of Loans Outstanding

Category	Number of Loans	Percent Total	Volume Outstanding	Percent Total
Total loans and commitments outstanding at year end(a)	25,183	100.0%	$2,775,772	100.0%
Young farmers and ranchers	3,905	15.5%(b)	377,664	13.6%(b)
Beginning farmers and ranchers	4,055	16.1%(c)	434,148	15.6%(c)

(a) For FCBs and CoBank ACB, amounts reported on this line are to exclude direct loans to associations. CoBank, ACB should also exclude direct loans to cooperatives.
(b) Line 2 / line 1 * 100 = 0.00%
(c) Line 3 / line 1 * 100 = 0.00%

The following tables detail the level of new business generated in 2008 plus the level of business outstanding as of December 31, 2008, both by number of loans and by volume for small farmers and ranchers:

Small Farmers and Ranchers* - Gross New Business by Loan Size
December 31, 2008

Number/Volume Outstanding	$0 to $50,000	$50,001 to 100,000	$100,001 to 250,000	$250,001 and greater
Total number of new loans and committments made during 2008	5,711	3,837	2,897	3,513
Total number of loans made to small farmers and ranchers during 2008	3,474	1,315	666	170
Percentage	60.8%	34.3%	23.0%	4.8%
Total gross loan volume of all new loans and committments made during 2008(a)	$71,863	$185,955	$246,856	$1,388,960
Total gross loan volume to small farmers and ranchers	41,562	58,941	65,499	54,244
Percentage	57.8%	31.7%	26.5%	3.9%

* Less than $250,000 in annual gross sales.
(a) For FCBs and CoBank ACB, amounts reported on this line are to exclude direct loans to associations. CoBank ACB

Small Farmers and Ranchers* - Number/Volume of Loans Outstanding by Loan size
December 31, 2008

Number/Volume Outstanding	$0 to $50,000	$50,001 to 100,000	$100,001 to 250,000	$250,001 and greater
Total number of loans and commitments outstanding at year end(a)	11,379	6,051	4,951	2,802
Total number of loans to small farmers and ranchers	6,900	2,711	1,580	391
Percentage	60.6%	44.8%	31.9%	14.0%
Total loan volume outstanding at year end(a)	$170,434	$355,951	$595,086	$1,654,301
Total loan volume to small farmers and ranchers	102,865	159,851	217,418	170,986
Percentage	60.4%	44.9%	36.5%	10.3%

* Less than $250,000 in annual gross sales.
(a) For FCBs and CoBank ACB, amounts reported on this line are to exclude direct loans to associations. CoBank ACB should also exclude direct loans to cooperatives.

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. In 2008, in conjunction with other agribusiness sponsors, we helped coordinate the “Cultivating Master Farmers” program whereby young farmers are brought together with Prairie Farmer “Master Farmers” to participate in roundtable discussions to exchange ideas. This program was initially launched in 2005 and the first participating class of 10 young farmers and 6 master farmers “graduated” in the spring of 2007. The program was continued with a new class of 10 young farmers and 10 master farmers and plans are in place to recruit a third class of participants in the spring of 2009.

We participated in a total of 94 outreach activities in 2008, surpassing our goal of 50 for the year.

Safety and Soundness of the Program

In order to control 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 12 and Note 13.

Results of Operations

The following table illustrates profitability information (in thousands):

For the year ended December 31	**2008**	2007	2006
Net income	**$36,797**	$28,208	$23,647
Return on average assets	**1.8%**	1.6%	1.6%
Return on average members' equity	**10.4%**	8.8%	8.0%

Changes in these ratios relate directly to:

- changes in income as discussed below,
- changes in assets discussed in the Loan Portfolio Section, and
- changes in members' equity discussed in the Capital Adequacy Section.

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

Increase (decrease) in net income	**2008 vs. 2007**	2007 vs. 2006
Net interest income	**$3,734**	$4,391
Provision for (reversal of) loan losses	**(3,202)**	(661)
Patronage and dividend income	**4,073**	1,135
Financially related services and miscellaneous income, net	**6,763**	968
Operating expenses	**(2,350)**	(1,580)
Provision for income taxes	**(429)**	308
Total change in net income	**$8,589**	$4,561

Net Interest Income

Net interest income was $45.6 million for the year ended December 31, 2008. The following table quantifies changes in net interest income (in thousands):

Changes in net interest income due to:	**2008 vs. 2007**	2007 vs. 2006
Changes in volume	**$3,961**	$5,867
Changes in rates	**(146)**	(1,385)
Changes in nonaccrual income and other	**(81)**	(91)
Net change	**$3,734**	$4,391

Net interest income included income on nonaccrual loans that totaled $247 thousand in 2008, $153 thousand in 2007, and $133 thousand in 2006. 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 2.4% in 2008, 2.4% in 2007, and 2.6% in 2006.

Provision for (Reversal of) Loan Losses

The increase in Provision for (reversal of) loan losses was due to an increase in loan volume along with the need for specific allowance on large ethanol loan participations.

Patronage Income

We receive three different types of discretionary patronage from AgriBank. AgriBank's Board of Directors sets the level of patronage for each of the following:

- patronage on our note payable with AgriBank,
- patronage based on the net earnings of the pool of loans sold to AgriBank in May of 2008, and
- equalization income based on our preferred stock investment in AgriBank.

We received patronage income based on the average balance of our note payable to AgriBank. AgriBank's Board of Directors sets the patronage rate. We recorded patronage income of $4.4 million in 2008, $5.0 million in 2007, and $3.8 million in 2006. Changes in our note payable to AgriBank and patronage rate changes caused the variances in the patronage income amounts. The patronage rates paid by AgriBank were 27 basis points in 2008, 34 basis points in 2007, and 32 basis points in 2006.

We also received patronage income related to our sale of a participation interest in certain real estate loans to AgriBank, as described in the Loan Portfolio Section of this report. As part of that agreement, we received patronage income in an amount that approximates the net earnings of those loans. Similar to the patronage on our note payable described above, we also received 27 basis points on the estimated note payable of the asset pool loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees/costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. We recorded asset pool patronage income of $4.6 million in 2008.

