United FCS

2016
Annual Report

United FCS, ACA

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United FCS, ACA

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Greetings,

For the past year, the Farm Credit System and United FCS have celebrated 100 years of serving agriculture and rural communities. During the last century, we have been a sound and constructive source of credit in meeting the needs of rural America. As our centennial celebration ends, one cannot help but be thankful for the hard work and dedication it takes to achieve such a milestone. We are thankful for the confidence that has been placed in the Association by our member-owners, and will look to continue to reward that confidence as we turn our attention to the next century of service.

The agricultural economy continues to present challenges to producers across a variety of commodities. With agriculture being a global business, many factors are outside of our control. This leads some, primarily outside of agriculture, to have uncertainty about the future prospects of our industry. But if there is one industry that has shown the greatest resilience and adaptability, it is agriculture.

United FCS is well positioned to lend a hand, despite the challenges facing our industry. As a cooperative devoted to the success of our members, we value the relationships we hold with those which we serve. Because of these great relationships, our staff continues to work diligently to assist in rebalancing efforts aimed at overcoming today's markets. The outcome of these efforts paid off as 2016 saw a solid year for business. As a reflection of the success achieved this past year, United FCS returned $6 million back to member-owners for the fourth consecutive year in a row.

As an association, we are always seeking the best ways to conduct business. We have witnessed a number of mergers and consolidation in recent years among agribusinesses and farming operations, alike. The financial needs of rural life continue to evolve as time passes. We must be mindful of what it will take to continue serving our members. The decisions made by the Board of Directors of United FCS are done in a manner that ensures a higher degree of relevancy for the Association in the future. Directors carefully weigh the needs of their peers with the need to remain competitive within our marketplace. We are confident that Farm Credit will remain a premier lender to rural America for years to come.

On behalf of United FCS, we want to thank you for your continued support and patronage.

Sincerely,

Bradley Sunderland
Chairperson of the Board
United FCS, ACA

Marcus L. Knisely
Chief Executive Officer
United FCS, ACA

March 13, 2017

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

United FCS, ACA

(dollars in thousands)

	2016	2015	2014	2013	2012
Statement of Condition Data					
Loans	**$ 1,671,137**	$ 1,632,914	$ 1,484,742	$ 1,389,316	$ 1,288,686
Allowance for loan losses	**5,748**	4,359	3,280	2,982	2,871
Net loans	**1,665,389**	1,628,555	1,481,462	1,386,334	1,285,815
Investment in AgriBank, FCB	**23,455**	23,455	23,455	49,688	49,352
Other property owned	**115**	118	150	54	43
Other assets	**38,627**	33,824	31,723	30,367	30,144
Total assets	**$ 1,727,586**	$ 1,685,952	$ 1,536,790	$ 1,466,443	$ 1,365,354
Obligations with maturities of one year or less	**$ 1,422,112**	$ 1,398,474	$ 1,266,736	$ 1,216,748	$ 1,136,866
Total liabilities	**1,422,112**	1,398,474	1,266,736	1,216,748	1,136,866
Capital stock and participation certificates	**4,902**	5,045	5,071	5,017	4,931
Unallocated surplus	**300,572**	282,433	264,983	244,678	223,557
Total members' equity	**305,474**	287,478	270,054	249,695	228,488
Total liabilities and members' equity	**$ 1,727,586**	$ 1,685,952	$ 1,536,790	$ 1,466,443	$ 1,365,354
Statement of Income Data					
Net interest income	**$ 44,090**	$ 40,072	$ 37,632	$ 37,486	$ 36,290
Provision for (reversal of) credit losses	**2,044**	1,491	(130)	(31)	(662)
Other expenses, net	**17,912**	15,134	11,461	10,400	7,900
Net income	**$ 24,134**	$ 23,447	$ 26,301	$ 27,117	$ 29,052
Key Financial Ratios					
Return on average assets	**1.4%**	1.5%	1.9%	2.0%	2.3%
Return on average members' equity	**8.1%**	8.4%	10.1%	11.3%	13.4%
Net interest income as a percentage of average earning assets	**2.7%**	2.7%	2.8%	3.0%	3.1%
Members' equity as a percentage of total assets	**17.7%**	17.1%	17.6%	17.0%	16.7%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%
Allowance for loan losses as a percentage of loans	**0.3%**	0.3%	0.2%	0.2%	0.2%
Permanent capital ratio	**15.5%**	15.4%	15.7%	13.3%	13.2%
Total surplus ratio	**15.3%**	15.1%	15.4%	12.9%	12.8%
Core surplus ratio	**15.3%**	15.1%	15.4%	12.9%	12.8%
Net Income Distributed					
Patronage distributions:					
Cash	**$ 5,995**	$ 5,997	$ 5,996	$ 5,210	$ 5,007

MANAGEMENT'S DISCUSSION AND ANALYSIS

United FCS, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of United FCS, ACA (the Association) and its subsidiaries, United FCS, FLCA and United FCS, PCA (subsidiaries) and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2017, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 73 customer-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System bank, and its affiliated Associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). We are an affiliated Association in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System. The Farm Credit System Insurance Corporation (FCSIC) ensures the timely payment of principal and interest on Systemwide debt obligations and the retirement of protected borrower capital at par or stated value.

Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as at:

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Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of the AgriBank or the AgriBank District financial reports, contact us as stated above.

MERGER ACTIVITY

Under a June 2016 letter of intent, the Boards of Directors of United FCS, ACA and AgCountry Farm Credit Services, ACA made a strategic decision to pursue a merger of the two organizations. The consolidated association would be named AgCountry Farm Credit Services, ACA and would be headquartered in Fargo, ND. Upon completion of the merger, our association would serve nearly 18,000 customers in 65 counties in Minnesota, North Dakota, and Wisconsin, and have assets of over $7 billion.

We are currently working on this initiative. The FCA, our regulator, recently granted preliminary approval, and customer-owners will vote on the merger in early 2017. Should they approve, the merger will be effective July 1, 2017.

FORWARD-LOOKING INFORMATION

This Annual Report includes 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 "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- Political, legal, regulatory, financial markets, international, and economic conditions and developments in the United States (U.S.) and abroad
- Economic fluctuations in the agricultural and farm-related business sectors
- Unfavorable weather, disease, and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency actions relating to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Credit, interest rate, and liquidity risks inherent in our lending activities
- Changes in our assumptions for determining the allowance for loan losses and fair value measurements

AGRICULTURAL AND ECONOMIC CONDITIONS

Informa Economics, in its October 2016 Agribusiness Outlook, states that 2016 world gross domestic product (GDP) growth is forecast at 2.5%, slightly below 2015's growth, characterized by lower commodity prices, weakening currency valuations for emerging market economies, slower growth in China, and uneven growth in developed economies. The longer term outlook for world GDP growth is 3.1% in 2017. Their outlook is for slower growth in the U.S. economy of 1.6% in 2016 versus 2.6% in 2015. The longer term outlook for U.S. GDP growth is 2.7% in 2017.

