



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

AgriBank FCB's financial condition and results of operations materially affect shareholders' investment in FCS Financial, ACA. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our report contact us at 1934 East Miller Street, Jefferson City, Missouri 65101, (573) 635-7956, or via e-mail at jeffersoncitymo@myfcsfinancial.com or visit us on the web at www.myfcsfinancial.com. You may also contact AgriBank, FCB at 375 Jackson Street, St. Paul, Minnesota 55101-1810, (651) 282-8800, or via electronic mail to AGRIBANKMN@agribank.com. The combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank, FCB's website at www.agribank.com.

**Loan Portfolio**

Loan volume totaled \$2.1 billion at June 30, 2009, a \$11.7 million decrease from December 31, 2008. This decrease is due to challenging economic conditions.

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

	June 30 2009	December 31 2008
As of:		
Loans:		
Accruing restructured	\$779	\$962
Past due 90 days or more still accruing	1,828	927
Nonaccrual	86,919	51,624
Total risk loans	89,526	53,513
Other property owned	1,696	605
Total risk assets	\$91,222	\$54,118
Risk loans as a % of total loans	4.1%	2.5%
Total delinquencies as a % of total loans	2.2%	1.0%

Our risk assets have increased from December 31, 2008, and the increase is primarily due to the challenging economic conditions facing our customers. However they remain at acceptable levels.

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

The increase in nonaccrual loans was due to continued pressure on the agribusiness section of our portfolio. Despite the increase in nonaccrual loans, total risk loans as a percentage of total loans remains well within our

established risk management guidelines. The volume of nonaccrual loans remained at an acceptable level at June 30, 2009, and represented 4.0% of our total portfolio. At June 30, 2009, 55.6% of our nonaccrual loans were current.

In April 2009, we acquired a portion of our nonaccrual volume, representing our interest in certain ethanol loans. The acquired properties are held in limited liability corporations formed by the lenders for that purpose. The total amount of our share of the acquired properties was \$7.5 million, of which \$6.4 million were sold in June 2009.

As a result of continued stress in our portfolio and the challenging economic conditions, the credit quality of our portfolio has declined since December 31, 2008. Adversely classified assets increased from 3.5% of the portfolio at December 31, 2008, to 9.1% of the portfolio at June 30, 2009. Adversely classified assets are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In some circumstances, we use various governmental guarantee programs to reduce the risk of loss. At June 30, 2009, \$125.5 million of our loans were, to some level, guaranteed under these governmental programs.

The second quarter of 2009 was similar to 2008 with a wet weather pattern across the state causing planting delays. The majority of the bean crop was planted in June. Some corn had to be replanted in May and June. Corn acreage is projected to be reduced in 2009, with an increase in soybean acreage. Crop insurance claims for replanting and prevented plantings remain higher than normal, but below 2008 levels. The majority of wheat has been harvested, with overall average yields. The hay crop is good, but has been a challenge to harvest due to wet conditions. Grain prices remain strong, reducing the profitability of livestock, dairy, and poultry operations. Swine and dairy operations continue to reflect operating losses during the first half of 2009.

Following the financial market upheaval of the second half of 2008, financial markets improved during the first half of 2009. Policy actions of the Federal Reserve and US Treasury contributed to increased liquidity and stabilization of financial markets. The treasury yield curve steepened, swap spreads tightened and stabilized, and Farm Credit bond cost spreads to both treasuries and the swap curve improved.

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

Comparative allowance coverage of various loan categories follows:

	June 30 2009	December 31 2008
Allowance as a percentage of:		
Loans	0.8%	0.2%
Nonaccrual loans	18.6%	9.7%
Total risk loans	18.1%	9.4%

The increase in our allowance for loan losses reflects the continued stress in our portfolio. We have increased our general allowance in anticipation of additional losses due to these events. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2009.

