



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of AgStar Financial Services, 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 stockholders' investment in AgStar Financial Services, 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 P.O. Box 4249, Mankato, MN 56002-4249 or via electronic mail to AgStarEteam@agstar.com or at our website, www.agstar.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 \$4.7 billion at March 31, 2009, a \$186 million increase from December 31, 2008. This increase is due to our continued focus on client service, marketing excellence, and channel development.

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

As of	March 31 2009	December 31 2008
Loans:		
Accruing restructured	\$1,091	\$1,115
Past due 90 days or more still accruing	5,473	4,162
Nonaccrual	169,760	126,634
Total risk loans	176,324	131,911
Other property ow ned	5,114	5,338
Total risk assets	\$181,438	\$137,249
Risk loans as a % of total loans	3.7%	2.9%
Total delinquencies as a % of total loans	2.5%	1.4%

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

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

The volume of nonaccrual loans remained at an acceptable level at March 31, 2009, and represented 3.6% of our total portfolio. At March 31, 2009, 65.7% of our nonaccrual loans were current.

The credit quality of our portfolio declined from December 31, 2008 mainly resulting from the continued volatility in commodity markets and financial markets. This would include clients in the renewable energy, grain, and animal industries.

Adversely classified assets increased from 4.3% of the portfolio at December 31, 2008, to 5.8% of the portfolio at March 31, 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 March 31, 2009, \$234 million of our loans were, to some level, guaranteed under these governmental programs.

Our main agricultural enterprises consist of grain, swine and dairy operations. Current credit quality, delinquencies, and nonaccrual statistics remain satisfactory but have declined from previous years. Crop producers in our Local Service Area (LSA) generally experienced favorable results during 2008. While input costs have moderated in 2009, narrow profit margins are expected in 2009 based on the current price outlook for corn and soybeans. Swine producers have continued to experience negative profit margins thus far in 2009. Exports have been further slowed recently with the H1N1 influenza A virus and some countries placing restrictions on United States pork exports. Dairy producers have seen much lower milk prices compared to prices realized during most of 2008. Softness in domestic sales combined with a significant drop in exports are key factors. This has resulted in year-to-date losses for most producers. The ethanol industry has been experiencing challenges with current economics typically indicating slight losses to a break-even situation for ethanol plants. Agricultural related businesses have generally been adversely impacted by the overall weak economy, but have typically fared better than those companies which are not closely tied to agriculture.

Farm real estate values in our LSA appear to be stable overall compared to 2008 values. Values for transitional and recreational property have declined in some areas compared to the peak values previously reached.

The rural housing industry within our LSA will continue to face challenges in 2009 and probably well into 2010. However, the challenges will not be to the extent of the problems being

experienced in other areas of the country. The areas on the east and west coasts, along with parts of the southern United States, have experienced the most significant drops in housing values as well as higher unemployment rates. The percentage of homeowners who have defaulted on their mortgage loans is at an all time high.

Mortgage loan interest rates have decreased to less than 5.00% for a 30-year fixed rate. There is hope that the historically low rates will spur the recovery of the industry. It appears it will take some time to pull out of the current recession and restore consumer confidence. Our LSA is fortunate, from an economic viability and diversity standpoint, to have the Twin Cities metro area in the middle of the territory. Regional cities such as Duluth/Superior, St. Cloud, Mankato, Rochester and Eau Claire also contribute to the economic viability of our territory.

Some of our core credit objectives include working with clients to promote risk management, encouraging disciplined marketing plans, and providing individualized servicing plans and strategies. We continue to be involved and support positive legislative changes for agriculture and rural America.

During the first quarter of 2009, the severe stress exhibited in the global financial markets began to stabilize. While market conditions are not yet normal, overall market conditions affecting our funds have improved. Due to the Farm Credit System's sound financial position, we do not expect any disruption in meeting our funding needs.

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:

	March 31	December 31
Allow ance as a percentage of:	2009	2008
Total loans	1.0%	0.7%
Nonaccrual loans	26.7%	23.5%
Total risk loans	25.7%	22.6%

The increase in our allowance levels reflects the impact the volatility in commodity prices and financial markets continues to have on a certain portion of our clients in the renewable energy, grain, and animal industries. In our opinion, the allowance for loan losses was reasonable in relation to the risk in the loan portfolio at March 31, 2009.