The United States Department of Agriculture (USDA), in its November 2016 Farm Sector Income Forecast, is forecasting net farm income at $66.9 billion in 2016, down 17.2%. The 2016 forecast would be the lowest since 2009. The USDA's report highlights a 6.2% decrease in cash receipts in 2016. Farm asset values are forecast to decline by 2.1% in 2016 and farm debt is forecast to increase by 5.2%. The value of total farm sector equity is forecast to decline by $79.9 billion, or 3.1%, in 2016 as farm sector assets decline and debt levels increase relative to 2015. Liquidity positions have likewise deteriorated.

The following reflect economic conditions for various commodities based on various USDA December 2016 reports, including World Agricultural Supply and Demand; Milk Supply; Sugar and Sweeteners Outlook; Livestock; Dairy and Poultry Outlook; Hogs and Pigs; and Cold Storage.

Cash Grain-Corn/Soybeans: The USDA projects ending 2016/17 U.S. corn stocks at 2.4 billion bushels (bu), 38.3% higher than the 2015/16 estimated ending stocks. Projected U.S. corn production for 2016/17 is 15.2 billion bu., an increase of 11.9%. The USDA is projecting a season average corn price of $3.05 to $3.65/bu. The USDA is projecting ending U.S soybean stocks for 2016/17 at 480 million bu., 143.7% higher than the 2015/16 estimated ending stocks. Projected U.S. soybean production for 2016/17 is 4.4 billion bu., an increase of 11.1%. The USDA projects the season average soybean price of $8.70 to $10.20/bu. Global soybean production for 2016/17 is projected at 336.1 million tons, 7.3% higher than the estimated 2015/16 production. Current and forecasted 2017 corn and soybean prices will likely be below break-even levels for most area producer's based on expected input costs and yields. Area producers, in general, harvested above average crops in 2016 with yields near or slightly higher than 2015's record yielding corn and soybean crops. The Association experienced a decline in credit quality in 2016 for this segment of our portfolio.

Dairy: The USDA forecasts class III milk prices at $15.85 to $16.65 per hundredweight (cwt) in 2017, an increase from 2016. Milk prices increased in the fourth quarter of 2016 to approximately $16.05 to $16.25/cwt, which, coupled with producer premiums, was generally at break-even levels for a many local dairy producers. Current futures prices are higher than USDA forecasts and indicate that prices will stay above break-even levels for many area producers for 2017. Wisconsin and Minnesota milk production was higher in 2016. Both states show increases in November production versus the prior year, with Wisconsin increasing 2.2% and Minnesota increasing 1.3%.

Sugar: The USDA is forecasting record U.S. sugar production of 9.3 million short tons, raw value (STRV) in 2016/17, a 3.9% increase from 2015/16. Total U.S. ending stocks for 2016/17 are forecast to be 6.2% lower than the prior year due to decreased imports. As a result the stocks to use ratio is forecast to fall to 15.7% from 17.0%. Area producers likely harvested a record sugar beet crop based on tonnage but excess moisture negatively impacted the sugar content which has led to the lower price forecast of $35/ton which is $12 lower than last year's beet price. The 2016 forecast price coupled with strong area yields will likely have our area grower's operating on either side of break-even for the year.

General Livestock: The USDA states, "Lower U.S. animal protein prices from supply increases have helped to offset the negative effects of U.S. dollar appreciation. Foreign demand for U.S. animal protein products has also increased due to foreign income and population gains and from negative supply shocks, like the recent one in China's pork sector."

The December Cold Storage report showed that frozen meat stocks were down 4.0% from the prior year and down 8.0% from the prior month. The report showed that (compared to year-ago levels), frozen beef stocks were up 4.0%, frozen pork stocks were down 7.0%, frozen chicken stocks were down 10.0%, and frozen turkey stocks were up 25.0%.

The December Hogs and Pigs report showed the December 1, 2016 U.S. hogs and pigs inventory was up 4.0% from one year ago, and up 1.0% from the prior quarter. Breeding stock inventory was up 1.0% from year-ago levels and marketing hog inventory was up 4.0% from year-ago levels. The September 2016 to November 2016 pig crop was up 5.0% from year-ago levels. Sows farrowing during this period were up 4.0% from 2016. The average pigs saved per litter was a record high for the September to November period. Increased pork production and competing animal proteins are expected to further pressure hog and pork prices according to USDA. Prices of live equivalent 51 to 52 percent lean hogs are expected to average $49 to $50 per cwt in the third quarter, more than 9.8% below a year-ago levels. Fourth quarter prices are expected to average $35 to $36 per cwt, about 20.5% lower than a year earlier. The hog industry operated at profitable levels for the first 7 months of 2016, but the hog industry is expected to show losses in the fourth quarter of 2016 into the first part of 2017 due to increased hog supplies.

The 2016 U.S. turkey meat production is forecast to total 6.0 billion pounds, 6.5% higher than in 2015, when production was depressed by the highly pathogenic avian influenza (HPAI) outbreak in the first half of 2015. Turkey production is expected to increase in the fourth quarter of 2016 by 4.6%. Turkey production is expected to increase as producers continue to restock after last year's HPAI losses. Whole turkey prices (for hens) still remain well above the trend prior to avian influenza in 2015. The fourth quarter price forecast for frozen hens was lowered to $1.17 to $1.20 and the 2017 forecast was lowered to $1.07 to $1.15.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.7 billion at December 31, 2016, an increase of $38.2 million from December 31, 2015.

Components of Loans

(in thousands) As of December 31	**2016**	2015	2014
Accrual loans:			
Real estate mortgage	**$ 763,485**	$ 706,474	$ 631,799
Production and intermediate term	**535,304**	552,039	514,074
Agribusiness	**233,779**	222,947	194,649
Other	**124,837**	145,300	139,732
Nonaccrual loans	**13,732**	6,154	4,488
Total loans	**$ 1,671,137**	$ 1,632,914	$ 1,484,742

The other category is primarily comprised of energy, communication, agricultural export finance, and rural residential real estate related loans, as well as finance leases and loans and related assets originated under our Mission Related Investment authority.

The increase in total loans from December 31, 2015 was primarily due to mortgage loan growth to new and existing members and additional agribusiness segment growth.

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, credit risk, market conditions, and the need to generate sufficient earnings.

As part of the AgriBank Asset Pool program, we have sold participation interests in real estate loans to AgriBank. The total participation interests in this program were $173.7 million, $204.0 million, and $237.4 million at December 31, 2016, 2015, and 2014, respectively.

Portfolio Distribution

Our portfolio is concentrated primarily in the following states at December 31, 2016: Minnesota 53.1% and Wisconsin 24.5%. We originate and/or purchase the remainder of our portfolio outside of Minnesota and Wisconsin to support rural America and to diversify and manage portfolio concentration risk.