### Results of Operations

Net income for the six months ended June 30, 2009 totaled \$10.6 million compared to \$21.2 million for the same period of 2008. The following table illustrates profitability information:

As of June 30	2009	2008
Return on average assets	0.9%	1.7%
Return on average members' equity	5.4%	11.8%

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

Increase (decrease) in net income	2009 vs 2008
Net interest income	(\$3,213)
Provision for loan losses	(11,900)
Patronage income	2,591
Financially related services and miscellaneous income, net	646
Operating expenses	(1,348)
Provision for income taxes	2,709
Total change in net income	(\$10,515)

Net interest income was \$28.2 million for the six months ended June 30, 2009. The following table quantifies changes in net interest income for the six months ended June 30, 2009 compared to June 30, 2008 (in thousands):

Change in net interest income	2009 vs 2008
Changes in volume	(\$4,197)
Changes in rates	1,257
Changes in nonaccrual income and other	(273)
Net change	(\$3,213)

The change in the provision for loan losses is related to the current economic conditions and the expectation of future losses as a consequence of the continued stress on our portfolio. The increase in patronage income is related to patronage received on participations sold to AgriBank. The increase in financially related services and miscellaneous income, net is primarily due to premiums on our crop insurance program. The operating expense increases were primarily related to increased salaries and benefits. The change in provision for income taxes is related to decreased taxable income. The decrease in net interest income is related to the \$489.6 million participation interest in real estate loans sold to AgriBank in June 2008.

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

### Funding, Liquidity and Capital

We borrow from AgriBank, FCB in the form of a line of credit. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

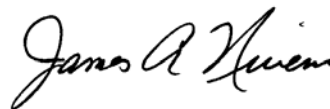
Total members' equity increased \$8.9 million from December 31, 2008, due to net income for the period and an increase in capital stock and participation certificates. It was partially offset by patronage distribution accruals.

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

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At June 30, 2009, our ratio was 13.5%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At June 30, 2009, our ratio was 13.1%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any preferred stock investment in AgriBank, FCB divided by average risk-adjusted assets. At June 30, 2009, our ratio was 13.1%.

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

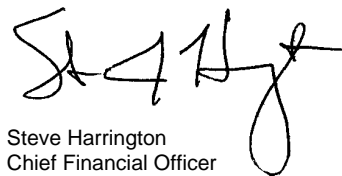
The undersigned certify they have reviewed FCS Financial, ACA's June 30, 2009 quarterly report and it has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief. Subsequent events have been evaluated through August 7, 2009, which is the date the financial statements were issued.



James Nivens  
Chairperson of the Board  
FCS Financial, ACA



Daryl Oldvader  
Chief Executive Officer  
FCS Financial, ACA



Steve Harrington  
Chief Financial Officer  
FCS Financial, ACA

August 7, 2009

**CONSOLIDATED STATEMENT OF CONDITION**

FCS Financial, ACA

(Dollars in thousands)

(Unaudited)

	June 30 2009	December 31 2008
<b>ASSETS</b>		
Loans	\$2,147,598	\$2,159,320
Allowance for loan losses	16,190	5,032
<b>Net loans</b>	<b>2,131,408</b>	<b>2,154,288</b>
Investment in AgriBank	80,676	82,157
Accrued interest receivable	22,816	23,924
Premises and equipment, net	10,673	10,942
Other property owned	1,696	605
Net deferred income tax asset	2,151	--
Other assets	11,775	11,632
<b>Total assets</b>	<b>\$2,261,195</b>	<b>\$2,283,548</b>
<b>LIABILITIES</b>		
Note payable to AgriBank	\$1,846,832	\$1,866,071
Accrued interest payable	12,989	17,032
Net deferred income tax liability	--	421
Patronage distribution payable	1,830	4,020
Other liabilities	6,337	11,678
<b>Total liabilities</b>	<b>1,867,988</b>	<b>1,899,222</b>
<b>MEMBERS' EQUITY</b>		
Protected members' equity	29	35
Capital stock and participation certificates	10,959	10,896
Unallocated surplus	382,219	373,395
<b>Total members' equity</b>	<b>393,207</b>	<b>384,326</b>
<b>Total liabilities and members' equity</b>	<b>\$2,261,195</b>	<b>\$2,283,548</b>

**CONSOLIDATED STATEMENT OF INCOME**

FCS Financial, ACA

(Dollars in thousands)

(Unaudited)