We also received, as part of AgriBank's patronage program, equalization income based on the quarterly average daily balance of our preferred stock investment in AgriBank. AgriBank's Board of Directors sets the patronage rates. As of December 31, 2005, we no longer had any preferred stock in AgriBank.

Financially Related Services and Miscellaneous Income, Net

The increase in financially related services and miscellaneous income, net is primarily due to an increase in fee income from our Capital Markets area along with an increase in multi-peril crop insurance premiums.

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 (in thousands):

For the year ended December 31	**2008**	2007	2006
Salaries and benefits	**$14,946**	$14,228	$13,471
Purchased and vendor services	**1,709**	1,523	1,964
Advertising and promotion	**1,282**	1,294	1,162
Communications	**617**	506	271
Occupancy and equipment	**1,970**	1,464	1,552
Examination	**540**	516	513
System insurance	**2,921**	2,570	2,148
Other	**3,430**	2,964	2,404
Total	**$27,415**	$25,065	$23,485
Operating rate	**1.4%**	1.5%	1.6%

The operating expense increases were primarily related to an increase in salaries and benefits, occupancy and equipment, and other miscellaneous expense mainly related to participation expenses.

Provision for Income Taxes

We recorded tax expense of $1.3 million for the year ended December 31, 2008, compared to $826 thousand for 2007, and $1.1 million for 2006. See Note 9 for additional discussion.

Funding and Liquidity

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 7. During 2008, our average balance was $1.6 billion with an average interest rate of 3.8%. Our average balance during 2007 was $1.5 billion with an average interest rate of 5.2% and during 2006 our average balance was $1.2 billion with an average interest rate of 4.9%. 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. At December 31, 2008, we had $802.5 million 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 loan and lease programs to our borrowers. We determine interest margins charged on each lending program based on:

- cost of funds,
- market conditions, and
- 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 $37.2 million during 2008 due to net income for the period along with an increase in capital stock and participation certificates outstanding.

Members' equity position information is as follows (in thousands):

As of December 31	**2008**	2007	2006
Members' equity	**$372,480**	$335,295	$306,743
Surplus as a percentage of members' equity	**98.1%**	98.0%	97.9%
Permanent capital ratio	**13.7%**	13.8%	15.4%
Total surplus ratio	**13.3%**	13.4%	15.0%
Core surplus ratio	**13.3%**	13.4%	15.0%

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, 2008, our permanent capital, total surplus, and core surplus ratios 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, 2008, 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 other associations in North Dakota, Minnesota, Illinois, Wisconsin, and Michigan. ProPartners Financial provides financing programs for clients of agribusiness companies. 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 based on risk funds of the associations. We had $66.7 million of ProPartners Financial volume at December 31, 2008, $50.1 million at December 31, 2007, and $36.3 million at December 31, 2006.

Farm Cash Management

We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank Investment Bond to optimize members' use of funds.

Mission Related Investments

We are participating in an Investments for Rural America pilot program authorized during 2006 by the Farm Credit Administration in order to meet the changing needs of agriculture and rural America by making investments that support farmers, ranchers, agribusinesses, and their rural communities and businesses. These investments will help to increase their well-being and prosperity by providing an adequate flow of capital into rural areas. We had $6.2 million of volume under this pilot program outstanding at December 31, 2008, $123 thousand of volume outstanding at December 31, 2007, while we had no such loan volume at December 31, 2006.

Relationship with AgriBank

Borrowings

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act of 1971, as amended. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement, as discussed in Note 7, governs this lending relationship. Cost of funds under the General Financing Agreement includes:

- a marginal cost of debt component,
- a cost of servicing component,
- a bank spread component, and
- a risk premium component, if applicable.

In the periods presented, we were not subject to the risk premium component. 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 capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. As of December 31, 2008, we were required to maintain a common stock investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. Effective in 2009, our required investment will include an additional 1% on growth that exceeds a targeted rate. In addition, as described in the Loan Portfolio Section of this report, on May 27, 2008, we sold $500.0 million of a participation interest in real estate loans to AgriBank. As part of this transaction, we are required to hold AgriBank common stock equal to 8% of the quarter-end balance of these loans. We met this requirement through the conversion of excess stock held and the purchase of additional stock.

At December 31, 2008, $26.4 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $51.4 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

Patronage

We receive patronage income based on the annual average daily balance of our note payable to AgriBank, patronage income in an amount that approximates the net earnings of the asset pool loans and patronage income based on the estimated note payable of the asset pool loans. AgriBank's Board of Directors sets the patronage rates. As of December 31, 2005, we no longer had any preferred stock in AgriBank.

Purchased Services

We purchase various services from AgriBank including:

- certain information systems,
- certain financial services,
- certain accounting and reporting services, and
- selected retail product processing and support.

The total cost of services we purchased from AgriBank was $845 thousand in 2008, $898 thousand in 2007, and $1.6 million in 2006.

Affect on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially affect our members' investment. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at 1100 Farm Credit Drive, Mahomet, Illinois 61853, (217) 590-2200 or contact AgriBank at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to AGRIBANKMN@agribank.com. The reports are also available through AgriBank's website at www.agribank.com.

To request a free copy of our annual or quarterly reports contact us as stated above. The annual report is available on our website 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the year. The quarterly reports are available 40 days after the end of each calendar quarter.

Relationship with Other Farm Credit Institutions

We participate in the Insight Technology Unit with other AgriBank District associations to facilitate the development and maintenance of certain technology systems essential to providing credit to our borrowers. The Insight Technology Unit is governed by representatives of each participating association. The expenses are shared prorata based on the number of loans and leases of each participant.

REPORT OF MANAGEMENT
Farm Credit Services of Illinois, ACA

We prepare the consolidated financial statements of Farm Credit Services of Illinois, ACA and are 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. The consolidated financial statements, in our opinion, 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, we depend on accounting and internal control systems 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, audit 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 examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us 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 Farm Credit Services of Illinois, ACA.