Agricultural Concentrations

As of December 31	**2016**	2015	2014
Cash grains	**36.5%**	37.6%	34.4%
Dairy	**12.4%**	11.9%	11.5%
Landlords	**6.9%**	5.4%	5.0%
Food products	**6.2%**	5.3%	5.3%
Sugar beets	**6.0%**	6.2%	6.4%
Rural utilities	**5.1%**	5.2%	5.2%
Farm equipment and supplies	**3.0%**	2.8%	3.1%
Hogs	**2.9%**	2.7%	2.2%
Beef cattle	**2.8%**	3.3%	3.3%
Cranberries	**2.4%**	2.3%	2.4%
Timber	**1.9%**	1.8%	1.7%
Poultry and eggs	**1.8%**	1.6%	2.0%
Potatoes	**1.6%**	1.9%	1.8%
Ethanol	**0.3%**	0.6%	0.8%
Other	**10.2%**	11.4%	14.9%
Total	**100.0%**	100.0%	100.0%

Commodities are based on the borrower's primary intended commodity at the time of loan origination and may change due to borrower business decisions as a result of changes in weather, prices, input costs, and other circumstances.

Our production and intermediate term loan portfolio shows some seasonality. These loans are normally at their lowest balances during January and February because of operating payments following harvest. Borrowings increase throughout the planting and growing seasons to meet farmers' operating and capital needs, before peaking in December with year-end tax planning.

Portfolio Credit Quality

The credit quality of our portfolio declined slightly from December 31, 2015. Adversely classified loans increased to 2.3% of the portfolio at December 31, 2016, from 2.2% of the portfolio at December 31, 2015, but remains manageable and within the Association's risk bearing capacity. Adversely classified loans are loans and leases with serious contractual performance deficiencies and/or borrowers that exhibit serious weakness in repayment capacity, working capital, equity, and/or collateral. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses. Our current credit quality expectations for 2017 are less favorable than in prior years, but our credit quality is projected to remain at acceptable levels.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At December 31, 2016, $133.2 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	**2016**	2015	2014
Loans:			
Nonaccrual	**$ 13,732**	$ 6,154	$ 4,488
Accruing restructured	**11,643**	2,761	2,557
Accruing loans 90 days or more past due	**15**	623	--
Total risk loans	**25,390**	9,538	7,045
Other property owned	**115**	118	150
Total risk assets	**$ 25,505**	$ 9,656	$ 7,195
Total risk loans as a percentage of total loans	**1.5%**	0.6%	0.5%
Nonaccrual loans as a percentage of total loans	**0.8%**	0.4%	0.3%
Current nonaccrual loans as a percentage of total nonaccrual loans	**72.8%**	59.8%	71.4%
Total delinquencies as a percentage of total loans	**0.3%**	0.2%	0.1%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2015, but remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to a decline in credit quality as a result of continued low commodity prices. Nonaccrual loans remained at an acceptable level at December 31, 2016, 2015, and 2014.

The increase in accruing restructured loans was primarily due to well collateralized loans we have restructured in our real estate mortgage and production loan portfolios.

Our accounting policy requires accruing loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, all accruing loans 90 days or more past due were eligible to remain in accruing status.

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, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of December 31	**2016**	2015	2014
Allowance as a percentage of:			
Loans	**0.3%**	0.3%	0.2%
Nonaccrual loans	**41.9%**	70.8%	73.1%
Total risk loans	**22.6%**	45.7%	46.6%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to risk funds	**13.7%**	13.8%	4.9%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2016.

Additional loan information is included in Notes 3, 9, 10, and 11 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	**2016**	2015	2014
Net income	**$ 24,134**	$ 23,447	$ 26,301
Return on average assets	**1.4%**	1.5%	1.9%
Return on average members' equity	**8.1%**	8.4%	10.1%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

	For the year ended December 31			Increase (decrease) in net income	
(in thousands)	**2016**	2015	2014	**2016 vs 2015**	2015 vs 2014
Net interest income	**$ 44,090**	$ 40,072	$ 37,632	**$ 4,018**	$ 2,440
Provision for (reversal of) credit losses	**2,044**	1,491	(130)	**(553)**	(1,621)
Patronage income	**7,998**	8,521	10,215	**(523)**	(1,694)
Other income, net	**8,495**	9,113	7,898	**(618)**	1,215
Operating expenses	**34,027**	32,547	29,417	**(1,480)**	(3,130)
Provision for income taxes	**378**	221	157	**(157)**	(64)
Net income	**$ 24,134**	$ 23,447	$ 26,301	**$ 687**	$ (2,854)

Net Interest Income

Changes in Net Interest Income

(in thousands) For the year ended December 31	**2016 vs 2015**	2015 vs 2014
Changes in volume	**$ 3,714**	$ 3,238
Changes in interest rates	**(268)**	(879)
Changes in nonaccrual income and other	**572**	81
Net change	**$ 4,018**	$ 2,440

Net interest income included income on nonaccrual loans that totaled $886 thousand, $315 thousand, and $234 thousand in 2016, 2015, and 2014, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.7%, 2.7%, and 2.8% in 2016, 2015, and 2014, respectively. We expect margins to further compress in the future if interest rates continue to rise and competition increases.

Provision for (Reversal of) Credit Losses

The fluctuation in the provision for (reversal of) credit losses was related to our estimate of losses in our portfolio for the applicable years. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. The patronage rates were 25.6 basis points, 26.0 basis points, and 33.5 basis points in 2016, 2015, and 2014, respectively. We recorded patronage income of $3.5 million, $3.2 million, and $3.8 million in 2016, 2015, and 2014, respectively.

Since 2008, we have participated in the AgriBank Asset Pool program in which we sell participation interests in certain real estate loans to AgriBank. As part of this program, we received patronage income in an amount that approximated the net earnings of the loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. In addition, we received patronage income in an amount that approximated the wholesale patronage had we retained the volume. We recorded asset pool patronage income of $4.4 million, $5.3 million, and $6.3 million in 2016, 2015, and 2014, respectively.

Patronage distributions for the programs discussed above are declared solely at the discretion of AgriBank's Board of Directors.

Operating Expenses

Components of Operating Expenses

(dollars in thousands) For the year ended December 31	2016	2015	2014
Salaries and employee benefits	**$ 22,552**	$ 22,306	$ 19,577
Purchased and vendor services	**2,074**	1,946	1,756
Communications	**248**	267	253
Occupancy and equipment	**2,190**	2,226	2,231
Advertising and promotion	**928**	821	875
Examination	**515**	444	427
Farm Credit System insurance	**2,397**	1,661	1,403
Other	**3,123**	2,876	2,895
Total operating expenses	**$ 34,027**	$ 32,547	$ 29,417
Operating rate	**2.1%**	2.2%	2.2%

We have been notified by our regulator, the FCA, that system examination expenses are expected to substantially increase in 2017.

FCSIC insurance expense increased in 2016 primarily due to an increase in the premium rate charged by FCSIC on accrual loans from 13 basis points in 2015 to 16 basis points for the first half and 18 basis points for the second half of 2016. The FCSIC has announced premiums will decrease to 15 basis points for 2017. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

Provision for Income Taxes

The variance in provision for income taxes was related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2016, 2015, and 2014. Additional discussion is included in Note 7 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 5 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2016, we had $595.1 million available under our line of credit. We generally apply excess cash to this line of credit.