Results of Operations

Net income for the three months ended March 31, 2009 totaled \$9.0 million compared to \$20.6 million for the same period of 2008. The following table illustrates profitability information:

As of March 31	2009	2008
Return on average assets	0.7%	1.7%
Return on average stockholders' equity	5.6%	14.1%

The following table summarizes the changes in components of net income for the three months ended March 31, 2009 compared to March 31, 2008 (in thousands):

Increase (decrease) in net income	2009 vs 2008
Net interest income	\$478
Provision for loan and lease losses	(16,140)
Patronage income	283
Financially related services, fee and miscellaneous income, net	(226)
Operating lease income, net	(41)
Operating expenses	(2,327)
Provision for income taxes	6,351
Total change in net income	(\$11,622)

Net interest income was \$30.4 million for the three months ended March 31, 2009. The following table quantifies changes in net interest income for the three months ended March 31, 2009 compared to March 31, 2008 (in thousands):

Changes in net interest income	2009 vs 2008
Changes in volume	\$1,069
Changes in rates	(1,070)
Changes in asset securitization	184
Changes in deferred income	(61)
Changes in nonaccrual income and other	356
Net change	\$478

The change in the provision for loan losses is related to volatility in commodity markets as described above. The increase in patronage income is related to the earnings of the pool assets sold to AgriBank, as described in the 2008 Annual Report. The decrease in financially related services and miscellaneous income, net is primarily due to a decrease in multi-peril crop insurance income resulting from lower commodity prices. This decrease is offset by increases in fee income. The operating expense increases were primarily related to salaries and benefits and FCS insurance fund expense. The change in provision for income taxes is related to decreased income for the taxable entities, primarily caused by the increased provision expense.

We originate rural home loans for resale into the secondary market. We sold loans through the secondary market totaling \$42.3 million through March 31, 2009 compared to \$14.5 million through March 31, 2008. The fee income from this activity totaled \$470 thousand for the three month period ended March 31, 2009 compared to \$92 thousand for the three month period ended March 31, 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. Effective July 1, 2008 our promissory note amount was increased to \$6 billion. The new maturity date is August 31, 2009. The note will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Total members' equity increased \$9.1 million from December 31, 2008, due to net income for the period and an increase in capital stock and participation certificates.

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

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At March 31, 2009, our ratio was 11.6%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At March 31, 2009, our ratio was 11.4%.
- 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 March 31, 2009, our ratio was 9.0%.

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 AgStar Financial Services, ACA's March 31, 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.



David O. Kretzschmar
Chairperson of the Board
AgStar Financial Services, ACA



Paul A. DeBriyn
President and Chief Executive Officer
AgStar Financial Services, ACA



Rodney Hebrink
Senior Vice President and Chief Financial Officer
AgStar Financial Services, ACA

April 30, 2009

CONSOLIDATED STATEMENT OF CONDITION

AgStar Financial Services, ACA
(Dollars in thousands)
(Unaudited)

	March 31 2009	December 31 2008
ASSETS		
Loans	\$4,657,818	\$4,471,889
Allowance for loan and lease losses	45,319	29,765
Net loans	4,612,499	4,442,124
Investment in AgriBank	128,887	126,995
Accrued interest receivable	46,146	48,668
Premises and equipment, net	15,352	15,293
Other property owned	5,114	5,338
Investment securities	573,002	604,049
Assets held for lease, net	42,666	44,338
Net deferred income tax asset	2,662	--
Other assets	28,201	25,797
Total assets	\$5,454,529	\$5,312,602
LIABILITIES		
Note payable to AgriBank	\$4,738,953	\$4,574,868
Accrued interest payable	36,057	43,267
Net deferred income tax liability	--	2,364
Other liabilities	42,494	64,204
Total liabilities	4,817,504	4,684,703
Contingent liabilities		
STOCKHOLDERS' EQUITY		
Capital stock and participation certificates	12,927	12,791
Allocated surplus	210,023	204,300
Unallocated surplus	414,075	410,808
Total stockholders' equity	637,025	627,899
Total liabilities and stockholders' equity	\$5,454,529	\$5,312,602

CONSOLIDATED STATEMENT OF INCOME

AgStar Financial Services, ACA
(Dollars in thousands)
(Unaudited)

	Period ended March 31 2009	2008
Interest income	\$66,448	\$76,600
Interest expense	36,067	46,697
Net interest income	30,381	29,903
Provision for loan and lease losses	16,853	713
Net interest income after provision for loan and lease losses	13,528	29,190
Other income		
Patronage income	3,031	2,748
Financially related services, fee and miscellaneous income, net	11,998	12,224
Operating lease income, net	688	729
Total other income	15,717	15,701
Operating expense		
Salaries and employee benefits	14,807	13,642
Other operating	8,429	7,267
Total operating expense	23,236	20,909
Income before income taxes	6,009	23,982
(Benefit) provision for income taxes	(2,988)	3,363
Net income	\$8,997	\$20,619

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

AgStar Financial Services, ACA
(Dollars in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Total Stockholders' Equity
Balance at December 31, 2007	\$12,200	\$182,067	\$381,187	\$575,454
Net income	--	--	20,619	20,619
Surplus allocated as nonqualified patronage	--	11,509	(11,509)	--
Redemption of prior year allocated patronage	--	(18)	--	(18)
Capital stock/participation certificates issued	419	--	--	419
Capital stock/participation certificates retired	(273)	--	--	(273)
Balance at March 31, 2008	\$12,346	\$193,558	\$390,297	\$596,201
Balance at December 31, 2008	\$12,791	\$204,300	\$410,808	\$627,899
Net income	--	--	8,997	8,997
Surplus allocated as nonqualified patronage	--	5,730	(5,730)	--
Redemption of prior year allocated patronage	--	(7)	--	(7)
Capital stock/participation certificates issued	460	--	--	460
Capital stock/participation certificates retired	(324)	--	--	(324)
Balance at March 31, 2009	\$12,927	\$210,023	\$414,075	\$637,025