The undersigned certify we have reviewed Farm Credit Services of Illinois, ACA's annual report and it has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Jack Hastings

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

David M. Owens

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

Steven D. Ray

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

February 27, 2009

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Farm Credit Services of Illinois, ACA

Farm Credit Services of Illinois, ACA's (the Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its boards of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2008. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2008, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2008.

David M. Owens

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

Steven D. Ray

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

February 27, 2009

REPORT OF AUDIT COMMITTEE

Farm Credit Services of Illinois, ACA

The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of the entire Board of Directors of Farm Credit Services of Illinois, ACA. The Audit Committee oversees the scope of the Association's internal audit program, the approval and independence of PricewaterhouseCoopers LLP (PwC) as our independent 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. 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 consolidated financial statements in accordance with generally accepted auditing standards in the United States of America and to issue their report based on their 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, 2008, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee 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, 2008.

Jack Hastings

Jack Hastings
Chairperson of the Audit Committee
Farm Credit Services of Illinois, ACA

Audit Committee members:
Kent Brinkmann, Dave Champion, Mike Carls, Jack Crumrin, Dale Crawford, J. Dale Edwards, Dennis Frey, Dr. Kim Harris, Jack Hastings, Larry Hasheider, Mark Miller, Karen Neff, John Schable, and Don Sievers

February 27, 2009

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
225 South Sixth Street
Suite 1400
Minneapolis MN 55402
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Report of Independent Auditors

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

In our opinion, the accompanying consolidated statement of condition and the related consolidated statements of income, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of Farm Credit Services of Illinois, ACA (the Association) and its subsidiaries at December 31, 2008, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 27, 2009

CONSOLIDATED STATEMENT OF CONDITION

Farm Credit Services of Illinois, ACA

(Dollars in thousands)

As of December 31	**2008**	2007	2006
ASSETS			
Loans	**$1,965,059**	$2,007,552	$1,612,209
Allowance for loan losses	**5,805**	2,278	1,725
Net loans	**1,959,254**	2,005,274	1,610,484
Investment in AgriBank, FCB	**77,814**	40,343	32,342
Accrued interest receivable	**25,939**	40,887	34,520
Premises and equipment, net	**8,683**	6,884	4,137
Other property owned	**7**	7	7
Other assets	**8,022**	5,924	6,290
Total assets	**$2,079,719**	$2,099,319	$1,687,780
LIABILITIES			
Note payable to AgriBank, FCB	**$1,684,622**	$1,734,654	$1,355,013
Accrued interest payable	**13,604**	20,929	16,797
Net deferred income tax liability	**809**	960	984
Other liabilities	**8,204**	7,481	8,243
Total liabilities	**1,707,239**	1,764,024	1,381,037
Contingencies			
MEMBERS' EQUITY			
Protected members' equity	**41**	50	64
Capital stock and participation certificates	**7,156**	6,759	6,401
Unallocated surplus	**365,283**	328,486	300,278
Total members' equity	**372,480**	335,295	306,743
Total liabilities and members' equity	**$2,079,719**	$2,099,319	$1,687,780

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	**2008**	2007	2006
Interest income	**$107,810**	$118,209	$96,227
Interest expense	**62,192**	76,325	58,734
Net interest income	**45,618**	41,884	37,493
Provision for (reversal of) loan losses	**3,723**	521	(140)
Net interest income after provision for loan losses	**41,895**	41,363	37,633
Other income			
Patronage income	**9,045**	4,972	3,837
Financially related services and miscellaneous income, net	**14,527**	7,764	6,796
Total other income	**23,572**	12,736	10,633
Operating expense			
Salaries and employee benefits	**14,946**	14,228	13,471
Other operating expense	**12,469**	10,837	10,014
Total operating expense	**27,415**	25,065	23,485
Income before income taxes	**38,052**	29,034	24,781
Provision for income taxes	**1,255**	826	1,134
Net income	**$36,797**	$28,208	$23,647

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, 2005	$67	$6,237	$276,631	$282,935
Net income	--	--	23,647	23,647
Capital stock/participation certificates issued	--	637	--	637
Capital stock/participation certificates retired	(3)	(473)	--	(476)
Balance at December 31, 2006	64	6,401	300,278	306,743
Net income	--	--	28,208	28,208
Capital stock/participation certificates issued	--	722	--	722
Capital stock/participation certificates retired	(14)	(364)	--	(378)
Balance at December 31, 2007	50	6,759	328,486	335,295
Net income	**--**	**--**	**36,797**	**36,797**
Capital stock/participation certificates issued	**--**	**856**	**--**	**856**
Capital stock/participation certificates retired	**(9)**	**(459)**	**--**	**(468)**
Balance at December 31, 2008	**$41**	**$7,156**	**$365,283**	**$372,480**

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	**2008**	2007	2006
Cash flows from operating activities			
Net income	**$36,797**	$28,208	$23,647
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation on premises and equipment	**611**	473	508
Depreciation on assets held for lease	**42**	161	179
Provision for (reversal of) loan losses	**3,723**	521	(140)
Increase (decrease) in accrued interest receivable	**14,723**	(6,584)	(9,122)
(Increase) decrease in other assets	**(2,220)**	107	1,982
(Decrease) increase in accrued interest payable	**(7,325)**	4,132	4,973
Increase (decrease) in other liabilities	**572**	(786)	2,917
(Gain) loss on sale of premises and equipment	**(2,111)**	3	4
(Gain) loss on disposal of assets held for lease	**(2)**	--	5
Gain on sale of Farm Credit System Financial Assistance Corporation stock	**--**	--	(1,571)
Total adjustments	**8,013**	(1,973)	(265)
Net cash provided by operating activities	**44,810**	26,235	23,382
Cash flows from investing activities			
Decrease (increase) in loans, net	**43,001**	(394,718)	(194,427)
Increase in investment in AgriBank, FCB, net	**(37,471)**	(8,001)	(5,457)
Disposals (purchases) of assets held for lease, net	**82**	98	(754)
Purchases of premises and equipment, net	**(299)**	(3,223)	(1,115)
Sale of Farm Credit System Financial Assistance Corporation stock	**--**	--	1,571
Net cash provided by (used in) investing activities	**5,313**	(405,844)	(200,182)
Cash flows from financing activities			
(Decrease) increase in note payable to AgriBank, FCB, net	**(50,032)**	379,641	176,914
Capital stock and participation certificates retired, net	**(91)**	(32)	(114)
Net cash (used in) provided by financing activities	**(50,123)**	379,609	176,800
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$763**	$624	$555
Stock applied against loan principal	**284**	248	279
Stock applied against interest	**--**	--	1
Interest transferred to loans	**225**	217	253
Supplemental information			
Interest paid	**$69,517**	$72,193	$53,761
Taxes paid	**1,748**	1,572	333