Note Payable Information

(dollars in thousands) For the year ended December 31	2016	2015	2014
Average balance	**$ 1,365,141**	$ 1,230,285	$ 1,136,067
Average interest rate	**1.7%**	1.5%	1.5%

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. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

We have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac), a System institution, to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $88.2 million, $107.4 million, and $116.2 million at December 31, 2016, 2015, and 2014, respectively. We paid Farmer Mac commitment fees totaling $281 thousand, $324 thousand, and $304 thousand in 2016, 2015, and 2014, respectively. These amounts are included in “Other operating expenses” in the Consolidated Statements of Income. As of December 31, 2016, no loans have been sold to Farmer Mac under this agreement.

CAPITAL ADEQUACY

Total members’ equity increased $18.0 million from December 31, 2015, primarily due to net income for the year which was partially offset by patronage distribution accruals.

Members' Equity Position Information

(dollars in thousands) As of December 31	2016	2015	2014	Regulatory Minimums
Members' equity	**$ 305,474**	$ 287,478	$ 270,054	
Surplus as a percentage of members' equity	**98.4%**	98.2%	98.1%	
Surplus as a percentage of risk-adjusted assets	**16.5%**	17.1%	17.1%	
Permanent capital ratio	**15.5%**	15.4%	15.7%	7.0%
Total surplus ratio	**15.3%**	15.1%	15.4%	7.0%
Core surplus ratio	**15.3%**	15.1%	15.4%	3.5%

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.

Additional discussion of these regulatory ratios, along with discussion of new regulations and capital requirements which became effective January 1, 2017, are included in the Regulatory Matters section and in Note 6 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum total 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, 2016, our optimum total capital target was 15.25%, as defined in our 2017 capital plan. We anticipate that we will exceed all regulatory requirements, including the capital conservation buffer. Further, we expect we will be within our targeted range for capital adequacy measures.

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 6 to the accompanying Consolidated Financial Statements.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 5 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

In the periods presented, we were not subject to the risk premium component. Certain factors may impact our cost of funds, which primarily includes market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset Liability Committee.

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 distributed AgriBank surplus. As of December 31, 2016, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. In December 2016, AgriBank's Board approved the 2017 capital plan, which amended the required stock investments for affiliated Associations, effective January 1, 2017. The new required investment will be the lesser of 4.0% or a multiple component calculation based on a percentage of our average quarterly balance of our note payable to AgriBank with a higher percentage on balances above a sustainable growth rate and includes a component for additional investments under the asset pool program. The 2017 component requirements are currently 2.25% on average note payable, with an additional 4.5% on growth in excess of a 5.5% sustainable growth rate and an 8.0% investment under the asset pool program.

Effective January 1, 2014, we entered into a contractual agreement with AgriBank whereby our required investment in AgriBank was reduced by up to $26.2 million. In return for this lower required investment amount, we agreed to pay an additional spread on a portion of our note payable with AgriBank equal to the reduction in our required investment.

As of December 31, 2016, we were required to hold AgriBank stock equal to 8.0% of the quarter end balance in the AgriBank Asset Pool program.

At December 31, 2016, our entire investment in AgriBank consisted of stock representing distributed AgriBank surplus. 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 different types of discretionary patronage from AgriBank, which is paid in cash. AgriBank's Board of Directors sets the level of:

- Patronage on our note payable with AgriBank
- Patronage based on the balance and net earnings of loans in the AgriBank Asset Pool program

Purchased Services

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, tax reporting services, technology services, insurance services, and internal audit services.

The total cost of services we purchased from AgriBank was $869 thousand, $897 thousand, and $798 thousand in 2016, 2015, and 2014, respectively. Costs of services purchased from AgriBank are partially dependent on the number of clients, if the number of clients decreases, the cost of services may increase.

During 2016, District Associations and AgriBank conducted research related to the creation of a separate service entity to provide many of the business services offered by AgriBank. A separate service entity may allow District Associations and AgriBank to develop and maintain long term cost effective technology and business services. If pursued, the service entity formation would require approval by the FCA and would be owned by certain District Associations and AgriBank. We expect to have a decision to submit an application to the FCA by the end of the first quarter of 2017.

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

FCS Commercial Finance Group: We participate in the FCS Commercial Finance Group (CFG) alliance with certain other associations in the AgriBank District to better meet the financial needs of agricultural producers and agribusiness operations. CFG is directed by representatives from participating associations. The income, expense, and credit risks are allocated based on each association's participation interest of the CFG volume. Each association determines its commitment for new volume opportunities based on its capacity and preferences. We had $349.5 million, $317.8 million, and $277.1 million of CFG volume at December 31, 2016, 2015, and 2014, respectively. We also had $193.9 million of available commitment on CFG loans at December 31, 2016.

As the facilitating association for CFG, we are compensated to provide various support functions. This includes human resources, accounting, payroll, reporting, technology, and other finance functions. We also serve as the primary originating association for CFG participation purchases and sales.

ProPartners Financial: We participate in the ProPartners Financial (ProPartners) alliance with certain other associations in the Farm Credit System to provide producer financing through agribusinesses that sell crop inputs. ProPartners is directed by representatives from participating associations. The income, expense, and credit risks are allocated based on each association's participation interest of the ProPartners volume. Each association's allocation is established based on mutual agreement of the owners. We had $36.0 million, $37.2 million, and $15.9 million of ProPartners volume at December 31, 2016, 2015, and 2014, respectively. We also had $43.7 million of available commitment on ProPartners loans at December 31, 2016.

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

As the facilitating association for Insight, we are compensated to provide various support functions. This includes support for human resources, accounting, payroll, reporting, and other finance functions. Effective January 1, 2017, we will no longer be the facilitating association for Insight.

Federal Agricultural Mortgage Corporation: We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac. This agreement allows us to sell loans identified under the agreement to Farmer Mac. Refer to the Funding and Liquidity section for further discussion of this agreement.

Farm Credit Leasing: We have an agreement with Farm Credit Leasing (FCL), owned by CoBank, which specializes in leasing products and providing industry expertise. Leases are originated and serviced by FCL and we purchase a participation interest in the cash flows of the transaction. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise. This partnership also helps us to manage risk and manage hold levels.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing or selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $167 thousand, $134 thousand, and $110 thousand at December 31, 2016, 2015, and 2014, respectively. CoBank provides direct loan funds to associations in its chartered territory, and makes loans to cooperatives and other eligible borrowers.

Farm Credit Services of America, ACA: We have a relationship with Farm Credit Services of America, ACA (FCS of America), an AgriBank District association, which involves purchasing or selling participation interests in loans. As part of this relationship, our equity investment in FCS of America was $1 thousand at December 31, 2016, 2015, and 2014. This partnership also helps us to manage risk and hold levels.