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 first 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 three months ended March 31, 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 AgStar Financial Services, ACA (the parent) and AgStar Financial Services, FLCA and AgStar Financial Services, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recent Accounting Developments

Effective January 1, 2009, we adopted SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133. It states that an entity with derivative instruments shall disclose information to enable users of the financial statements to understand:

- How and why an entity uses derivative instruments
- How derivative instruments and related hedged items are accounted for under this Statement and related interpretations
- How derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

The adoption of this Standard did not have an impact on the financial statements; however, the derivative instruments disclosures have been expanded in accordance with SFAS No. 161.

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.

NOTE 2: Allowance for Loan Losses

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

Three months ended March 31	2009	2008
Balance at beginning of year	\$29,765	\$10,435
Provision for loan and lease losses	16,853	713
Loan recoveries	175	309
Loan chargeoffs	(3,196)	(750)
Other	1,722	21
Balance at end of period	<u>\$45,319</u>	<u>\$10,728</u>

The increase in our allowance levels reflects the impact the volatility in commodity prices and financial markets continues to have on a certain portion of our clients in the renewable energy, grain, and animal industries.

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

As of March 31	2009	2008
Volume with specific reserves	\$148,514	\$6,487
Volume without specific reserves	27,810	33,643
Total risk loans	<u>\$176,324</u>	<u>\$40,130</u>
Total specific reserves	\$38,186	\$1,552
For the three months ended March 31	2009	2008
Income on accrual risk loans	\$88	\$59
Income on nonaccrual loans	117	153
Total income on risk loans	<u>\$205</u>	<u>\$212</u>
Average recorded investment	\$154,118	\$34,826

The increase in our total risk loans reflects the impact the volatility in commodity prices and financial markets continues to have on a certain portion of our clients in the renewable energy, grain, and animal industries.

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. See Note 2 to the 2008 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments available for sale	\$0	\$0	\$1,979	\$1,979
Derivative assets	--	131	901	1,032
Liabilities:				
Derivative liabilities	--	--	901	901

The table below represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2009 to March 31, 2009 (n thousands).

Level 3 Instruments Only	Total Fair Value Measurement		
	Investment Securities	Derivative Assets	Derivative Liabilities
Balance at January 1, 2009	\$2,500	\$1,200	\$(1,200)
Total gains or losses realized/unrealized:			
Included in earnings	(861)	(299)	299
Total investment interest income	71		
Cash received	269		
Transfers in and/or out of Level 3			
Balance at March 31, 2009	\$1,979	\$901	\$(901)

Assets measured at fair value on a non-recurring basis at March 31, 2009 for each of the fair value hierarchy values are summarized below (in thousands):

	Fair Value Measurement Using			Fair Value	Gains (Losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans *	\$0	\$7,072	\$108,873	\$115,945	(\$38,891)
Other property owned	--	--	5,114	5,114	--

*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 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.

Valuation Techniques

As more fully discussed in Note 2 to the 2008 Annual Report to Stockholders, SFAS No. 157 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for our assets and liabilities. For a more complete description, see Notes 2 and 14 to the 2008 Annual Report.

Loans: For certain loans evaluated for impairment under SFAS No. 114, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for

which real estate is the collateral. These loans are generally classified as Level 3.

Other Property Owned: Other property owned is generally classified as Level 3. The fair value is based upon the collateral less estimated costs to sell.

Derivatives: Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of derivative positions are valued using internally developed models that use as their basis readily observable market parameters such as benchmark interest rate curves, volatility and other inputs that are observable directly or indirectly in the marketplace. These derivatives are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and options and credit default swaps. Derivatives that are valued based upon models with significant unobservable market parameters or that are normally traded less actively or have one-sided trade activity are classified within Level 3 of the valuation hierarchy.

NOTE 5: Derivative Financial Instruments and Hedging Activities

Effective January 1, 2009, we adopted SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133.

Derivatives Not Designated as Accounting Hedges:

We have certain derivatives not designated as accounting hedges pursuant to SFAS No. 133 which are foreign exchange contracts.

For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings in "Financially related services and miscellaneous income, net" in the Consolidated Statement of Income.

We had \$131 thousand included in "Other assets" on the March 31, 2009 Consolidated Statement of Condition reflecting the fair value of derivative assets not designated as accounting hedges. For the three months ended March 31, 2009, we recognized a \$5 thousand loss in "Financially related services and miscellaneous income, net" on the Consolidated Statement of Income reflecting the 2009 year to date adjustments to fair value.

NOTE 6: Subsequent Event

In April 2009, we acquired a portion of our nonaccrual volume, representing our participation interest in certain renewable fuels loans. This nonaccrual volume at March 31, 2009 totaled \$53.2 million. The acquired properties are held in limited liability companies formed by the lenders for that purpose.