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Farm Credit Services of Illinois, ACA

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, 2008, the Farm Credit System consisted of four Farm Credit Banks, one Agricultural Credit Bank, and ninety associations. AgriBank and its affiliated associations are collectively referred to as the District. At December 31, 2008, the District consisted of seventeen 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 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. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a Farm Credit System lending institution, but have operations that are functionally similar to the activities of eligible borrowers. Associations are also authorized to purchase and hold certain types of investments.

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/or AgriBank.

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, and
- 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 has been required to pay premiums into the Farm Credit Insurance Fund until the assets in the Farm Credit Insurance Fund equal 2% of Systemwide debt obligations. This percentage of aggregate obligations can be changed as the Farm Credit System Insurance Corporation, in its sole discretion, determines to be actuarially sound. Prior to July 1, 2008, the premiums were based on each bank's annual average loan principal outstanding. Insurance rates were 15 basis points on accrual loans and 25 basis points on nonaccrual loans through June 30, 2008. Effective July 1, the basis for assessing premiums was changed from loans to debt outstanding. Adjustments to debt outstanding are made for nonaccrual loans and impaired investments which are assessed a surcharge and guaranteed loans which are deductions to the premium base. The premium rate on this base, originally 15 basis points, increased to 18 basis points effective October 1, 2008. AgriBank, in turn, assesses the associations premiums each year based on these same factors. Previously, AgriBank assessed the associations annual premiums based on the average principal outstanding of accrual and nonaccrual loans of the associations.

Association

Farm Credit Services of Illinois, ACA and its subsidiaries, Farm Credit Services of Illinois, FLCA and Farm Credit Services of Illinois, 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 members 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 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 PCA makes short-term and intermediate-term loans.

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

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 in the United States of America 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 consolidated 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 at origination. Almost all commercial loans are made for agricultural production or operating purposes with original 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 consolidated 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, 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, and
- current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually under Statement of Financial Accounting Standard No. 114, *Accounting by Creditors for Impairment of a Loan*, 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, and
- 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, *Accounting for Contingencies*, to loans that are not individually assessed as impaired. An allowance is recorded for probable and estimable credit losses as of the financial statement date.

Changes in the allowance for loan losses consist of provision activity, recorded as “Provision for (reversal of) loan losses” on the Consolidated Statement of Income, and chargeoffs and recoveries.

Investment in AgriBank: Accounting for our investment in AgriBank is on a cost plus allocated equities basis. The investment in AgriBank is in the form of Class P common 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 “Financially related services and miscellaneous income, net” on the Consolidated Statement of Income.

Leases: We have operating leases. 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 “Other assets” line on the Consolidated Statement of Condition and represents the asset cost net of accumulated depreciation.

Employee Benefit Plans: Our employees may be eligible to participate in the defined benefit retirement plan of the Seventh Farm Credit District. The plan is comprised of two benefit formulas. Effective October 1, 2001, all new benefits-eligible employees participate in the cash balance formula. Employees hired prior to October 1, 2001, were on the final average pay formula. These employees were given a one-time option to convert to the cash balance formula or to remain 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. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. Employees hired after December 31, 2006, only participate in the defined contribution plan.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax/post-tax or both with an employer match on a percentage of the employee’s contributions. For employees hired after December 31, 2006, the defined contribution plan is the only retirement plan available, and we provide benefits under this plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

We also provide certain health and life insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is 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 of 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. We have adopted Financial Accounting Standards Board Interpretation No. 48 – *Accounting for Uncertainty in Income Taxes*. Under the interpretation, the expected future tax consequences of uncertain income tax positions are accrued.

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.

Fair Value Measurement: Effective January 1, 2008, we adopted SFAS No. 157, “Fair Value Measurements.” This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It also clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure. It describes three levels of inputs that may be used to measure fair value.

Where quoted prices are available in an active market, investment securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. The fair value disclosures have been expanded in accordance with SFAS No. 157, as disclosed in Note 13.

NOTE 3: LOANS

Loans consisted of the following (in thousands):

As of December 31, 2008	Amount	Percentage
Long-term agricultural mortgage	**$1,287,531**	**52.0%**
Production	**420,682**	**17.0%**
Intermediate term	**183,318**	**7.4%**
Processing and marketing	**39,267**	**1.6%**
Participations purchased	**537,402**	**21.7%**
Other	**6,591**	**0.3%**
Subtotal	**2,474,791**	**100.0%**
Participations sold	**(509,732)**	
Total loans	**$1,965,059**	

As of December 31, 2007	Amount	Percentage
Long-term agricultural mortgage	$1,147,249	55.9%
Production	339,930	16.6%
Intermediate term	161,143	7.8%
Processing and marketing	18,501	0.9%
Finance leases	64	0.0%
Participations purchased	386,206	18.8%
Other	912	0.0%
Subtotal	2,054,005	100.0%
Participations sold	(46,453)	
Total loans	$2,007,552	

As of December 31, 2006	Amount	Percentage
Long-term agricultural mortgage	$1,003,031	61.1%
Production	252,443	15.4%
Intermediate term	149,450	9.1%
Processing and marketing	11,483	0.7%
Finance leases	167	0.0%
Participations purchased	223,945	13.6%
Other	1,391	0.1%
Subtotal	1,641,910	100.0%
Participations sold	(29,701)	
Total loans	$1,612,209	

We participate in the Cultivate Illinois State Program (formerly known as the Illinois State Linked Deposit Program) to provide reduced rate loan funds to eligible borrowers. Loans outstanding under this state program were $117.3 million at December 31, 2008, $152.7 million at December 31, 2007, and $130.4 million at December 31, 2006.