Farm Credit Foundations: We have a relationship and ownership interest with Farm Credit Foundations (Foundations) which involves purchasing human resource information systems, and benefit, payroll, and workforce management services. As of December 31, 2016, 2015, and 2014, our investment in Foundations was $27 thousand. The total cost of services we purchased from Foundations was $163 thousand, $143 thousand, and $127 thousand in 2016, 2015, and 2014, respectively.

Rural Business Investment Company (RBIC): We and other Farm Credit Institutions are among the limited partners for a $154.5 million RBIC established on October 3, 2014.

Programs

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

Agriculture and Rural Community Bond Program: We participated in the Agriculture and Rural Community (ARC) Bond Program authorized during 2006 by the FCA 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. The FCA Board voted to conclude the program effective December 31, 2014. The Board's action permits each System institution to hold its ARC Bond Program investments through the maturity dates for the investments, provided the institution continues to meet all approval conditions. The ARC Bond Program is part of our mission related investments. These investments will help to increase rural communities' and businesses' well-being and prosperity by providing an adequate flow of capital into rural areas. We had $11.0 million, $22.4 million, and $25.2 million of volume under this program at December 31, 2016, 2015, and 2014, respectively.

Cash Manager: We offer Cash Manager, for customers that need a cash management product. Cash Manager is a CoBank product that offers customer services that concentrate on settlement, disbursement, and collection. It is a fee-based service, which expedites the cash management process and maximizes the use of idle cash.

Equipment Financing: We have entered into agreements with certain dealer networks to provide alternative service delivery channels to borrowers. These trade credit opportunities create more flexible and accessible financing options to borrowers through dealer point-of-purchase financing programs.

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.

FCC Services: We have a strategic support agreement with FCC Services to enable FCC Services to provide reinsurance to crop insurance companies that includes a loss/gain sharing agreement.

Operating Loans Alliance Program: We have entered into agreements with various crop input suppliers to provide point-of-sale input financing. This program allows producers to have the convenience of financing their inputs with us and in many cases take advantage of additional discounts with crop input suppliers.

REGULATORY MATTERS

Regulatory Capital Requirements

Effective January 1, 2017, the regulatory capital requirements for System banks and associations were modified. The stated objectives of the revised requirements are to:

- Modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise
- Ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System
- Make System regulatory capital requirements more transparent
- Meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act

The final rule replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The final rule also added a tier 1 leverage ratio and an unallocated retained earnings equivalents leverage ratio. The permanent capital ratio continues to remain in effect with the final rule. Refer to Note 6 to the accompanying Consolidated Financial Statements for additional information regarding these ratios.

Investment Securities Eligibility

On June 12, 2014, the FCA Board approved a proposed rule to revise the requirements governing the eligibility of investments for System banks and associations. The stated objectives of the proposed rule are to:

- Strengthen the safety and soundness of System Banks and Associations
- Ensure that System Banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption
- Enhance the ability of the System Banks to supply credit to agricultural and aquatic producers
- Comply with the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act
- Modernize the investment eligibility criteria for System Banks
- Revise the investment regulation for System Associations to improve their investment management practices so they are more resilient to risk

The public comment period ended on October 23, 2014. The FCA has not issued any further information regarding this proposed rule.

REPORT OF MANAGEMENT

United FCS, ACA

We prepare the Consolidated Financial Statements of United FCS, ACA (the Association) 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 the Association. 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 auditing standards generally accepted 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 the Association.

The undersigned certify we have reviewed the Association's Annual Report, which has been prepared in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Bradley Sunderland
Chairperson of the Board
United FCS, ACA

Marcus L. Knisely
Chief Executive Officer
United FCS, ACA

Robert M. Haines
Chief Financial Officer
United FCS, ACA

March 13, 2017

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

United FCS, ACA

The United FCS, ACA (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 Board 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, 2016. In making the assessment, management used the 2013 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, 2016, 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, 2016.

Marcus L. Knisely
Chief Executive Officer
United FCS, ACA

Robert M. Haines
Chief Financial Officer
United FCS, ACA

March 13, 2017

REPORT OF AUDIT COMMITTEE

United FCS, ACA

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of United FCS, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions 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 auditing standards generally accepted 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, 2016, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any 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 any other matters and received any 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, 2016.

William Oemichen
Chairperson of the Audit Committee
United FCS, ACA

Members of the Audit Committee:
Suzanne Allen, Vice Chairperson of the Audit Committee
Lynn Pietig
Bradley Sunderland
Jeffrey Thompson

March 13, 2017

Report of Independent Auditors

To the Board of Directors of United FCS, ACA,

We have audited the accompanying Consolidated Financial Statements of United FCS, ACA (the Association) and its subsidiaries, which comprise the consolidated statements of condition as of December 31, 2016, 2015 and 2014, and the related consolidated statements of income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Consolidated Financial Statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of United FCS, ACA and its subsidiaries as of December 31, 2016, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 13, 2017

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
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CONSOLIDATED STATEMENTS OF CONDITION

United FCS, ACA

(in thousands)

As of December 31	**2016**	2015	2014
ASSETS			
Loans	**$ 1,671,137**	$ 1,632,914	$ 1,484,742
Allowance for loan losses	**5,748**	4,359	3,280
Net loans	**1,665,389**	1,628,555	1,481,462
Investment in AgriBank, FCB	**23,455**	23,455	23,455
Accrued interest receivable	**13,990**	12,963	11,159
Other property owned	**115**	118	150
Deferred tax assets, net	**1,019**	584	44
Other assets	**23,618**	20,277	20,520
Total assets	**$ 1,727,586**	$ 1,685,952	$ 1,536,790
LIABILITIES			
Note payable to AgriBank, FCB	**$ 1,399,907**	$ 1,378,968	$ 1,249,843
Accrued interest payable	**5,597**	4,719	4,021
Patronage distribution payable	**6,000**	6,000	6,000
Other liabilities	**10,608**	8,787	6,872
Total liabilities	**1,422,112**	1,398,474	1,266,736
Contingencies and commitments (Note 10)			
MEMBERS' EQUITY			
Capital stock and participation certificates	**4,902**	5,045	5,071
Unallocated surplus	**300,572**	282,433	264,983
Total members' equity	**305,474**	287,478	270,054
Total liabilities and members' equity	**$ 1,727,586**	$ 1,685,952	$ 1,536,790

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

United FCS, ACA

(in thousands)

For the year ended December 31	2016	2015	2014
Interest income	**$ 67,354**	$ 58,930	$ 54,504
Interest expense	**23,264**	18,858	16,872
Net interest income	**44,090**	40,072	37,632
Provision for (reversal of) credit losses	**2,044**	1,491	(130)
Net interest income after provision for (reversal of) credit losses	**42,046**	38,581	37,762
Other income			
Patronage income	**7,998**	8,521	10,215
Financially related services income	**5,239**	5,000	4,553
Fee income	**2,800**	2,613	2,376
Miscellaneous income, net	**456**	1,500	969
Total other income	**16,493**	17,634	18,113
Operating expenses			
Salaries and employee benefits	**22,552**	22,306	19,577
Other operating expenses	**11,475**	10,241	9,840
Total operating expenses	**34,027**	32,547	29,417
Income before income taxes	**24,512**	23,668	26,458
Provision for income taxes	**378**	221	157
Net income	**$ 24,134**	$ 23,447	$ 26,301