Period ended June 30	Three Months		Six Months	
	2009	2008	2009	2008
<b>Interest income</b>	<b>\$26,969</b>	<b>\$35,509</b>	<b>\$54,638</b>	<b>\$75,355</b>
<b>Interest expense</b>	<b>13,010</b>	<b>20,230</b>	<b>26,486</b>	<b>43,990</b>
Net interest income	13,959	15,279	28,152	31,365
<b>Provision for loan losses</b>	<b>6,500</b>	<b>600</b>	<b>12,500</b>	<b>600</b>
Net interest income after provision for loan losses	7,459	14,679	15,652	30,765
<b>Other income</b>				
Compensation income	33	34	63	63
Patronage income	3,034	2,350	6,368	3,777
Financially related services and miscellaneous income, net	1,001	1,363	2,434	1,788
<b>Total other income</b>	<b>4,068</b>	<b>3,747</b>	<b>8,865</b>	<b>5,628</b>
<b>Operating expense</b>				
Salaries and employees benefits	4,292	4,104	8,508	7,836
Other operating	3,913	3,729	7,758	7,082
<b>Total operating expenses</b>	<b>8,205</b>	<b>7,833</b>	<b>16,266</b>	<b>14,918</b>
Income before income taxes	3,322	10,593	8,251	21,475
<b>Provision for income taxes</b>	<b>(1,668)</b>	<b>(22)</b>	<b>(2,409)</b>	<b>300</b>
<b>Net income</b>	<b>\$4,990</b>	<b>\$10,615</b>	<b>\$10,660</b>	<b>\$21,175</b>

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

FCS Financial, ACA

(Dollars in thousands)

(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
<b>Balance at December 31, 2007</b>	<b>\$48</b>	<b>\$10,573</b>	<b>\$336,580</b>	<b>\$347,201</b>
Net income	--	--	21,175	21,175
Earnings reserved for patronage distribution	--	--	(2,000)	(2,000)
Capital stock/participation certificates issued	--	824	--	824
Capital stock/participation certificates retired	(8)	(544)	--	(552)
<b>Balance at June 30, 2008</b>	<b>\$40</b>	<b>\$10,853</b>	<b>\$355,755</b>	<b>\$366,648</b>
<b>Balance at December 31, 2008</b>	<b>\$35</b>	<b>\$10,896</b>	<b>\$373,395</b>	<b>\$384,326</b>
Net income	--	--	10,660	10,660
Earnings reserved for patronage distribution	--	--	(1,836)	(1,836)
Capital stock/participation certificates issued	--	603	--	603
Capital stock/participation certificates retired	(6)	(540)	--	(546)
<b>Balance at June 30, 2009</b>	<b>\$29</b>	<b>\$10,959</b>	<b>\$382,219</b>	<b>\$393,207</b>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: Organization and Significant Accounting Policies

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

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

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

#### Recent Accounting Developments

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

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

### NOTE 2: Allowance for Loan Losses

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

As of June 30	2009	2008
Volume with specific reserves	\$19,556	\$1,505
Volume without specific reserves	69,970	3,214
Total risk loans	\$89,526	\$4,719
Total specific reserves	\$11,096	\$591
For the six months ended June 30	2009	2008
Income on accrual risk loans	\$64	\$83
Income on nonaccrual loans	95	169
Total income on risk loans	\$159	\$252
Average recorded investment	\$71,381	\$6,451

The change in risk loans reflects the continued stress in the agribusiness segment of our portfolio. Similarly, other producers are also experiencing stress in their operations.

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

Six months ended June 30	2009	2008
Balance at beginning of year	\$5,032	\$1,309
Provision for loan losses	12,500	600
Loan recoveries	19	75
Loan chargeoffs	(1,361)	(147)
Balance at end of period	\$16,190	\$1,837

The increase in our Allowance for Loan Losses reflects our expectation of future losses due to the current economic environment.

### NOTE 3: Contingencies

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

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

### NOTE 4: Fair Value Measurements

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

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

	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
Loans (1)	\$0	\$4,573	\$4,225	\$8,798	(\$6,795)
Other property owned (2)	--	689	1,007	1,696	(109)

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

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