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 (in thousands):

	Participations	
As of December 31, 2008	**Purchased**	**Sold**
Participations purchased from / sold to:		
AgriBank, FCB	**$ --**	**$480,904**
Other Farm Credit institutions	**534,636**	**28,828**
Non-Farm Credit institutions	**2,766**	**--**
Total participations purchased/sold	**$537,402**	**$509,732**

The participation volume is largely due to participations on loans to agribusinesses.

Included in the AgriBank activity above, we sold $500.0 million of a participation interest in real estate loans to AgriBank and received $4.6 million of asset pool patronage in 2008 related to this participation.

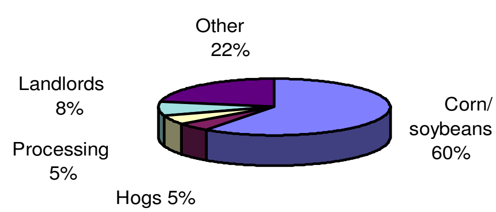
Portfolio Concentrations

We have concentrations with individual borrowers, within various agricultural commodities and within our chartered territory.

At December 31, 2008, volume plus commitments to our ten largest borrowers totaled an amount equal to 55.8% of members' equity.

Our agricultural commodity concentrations at December 31, 2008, 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 6.8% of our total loan portfolio was in Champaign county at December 31, 2008. No other counties exceed 5% of our loan portfolio.

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 (accruing volume includes accrued interest receivable) information (in thousands):

As of December 31	2008	2007	2006
Nonaccrual loans:			
Current as to principal and interest	**$23,537**	$912	$289
Past due	**1,595**	2,019	1,878
Total nonaccrual loans	**25,132**	2,931	2,167
Accruing restructured loans	**54**	124	317
Loans past due 90 days or more still accruing	**1,570**	197	219
Total risk loans	**$26,756**	$3,252	$2,703
Volume with specific reserves	**$12,601**	$347	$201
Volume without specific reserves	**14,155**	2,905	2,502
Total risk loans	**$26,756**	$3,252	$2,703
Total specific reserves	**$2,234**	$222	$151

For the year ended December 31	2008	2007	2006
Income on accrual risk loans	**$18**	$30	$59
Income on nonaccrual loans	**247**	153	133
Total income on risk loans	**$265**	$183	$192
Average recorded investment	**$9,862**	$3,172	$4,118

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2008.

Loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection.

NOTE 4: ALLOWANCE FOR LOAN LOSSES

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

For the year ended December 31	2008	2007	2006
Balance at beginning of year	**$2,278**	$1,725	$2,044
Provision for (reversal of) loan losses	**3,723**	521	(140)
Loan recoveries	**(34)**	44	24
Loan chargeoffs	**(162)**	(12)	(203)
Balance at end of year	**$5,805**	$2,278	$1,725

The increase in allowance for loan losses was due in part to ethanol participation loans requiring a specific allowance.

NOTE 5: INVESTMENT IN AGRIBANK

At December 31, 2008, we were required by AgriBank to maintain an investment equal to 2.5% of the quarter-end balance of our note payable to AgriBank. At December 31, 2008, we were required by AgriBank to maintain an investment equal to 8% of the quarter-end balance of the participation interest in real estate loans sold to AgriBank during 2008. Effective in 2009, our required investment will include an additional 1% on growth that exceeds a targeted rate.

The following summarizes investment balances (in thousands):

	2008	2007	2006
As of December 31:			
Common stock	**$77,814**	$40,343	$32,342
Total investment	**$77,814**	$40,343	$32,342

NOTE 6: PREMISES AND EQUIPMENT

Premises and equipment consisted of the following (in thousands):

As of December 31	2008	2007	2006
Land, buildings and improvements	**$9,389**	$9,267	$6,309
Furniture and equipment	**4,092**	3,179	3,299
Subtotal	**13,481**	12,446	9,608
Less: accumulated depreciation	**(4,798)**	(5,562)	(5,471)
Total	**$8,683**	$6,884	$4,137

NOTE 7: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank 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 our assets serve as collateral. The total line of credit was $2.5 billion and the outstanding principal under the line of credit was $1.7 billion as of December 31, 2008. The interest rate is adjusted monthly and was 3.0% at December 31, 2008. During 2008, our average balance was $1.6 billion with an average interest rate of 3.8%. Our average balance during 2007 was $1.5 billion with an average interest rate of 5.2% and during 2006 our average balance was $1.2 billion with an average interest rate of 4.9%. The maturity date is July 31, 2009, 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. At December 31, 2008, and throughout the year, 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 our capital 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 loan(s) 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. 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, we are 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, 2008, our ratio was 13.7%.
- 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, 2008, our ratio was 13.3%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any preferred stock investment in AgriBank divided by average risk-adjusted assets. At December 31, 2008, our ratio was 13.3%.

We have an agreement with AgriBank which defines how our investment in AgriBank is allocated in calculating regulatory capital ratios. According to the agreement, we include in our ratios all preferred stock which is the amount of our investment in AgriBank that is in excess of the required amount. At December 31, 2008, December 31, 2007, and December 31, 2006, we no longer had any preferred stock. 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, 2008. All shares and participation certificates were $5.00 par value.