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

United FCS, ACA

(in thousands)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance as of December 31, 2013	$ 5,017	$ 244,678	$ 249,695
Net income	--	26,301	26,301
Unallocated surplus designated for patronage distributions	--	(5,996)	(5,996)
Capital stock and participation certificates issued	425	--	425
Capital stock and participation certificates retired	(371)	--	(371)
Balance as of December 31, 2014	5,071	264,983	270,054
Net income	--	23,447	23,447
Unallocated surplus designated for patronage distributions	--	(5,997)	(5,997)
Capital stock and participation certificates issued	440	--	440
Capital stock and participation certificates retired	(466)	--	(466)
Balance as of December 31, 2015	5,045	282,433	287,478
Net income	**--**	**24,134**	**24,134**
Unallocated surplus designated for patronage distributions	**--**	**(5,995)**	**(5,995)**
Capital stock and participation certificates issued	**350**	**--**	**350**
Capital stock and participation certificates retired	**(493)**	**--**	**(493)**
Balance as of December 31, 2016	**$ 4,902**	**$ 300,572**	**$ 305,474**

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

United FCS, ACA

(in thousands)

For the year ended December 31		**2016**		2015		2014
Cash flows from operating activities						
Net income	**$**	**24,134**	$	23,447	$	26,301
Depreciation on premises and equipment		**768**		781		812
Amortization of premiums on loans, net		**52**		41		13
Provision for (reversal of) credit losses		**2,044**		1,491		(130)
Stock patronage received from Farm Credit Institutions		**(33)**		(24)		(15,304)
(Gain) loss on other property owned, net		**(2)**		3		(71)
Changes in operating assets and liabilities:						
Increase in accrued interest receivable		**(1,130)**		(2,020)		(1,427)
Increase in other assets		**(3,053)**		(773)		(715)
Increase in accrued interest payable		**878**		698		294
Increase (decrease) in other liabilities		**1,821**		1,915		(1,215)
Net cash provided by operating activities		**25,479**		25,559		8,558
Cash flows from investing activities						
Increase in loans, net		**(38,674)**		(148,186)		(94,620)
Redemptions of investment in AgriBank, FCB, net		**--**		--		41,510
Redemptions (purchases) of investment in other Farm Credit Institutions, net		**1**		--		--
Sales of assets held for lease, net		**63**		116		56
Proceeds from sales of other property owned		**5**		62		71
Purchases of premises and equipment, net		**(1,522)**		(397)		(261)
Net cash used in investing activities		**(40,127)**		(148,405)		(53,244)
Cash flows from financing activities						
Increase in note payable to AgriBank, FCB, net		**20,939**		129,125		50,907
Patronage distributions paid		**(5,995)**		(5,997)		(5,996)
Capital stock and participation certificates retired, net		**(296)**		(282)		(225)
Net cash provided by financing activities		**14,648**		122,846		44,686
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	**$**	**331**	$	420	$	406
Stock applied against loan principal		**177**		164		126
Stock applied against interest		**1**		--		1
Interest transferred to loans		**102**		216		208
Loans transferred to other property owned		**--**		33		96
Patronage distributions payable to members		**6,000**		6,000		6,000
Supplemental information						
Interest paid	**$**	**22,386**	$	18,160	$	16,578
Taxes paid		**700**		941		741

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
United FCS, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2017, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 73 customer-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System bank, and its affiliated Associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2017, the District consisted of 17 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs 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 authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. 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 System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

Association

United FCS, ACA (the Association) and its subsidiaries, United FCS, FLCA and United FCS, PCA (subsidiaries) are lending institutions of the System. We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Chippewa, Kandiyohi, Lac qui Parle, Lincoln, Lyon, Meeker, Redwood, Renville, Swift, and Yellow Medicine in the state of Minnesota and the counties of Clark, Forest, Langlade, Lincoln, Marathon, Oneida, Portage, Price, Taylor, Vilas, Waushara, and Wood in the state of Wisconsin.

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.

We offer the following insurance products: credit life, term life, credit disability, crop hail, livestock risk protection, livestock gross margin, total weather, multi-peril and crop revenue coverage to borrowers and those eligible to borrow. We also offer farm records, fee appraisals, income tax planning and preparation services, retirement and succession planning, and producer education services to our members.

Merger Activity

Under a June 2016 letter of intent, the Boards of Directors of United FCS, ACA and AgCountry Farm Credit Services, ACA made a strategic decision to pursue a merger of the two organizations. The consolidated association would be named AgCountry Farm Credit Services, ACA and would be headquartered in Fargo, ND. Upon completion of the merger, our association would serve nearly 18,000 customers in 65 counties in Minnesota, North Dakota, and Wisconsin, and have assets of over $7 billion.

We are currently working on this initiative. The FCA, our regulator, recently granted preliminary approval, customer-owners will vote on the merger in early 2017. Should they approve, the merger will be effective July 1, 2017.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP 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 period. Actual results could differ from those estimates.

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of United FCS, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

Generally 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 current year 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, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. 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 charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, the borrower has demonstrated payment performance, and the loan is not classified as doubtful or loss.

In situations where, for economic or legal reasons related to the borrower’s financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans (as defined below).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets, or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets, or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses in our loan 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, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, 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.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity, recorded in “Provision for (reversal of) credit losses” in the Consolidated Statements of Income, recoveries, and charge-offs.

Investment in AgriBank: Our stock investment in AgriBank is on a cost plus allocated equities basis.

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in “Miscellaneous income, net” in the Consolidated Statements of Income.

Other Investments: The carrying amount of the investment in the Rural Business Investment Company, in which we are a limited partner and hold a non-controlling interest, is at cost and is included in “Other assets” in the Consolidated Statements of Condition. The investment is assessed for impairment. If impairment exists, losses are included in “Miscellaneous income, net” in the Consolidated Statements of Income in the year of impairment. Income on the investment is limited to distributions received. In circumstances when distributions exceed our share of earnings after the date of the investment, these distributions are applied to reduce the carrying value of the investment and are not recognized as income.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in “Other assets” in the Consolidated Statements of Condition. 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 “Miscellaneous income, net” in the Consolidated Statements of Income. Depreciation and maintenance and repair expenses are included in “Other operating expenses” in the Consolidated Statements of Income and improvements are capitalized.

Leases: We have finance and operating leases. Under finance leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance lease income to earnings using the interest method. The carrying amount of finance leases is included in “Loans” in the Consolidated Statements of Condition and represents lease rent and residual receivables net of the unearned income. Under operating leases, property is recorded at cost and depreciated on a straight-line basis over the lease term to an estimated residual value. We recognize operating lease revenue evenly over the term of the lease and charge depreciation and other expenses against revenue as incurred in “Miscellaneous income, net” in the Consolidated Statements of Income. The amortized cost of operating leases is included in “Other assets” in the Consolidated Statements of Condition and represents the asset cost net of accumulated depreciation.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans are included in “Salaries and employee benefits” in the Consolidated Statements of Income.