As of December 31, 2008	Shares Outstanding
Class A common stock (protected)	**8,312**
Class C common stock (at-risk)	**1,417,918**
Participation certificates (at-risk)	**13,144**
Series 1 participation certificates	**18**

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

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, 2008, 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 in the following order of priority:

- first, pro rata to all class of preferred stock (if any) at par value,
- second, to the holders pro rata of all classes of common stock and participation certificates at par value,
- third, to holders of qualified written notices of allocated surplus pro rata by year of issuance,
- fourth, to holders of non-qualified written notices of allocated surplus pro rate by year of issuance, and
- last, to present and former patrons on a patronage basis.

In the event of impairment, losses will be absorbed by concurrent impairment of all classes of stock; however, protected stock will be retired at par value regardless of impairment.

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 Regulations prohibits patronage distributions to the extent they 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 2009. However, we do not have a patronage program to make such distributions.

NOTE 9: INCOME TAXES

Provision for (Reversal of) Income Taxes

Our provision for (reversal of) income taxes follows (in thousands):

For the year ended December 31	**2008**	2007	2006
Current:			
Federal	**$1,141**	$689	$1,001
State	**265**	161	233
Total current	**1,406**	850	1,234
Deferred:			
Federal	**(123)**	(19)	(82)
State	**(28)**	(5)	(18)
Total deferred	**(151)**	(24)	(100)
Total provision for income taxes	**$1,255**	$826	$1,134
Effective tax rate	**3.3%**	2.8%	4.6%

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

For the year ended December 31	2008	2007	2006
Federal tax at statutory rate	**$12,938**	$9,872	$8,426
State tax, net	**155**	102	140
Effect of non-taxable entity	**(11,844)**	(9,151)	(7,435)
Other	**6**	3	3
Provision for income taxes	**$1,255**	$826	$1,134

Deferred Income Taxes

Deferred tax assets and liabilities are composed of the following (in thousands):

As of December 31	2008	2007	2006
Allowance for loan losses	**$42**	$29	$72
SFAS 106 accrual	**437**	424	406
Accrued patronage income not received	**(144)**	(208)	(162)
AgriBank, FCB 2002 allocated stock	**(529)**	(529)	(529)
Accrued pension asset	**(469)**	(411)	(502)
Depreciation	**2**	(125)	(131)
Other liabilities	**(192)**	(192)	(192)
Other assets	**44**	52	54
Net deferred tax liabilities	**($809)**	($960)	($984)
Gross deferred tax assets	**$525**	$505	$532
Gross deferred tax liabilities	**($1,334)**	($1,465)	($1,516)

A valuation reserve for the deferred tax assets was not necessary at December 31, 2008, December 31, 2007, or December 31, 2006.

We have not provided deferred income taxes on approximately $20.6 million of patronage allocations received from AgriBank 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. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $307.2 million 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.

We adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48 – *Accounting for Uncertainty in Income Taxes*, on January 1, 2008. At the time of adoption, as well as at December 31, 2008, we had no uncertain income tax positions to recognize.

NOTE 10: EMPLOYEE BENEFIT PLANS

Our employees may be eligible to participate in a District-wide multi-employer defined benefit retirement plan (the Plan). The Plan is noncontributory and covers eligible District employees. Benefits are based on salary and years of service. The assets, liabilities and costs of the plan are not segregated by participating entities. Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under the plan. We recognize our proportional share of expense and contribute a proportional share of funding. As a participant in the Plan, we contributed $1.3 million for 2008 and $585 thousand for 2007. We did not make a contribution for 2006. Plan expenses included in salaries and employee benefits expense in the Consolidated Statement of Income were $885 thousand for 2008, $1.1 million for 2007 and $1.1 million for 2006. Additional financial information for the Plan may be found in the AgriBank, FCB and Affiliated Associations 2008 Annual Report.

The funded status of the plans will be recorded at the District level only. Please refer to the AgriBank, FCB and Affiliated Associations 2008 Annual Report for detailed disclosures under Statement of Financial Accounting Standard No. 158 – *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.*

In December 2007, the District adopted SFAS No. 158, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. SFAS No. 158 also requires that employers measure the benefit obligation and plan assets as of fiscal year end in 2008. The Standard allows for the use of the measurements determined for the prior year-end.

Under this approach, pension and postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 30, 2007 measurement date) was credited to beginning 2008 unallocated surplus. As a result, the District decreased unallocated surplus by $5.0 million and increased the pension and other postretirement benefits liabilities by $5.0 million.

Life Insurance and Retiree Medical Plans

District employers also provide certain health and life insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated costs of these benefits are accrued during the period of the employee's active status. Postretirement benefits (primarily health care benefits and life insurance) included in salaries and employee benefits expense were $98 thousand for 2008, $128 thousand for 2007 and $128 thousand for 2006. Additional financial information for this plan may be found in the AgriBank, FCB and Affiliated Associations 2008 Annual Report.

Retirement Savings Plan

We also participate in a retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2% and 50 cents on the dollar on the next 4% on both pre-tax and post-tax contributions. The maximum employer match is 4%. For employees hired after December 31, 2006, we contribute 3% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6% on both pre-tax and post-tax contributions. The maximum employer contribution is 9%. Employer contributions and recorded expense to this plan were $527 thousand in 2008, $465 thousand in 2007, and $362 thousand in 2006.

Nonqualified Retirement Plan

We participate in a District-wide non-qualified defined benefit Pension Restoration Plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under this plan are offset by the benefits payable from the Pension Plan. Pension Restoration plan expenses included in salaries and employee benefits were $86 thousand for 2008, $69 thousand for 2007 and $47 thousand for 2006.

NOTE 11: 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. In our opinion, none of these loans outstanding at December 31, 2008, involved more than a normal risk of collectibility.

The following table represents information on loans and leases to related parties as determined at each year end (in thousands):

	2008	2007	2006
As of December 31:			
Total related party loans and leases	**$9,920**	$10,463	$8,971
For the year ended December 31:			
Advances to related parties	**$6,017**	$6,396	$3,453
Repayments by related parties	**8,360**	4,981	4,771

The composition of related parties can be different each year end due primarily to changes in the makeup of the Board of Directors. Advances and repayments to related parties at the end of each year are included in the preceding chart.

We purchase various services from AgriBank including certain information systems, certain financial services, certain accounting and reporting services, and selected retail product processing and support services. The total cost of services we purchased from AgriBank was $845 thousand in 2008, $898 thousand in 2007, and $1.6 million in 2006.

NOTE 12: 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 have 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. 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. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2008, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $676.5 million. Additionally, we had $16.8 million of issued standby letters of credit as of December 31, 2008.

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 13: 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
- credit risk, and
- 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 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.

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 vast majority of these 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 exit 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.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 for additional information.

Assets measured at fair value on a non-recurring basis at December 31, 2008 for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurement Using			**Total Fair**	**Total**
	Level 1	**Level 2**	**Level 3**	**Value**	**Losses**
Loans*	**$0**	**$268**	**$10,254**	**$10,522**	**$2,237**

* Represents the fair value of certain loans that were evaluated for impairment under SFAS No. 114. The fair value was based upon the underlying real estate collateral. The fair value measurement process uses independent appraisals and other market-based information. As a result, these fair value measurements fall within Level 2 of the hierarchy. However, in many cases it also requires significant input based on

management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Note Payable to AgriBank: Estimating the fair value of the note payable to AgriBank 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 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 (in thousands):

As of December 31, 2008	**Carrying Amount**	**Estimated Fair Value**
Financial assets:		
Loans, net	**$1,959,254**	**$1,993,883**
Financial liabilities:		
Note payable to AgriBank, FCB	**$1,684,622**	**$1,713,453**
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		**($867)**

As of December 31, 2007	Carrying Amount	Estimated Fair Value
Financial assets:		
Loans, net	$2,005,274	$2,023,236
Financial liabilities:		
Note payable to AgriBank, FCB	$1,734,654	$1,749,067
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		($678)

As of December 31, 2006	Carrying Amount	Estimated Fair Value
Financial assets:		
Loans, net	$1,610,484	$1,609,685
Financial liabilities:		
Note payable to AgriBank, FCB	$1,355,013	$1,353,576
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		($512)

NOTE 14: FARM CREDIT SYSTEM FINANCIAL ASSISTANCE CORPORATION STOCK SALE

In December 2006, we sold to AgriBank all Farm Credit System Financial Assistance Corporation stock held by us at 71% of the face value of that stock. Legislation in 1987 required us to purchase this stock to capitalize the Farm Credit System Financial Assistance Corporation. Due to the uncertainty regarding the realization of the asset, the stock had previously been written off and carried at zero book value. The sale resulted in a gain of $1.6 million in the fourth quarter of 2006. The gain was recorded in “Financially related services and miscellaneous income, net” on the Consolidated Statement of Income. The Financial Assistance Corporation’s charter was cancelled as of December 31, 2006.

NOTE 15: QUARTERLY FINANCIAL INFORMATION (Unaudited)

Quarterly consolidated results of operations for the years ended December 31, 2008, December 31, 2007 and December 31, 2006, follow (in thousands):

2008	**First**	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$12,221**	**$12,031**	**$10,759**	**$10,607**	**$45,618**
(Reversal of) provision for loan losses	**(22)**	**81**	**571**	**3,093**	**3,723**
Patronage income	**1,162**	**2,227**	**2,682**	**2,974**	**9,045**
Other expense, net	**4,604**	**3,192**	**2,251**	**2,841**	**12,888**
Provision for income taxes	**225**	**73**	**783**	**174**	**1,255**
Net income	**$8,576**	**$10,912**	**$9,836**	**$7,473**	**$36,797**

2007	First	Second	Third	Fourth	Total
Net interest income	$10,163	$10,432	$10,493	$10,796	$41,884
(Reversal of) provision for loan losses	(164)	487	31	167	521
Patronage income	897	947	1,007	2,121	4,972
Other expense, net	4,532	4,009	5,302	3,458	17,301
Provision for income taxes	201	221	135	269	826
Net income	$6,491	$6,662	$6,032	$9,023	$28,208

2006	First	Second	Third	Fourth	Total
Net interest income	$9,109	$9,228	$9,406	$9,750	$37,493
(Reversal of) provision for loan losses	--	(40)	(110)	10	(140)
Patronage income	703	722	761	1,651	3,837
Other expense, net	4,480	4,309	4,545	3,355	16,689
Provision for income taxes	52	27	223	832	1,134
Net income	$5,280	$5,654	$5,509	$7,204	$23,647

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Farm Credit Services of Illinois, ACA

(Unaudited)

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
Albion	Owned	Branch
Belleville	Owned	Branch
Benton	Leased	Branch
Charleston	Leased	Branch
Effingham	Owned	Branch
Harrisburg	Owned	Branch
Highland	Leased	Branch
Lawrenceville	Owned	Branch
Nashville	Leased	Branch
Paris	Owned	Branch
Red Bud	Leased	Branch
Shelbyville	Owned	Branch
Carlinville	Owned	Branch
Decatur	Leased	Branch
Jacksonville	Owned	Branch
Jerseyville	Leased	Branch
Lincoln	Owned	Branch
Springfield	Owned	Branch
Taylorville	Owned	Branch
Watseka	Owned	Branch
Mahomet	Owned	Headqtrs/Branch

LEGAL PROCEEDINGS

Information regarding legal proceedings is discussed in Note 12 of this annual report. We were not subject to any enforcement actions at December 31, 2008.

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 12 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, 2008, including business experience in the last five years and any other business interest where a director serves on the board of directors or as a senior officer follows:

Lance Beery, is a self-employed grain and livestock farmer. His term on the board expires in 2012.

Kent Brinkmann, is a self-employed grain farmer and seed dealer. His term on the board expires in 2010.

Mike Carls, is a self-employed grain farmer. He serves on the boards of Menard Electric Cooperative, a utility distribution co-op in Petersburg, IL and Prairie Power Inc., a generation and transmission co-op in Jacksonville, IL. His term on the board expires in 2010.