Certain employees participate in the AgriBank District Retirement Plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001 are on the cash balance formula or on the final average pay formula. Benefits eligible employees hired between October 1, 2001 and December 31, 2006 are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the AgriBank District Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

We also provide certain health 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.

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. We provide benefits under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

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. 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.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Commercial letters of credit are agreements to pay a beneficiary under specific conditions. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management’s best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve is recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss is recorded in “Provision for credit losses” in the Consolidated Statements of Income.

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

Fair Value Measurement: The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current, or principal market information that is not released publicly
- Inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates
- Inputs derived principally from or corroborated by observable market data by correlation or other means

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own judgments about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business:

Standard	Description	Effective date and financial statement impact
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments – Credit Losses."	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020 and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In February 2016, the FASB issued ASU 2016-02 "Leases."	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019 and interim periods the subsequent year. Early adoption is permitted and modified retrospective adoption is required. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In January 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities."	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial statements.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods with annual periods beginning after December 15, 2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our Notes to Consolidated Financial Statements. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2017 for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

Standard	Description	Effective date and financial statement impact
In February 2015, the FASB issued ASU 2015-02 "Consolidation-Amendments to the Consolidation Analysis."	The guidance modifies the assessment of Variable Interest Entity (VIE) characteristics as well as the assessment of related parties. Additional clarifying guidance was issued in October 2016 under ASU 2016-17 "Consolidation-Interests Held through Related Parties That are under Common Control."	The guidance is effective for nonpublic entities for annual reporting after December 15, 2016 and interim periods within annual periods beginning after December 15, 2017. Early adoption is allowed, including in any interim period. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures.
In August 2014, the FASB issued ASU 2014-15 "Presentation of Financial Statements-Going Concern."	The guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the Financial Statements are issued or within one year after the Financial Statements are available to be issued, when applicable. Substantial doubt to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations for the assessed period.	This guidance became effective for all entities for interim and annual periods ending after December 15, 2016. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows, or financial statement disclosures.
In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers."	The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. In March 2016, the FASB issued ASUs 2016-08 and 2016-10 which provided further clarifying guidance on the previously issued standard. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition and results of operations.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2016**			2015			2014		
As of December 31		Amount	**%**		Amount	%		Amount	%
Real estate mortgage	**$**	**769,593**	**46.0%**	$	708,611	43.3%	$	633,255	42.6%
Production and intermediate term		**542,886**	**32.5%**		554,698	34.0%		514,764	34.7%
Agribusiness		**233,821**	**14.0%**		222,988	13.7%		194,690	13.1%
Other		**124,837**	**7.5%**		146,617	9.0%		142,033	9.6%
Total	**$**	**1,671,137**	**100.0%**	$	1,632,914	100.0%	$	1,484,742	100.0%

The other category is primarily comprised of energy, communication, agricultural export finance, and rural residential real estate related loans, as well as finance leases and loans and related assets originated under our Mission Related Investment authority.

Portfolio Concentrations

Concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, which could cause them to be similarly impacted by economic conditions. We lend primarily within agricultural industries.

As of December 31, 2016, volume plus commitments to our ten largest borrowers totaled an amount equal to 6.0% of total loans and commitments.

While these concentrations represent our maximum potential credit risk, as it relates to recorded loan principal, a substantial portion of our lending activities are collateralized. This reduces our exposure to credit loss associated with our lending activities. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property. FCA Regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed by a government agency) of the property's appraised value at origination and our underwriting standards generally limit lending to no more than 65% at origination. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the lender in the collateral, may result in loan-to-value ratios in excess of the regulatory maximum. The District has an internally maintained database which uses market data to estimate market values of collateral for a significant portion of the real estate mortgage portfolio. We consider credit risk exposure in establishing the allowance for loan losses.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with the FCA Regulations or General Financing Agreement (GFA) limitations.

Participations Purchased and Sold

	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
(in thousands)	Participations		Participations		Participations		Participations	
As of December 31, 2016	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (173,832)**	**$ 134,710**	**$ (115,748)**	**$ --**	**$ (1,248)**	**$ 134,710**	**$ (290,828)**
Production and intermediate term	**--**	**(2,222)**	**218,175**	**(200,605)**	**--**	**(129)**	**218,175**	**(202,956)**
Agribusiness	**--**	**(5,573)**	**834,421**	**(1,444,790)**	**76,934**	**--**	**911,355**	**(1,450,363)**
Other	**--**	**(15,223)**	**755,896**	**(646,583)**	**--**	**--**	**755,896**	**(661,806)**
Total	**$ --**	**$ (196,850)**	**$ 1,943,202**	**$ (2,407,726)**	**$ 76,934**	**$ (1,377)**	**$ 2,020,136**	**$ (2,605,953)**

	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2015	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (203,981)	$ 39,051	$ (58,390)	$ --	$ (1,218)	$ 39,051	$ (263,589)
Production and intermediate term	--	(2,222)	193,004	(153,620)	--	(152)	193,004	(155,994)
Agribusiness	--	(10,356)	710,644	(1,155,857)	86,563	--	797,207	(1,166,213)
Other	--	(16,312)	784,942	(670,235)	--	--	784,942	(686,547)
Total	$ --	$ (232,871)	$ 1,727,641	$ (2,038,102)	$ 86,563	$ (1,370)	$ 1,814,204	$ (2,272,343)

	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2014	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (237,382)	$ 42,882	$ (56,825)	$ --	$ (1,240)	$ 42,882	$ (295,447)
Production and intermediate term	--	(6,378)	149,133	(144,427)	--	--	149,133	(150,805)
Agribusiness	--	(15,032)	576,684	(863,499)	22,111	--	598,795	(878,531)
Other	--	(20,704)	711,644	(617,336)	--	--	711,644	(638,040)
Total	$ --	$ (279,496)	$ 1,480,343	$ (1,682,087)	$ 22,111	$ (1,240)	$ 1,502,454	$ (1,962,823)

Information in the preceding chart excludes loans entered into under our Mission Related Investment authority and leasing authority.

Credit Quality and Delinquency

We utilize the FCA Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

We had no loans categorized as loss at December 31, 2016, 2015, or 2014.