William David Champion, Jr., Appointed Director, is the president and CEO of the Eastern Illini Electric Cooperative in Paxton, IL. He serves as a director and Chairman of the Board of Prairie Power Inc., an electricity wholesaler. He is also a director and secretary/treasurer of Cooperative Balloon Assoc., LLC involved in the promotion of cooperative electricity. His term on the board expires in 2010.

Dale Crawford, is a self-employed grain farmer. He is a director on the Moultrie Co. Farm Bureau Board in Sullivan, IL, a director with the Illinois Soybean Association in Bloomington, IL, and is director of the Moultrie-Sullivan Counties Jr. Fair. His term expires in 2012.

Jack E. Crumrin, is a self-employed grain and livestock farmer. His term on the board expires in 2010.

J. Dale Edwards, is a self-employed grain and livestock farmer and substitute teacher. He serves as a director for the Sangamon County Fair. His term on the board expires in 2009.

Dennis Frey, is a self-employed grain farmer. His term on the board expires in 2012.

Dr. Kim Harris, Outside Director, is an Associate Professor in AgriBusiness Economics at Southern Illinois University in Carbondale, IL. He also serves as a director/CEO of Lahoil, Inc. in Mattoon, IL, which is engaged in oil production. His term on the board expires in 2012.

Jack Hastings, Chairperson of the Board, is a self employed grain and livestock farmer. He is also a real estate agent. His term expires in 2009.

Larry Hasheider, is a self-employed grain and livestock farmer. He serves as a district director on the Illinois Corn Marketing Board which promotes world-wide use of corn. His term on the board expires in 2011.

Mark Miller, is a self-employed grain farmer and is a director of the Farmers Grain Co. of Latham, a grain elevator. His term on the board expires in 2009.

Karen Neff, is a self employed grain and livestock farmer and a project manager with UNISYS. Her term on the board expires in 2010.

John Schable, is a self-employed grain farmer. His term on the board expires in 2009.

Donald Sievers, is a self-employed grain and livestock farmer and seed dealer. His term on the board expires in 2009.

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 $400 per day along with a $1,300 per quarter retainer fee except for the chairman and vice chairman, whose retainer fee was $1,800 per quarter.

Information regarding compensation for each director who served during 2008 follows:

	Number of Days Served		
	Board Meetings	Other Official Activities	Total Compensation Paid in 2008
Beery, Lance	14	19	$19,900
Brinkmann, Kent D.	14	11	15,200
Champion, David	11	9.5	13,400
Carls, Mike	14	10	14,800
Crumrin, Jack	14	10	14,800
Crawford, Dale	13	11	14,800
Edwards, Dale	14	7	13,600
Frey, Dennis	14	10	14,800
Harris, Kim	12	1	10,400
Hastings, Jack	14	13	18,000
Hasheider, Larry	13	7	13,200
Miller, Mark	13	6	12,800
Neff, Karen	14	11.5	16,700
Schable, John	14	25	20,300
Sievers, Donald	13	5	12,400
Total	201	156	$225,100

No director received additional compensation for service on a board committee.

SENIOR OFFICERS

The senior officers include:

David M. Owens, Chief Executive Officer
Donald J. Olson, Chief Credit Officer, Executive Vice President
Steven D. Ray, Chief Financial Officer, Sr. Vice President
Loren J. Leskis, Sr. Vice President, Field Operations
Aaron S. Johnson, Sr. Vice President, Field Operations

All of the senior officers have been with the Farm Credit System for the past five years, except Mr. Ray. Prior to beginning his employment with us in 2007, Mr. Ray's business experience was with Developmental Services Center, a non-profit company. He also serves on the board of the Disabled Citizens Foundation. Other business interests where a senior officer served as a director or senior officer include: Donald J. Olson, Chief Credit Officer, also is the president of Breakers East Homeowners Association.

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

Name of individual	Year	Salary	Incent. Comp.	Deferred/ Perquisites	Other	Total
David M. Owens	2008	$242	$102	$3	$ --	$347
David M. Owens[1]	2007	190	69	3	--	262
Ronald W. Frenn[2]	2007	239	76	9	--	324
Ronald W. Frenn	2006	329	138	12	--	479
Aggregate number of Individuals:						
(does not include CEO compensation)						
Seven	2008	$880	$710	$7	$ --	$1,597
Five	2007	567	262	7	--	836
Five	2006	629	287	4	--	920

[1]Became CEO effective 7/6/07. Compensation shown is for the entire year of 2007.
[2]Retired effective 7/05/07. Compensation is through 07/05/07.

Members may request information on the compensation paid during 2008 to the individuals listed in the preceding table.

Senior officer incentives are paid annually based on performance criteria established by the Board of Directors. The criteria include 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 11 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 1100 Farm Credit Drive, Mahomet, Illinois 61853, (217) 590-2200**.**

The total directors' travel, subsistence and other related expenses were $119 thousand in 2008, $74 thousand in 2007, and $91 thousand in 2006.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

No 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, 2009 or at any time during 2008.

MEMBER PRIVACY

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

RELATIONSHIP WITH QUALIFIED PUBLIC ACCOUNTANT

There were no changes in independent auditors since the last annual report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2008 were $55 thousand. The fees paid were for audit services.

FINANCIAL STATEMENTS

The "Report of Management", "Report on Internal Control Over Financial Reporting", "Report of Audit Committee", "Report of Independent Auditors," "Consolidated Financial Statements", and "Notes to Consolidated Financial Statements" are presented prior to this portion of the annual report.

CREDIT AND SERVICES TO YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Information regarding credit and services to young, beginning, and small farmers and ranchers and producers or harvesters of aquatic products is discussed in the "Management's Discussion and Analysis" portion of this 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, 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 Association offers 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.

"We Understand"®

Farm Credit Services
OF ILLINOIS
We Understand

1100 Farm Credit Drive
Mahomet, IL 61853
217.590.2200

Visit us at: www.fcsillinois.com