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2016	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 755,814**	**97.2%**	**$ 5,318**	**0.7%**	**$ 16,183**	**2.1%**	**$ 777,315**	**100.0%**
Production and intermediate term	**521,482**	**95.2%**	**7,246**	**1.3%**	**19,239**	**3.5%**	**547,967**	**100.0%**
Agribusiness	**231,942**	**98.8%**	**--**	**--**	**2,747**	**1.2%**	**234,689**	**100.0%**
Other	**121,698**	**97.2%**	**2,761**	**2.2%**	**697**	**0.6%**	**125,156**	**100.0%**
Total	**$ 1,630,936**	**96.8%**	**$ 15,325**	**0.9%**	**$ 38,866**	**2.3%**	**$ 1,685,127**	**100.0%**

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2015	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 697,737	97.5%	$ 4,745	0.7%	$ 12,926	1.8%	$ 715,408	100.0%
Production and intermediate term	528,724	94.5%	12,929	2.3%	18,103	3.2%	559,756	100.0%
Agribusiness	217,096	97.0%	3,236	1.4%	3,484	1.6%	223,816	100.0%
Other	140,941	95.9%	3,896	2.7%	2,060	1.4%	146,897	100.0%
Total	$ 1,584,498	96.3%	$ 24,806	1.5%	$ 36,573	2.2%	$ 1,645,877	100.0%

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2014	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 631,871	98.9%	$ 1,238	0.2%	$ 5,917	0.9%	$ 639,026	100.0%
Production and intermediate term	513,146	98.9%	4,389	0.8%	1,522	0.3%	519,057	100.0%
Agribusiness	192,159	98.3%	1,373	0.7%	1,968	1.0%	195,500	100.0%
Other	136,874	96.2%	3,034	2.1%	2,408	1.7%	142,316	100.0%
Total	$ 1,474,050	98.5%	$ 10,034	0.7%	$ 11,815	0.8%	$ 1,495,899	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands) **As of December 31, 2016**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days Past Due and Accruing
Real estate mortgage	**$ 1,062**	**$ 395**	**$ 1,457**	**$ 775,858**	**$ 777,315**	**$ --**
Production and intermediate term	**2,779**	**1,460**	**4,239**	**543,728**	**547,967**	**15**
Agribusiness	**--**	**41**	**41**	**234,648**	**234,689**	**--**
Other	**--**	**--**	**--**	**125,156**	**125,156**	**--**
Total	**$ 3,841**	**$ 1,896**	**$ 5,737**	**$ 1,679,390**	**$ 1,685,127**	**$ 15**

As of December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days Past Due and Accruing
Real estate mortgage	$ 740	$ 381	$ 1,121	$ 714,287	$ 715,408	$ 17
Production and intermediate term	444	2,479	2,923	556,833	559,756	606
Agribusiness	--	41	41	223,775	223,816	--
Other	--	--	--	146,897	146,897	--
Total	$ 1,184	$ 2,901	$ 4,085	$ 1,641,792	$ 1,645,877	$ 623

As of December 31, 2014		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less than 30 Days Past Due		Total		90 Days Past Due and Accruing
Real estate mortgage	$	19	$	1,030	$	1,049	$	637,977	$	639,026	$	--
Production and intermediate term		562		133		695		518,362		519,057		--
Agribusiness		176		41		217		195,283		195,500		--
Other		--		--		--		142,316		142,316		--
Total	$	757	$	1,204	$	1,961	$	1,493,938	$	1,495,899	$	--

Note: Accruing loans include accrued interest receivable.

All loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information

(in thousands) As of December 31		**2016**		2015		2014
Nonaccrual loans:						
Current as to principal and interest	**$**	**9,991**	$	3,679	$	3,206
Past due		**3,741**		2,475		1,282
Total nonaccrual loans		**13,732**		6,154		4,488
Accruing restructured loans		**11,643**		2,761		2,557
Accruing loans 90 days or more past due		**15**		623		--
Total risk loans	**$**	**25,390**	$	9,538	$	7,045
Volume with specific reserves	**$**	**981**	$	1,171	$	1,087
Volume without specific reserves		**24,409**		8,367		5,958
Total risk loans	**$**	**25,390**	$	9,538	$	7,045
Total specific reserves	**$**	**694**	$	560	$	617

For the year ended December 31		**2016**		2015		2014
Income on accrual risk loans	**$**	**382**	$	138	$	125
Income on nonaccrual loans		**886**		315		234
Total income on risk loans	**$**	**1,268**	$	453	$	359
Average recorded risk loans	**$**	**21,293**	$	7,966	$	7,297

Note: Accruing loans include accrued interest receivable.

The increase in nonaccrual loans was primarily due to a decline in credit quality primarily as a result of continued low commodity prices.

The increase in accruing restructured loans was primarily due to loans that were restructured in the real estate mortgage and production portfolios to producers that are well collateralized.

To mitigate credit risk, we have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac). In the event of default, subject to certain conditions, we have the right to sell the loans identified in the agreement to Farmer Mac. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $88.2 million, $107.4 million, and $116.2 million at December 31, 2016, 2015, and 2014, respectively. Fees paid to Farmer Mac for these commitments totaled $281 thousand, $324 thousand, and $304 thousand in 2016, 2015, and 2014, respectively. These amounts are included in “Other operating expenses” in the Consolidated Statements of Income. As of December 31, 2016, no loans have been sold to Farmer Mac under this agreement.

Nonaccrual Loans by Loan Type

(in thousands)

As of December 31	2016	2015	2014
Real estate mortgage	$ 6,109	$ 2,138	$ 1,456
Production and intermediate term	7,582	2,659	690
Agribusiness	41	41	41
Other	--	1,316	2,301
Total	$ 13,732	$ 6,154	$ 4,488

Additional Impaired Loan Information by Loan Type

	As of December 31, 2016			For the year ended December 31, 2016	
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 21	$ 26	$ 21	$ 14	$ --
Production and intermediate term	960	988	673	917	--
Agribusiness	--	--	--	--	--
Other	--	--	--	--	--
Total	$ 981	$ 1,014	$ 694	$ 931	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 9,822	$ 10,471	$ --	$ 6,268	$ 465
Production and intermediate term	13,224	14,253	--	12,634	707
Agribusiness	41	40	--	163	37
Other	1,322	1,601	--	1,297	59
Total	$ 24,409	$ 26,365	$ --	$ 20,362	$ 1,268
Total impaired loans:					
Real estate mortgage	$ 9,843	$ 10,497	$ 21	$ 6,282	$ 465
Production and intermediate term	14,184	15,241	673	13,551	707
Agribusiness	41	40	--	163	37
Other	1,322	1,601	--	1,297	59
Total	$ 25,390	$ 27,379	$ 694	$ 21,293	$ 1,268

	As of December 31, 2015			For the year ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 23	$ 23	$ 23	$ 19	$ --
Production and intermediate term	1,148	1,337	537	787	--
Agribusiness	--	--	--	--	--
Other	--	--	--	--	--
Total	$ 1,171	$ 1,360	$ 560	$ 806	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 2,769	$ 3,626	$ --	$ 2,304	$ 279
Production and intermediate term	4,118	4,671	--	2,819	164
Agribusiness	164	337	--	247	10
Other	1,316	1,671	--	1,790	--
Total	$ 8,367	$ 10,305	$ --	$ 7,160	$ 453
Total impaired loans:					
Real estate mortgage	$ 2,792	$ 3,649	$ 23	$ 2,323	$ 279
Production and intermediate term	5,266	6,008	537	3,606	164
Agribusiness	164	337	--	247	10
Other	1,316	1,671	--	1,790	--
Total	$ 9,538	$ 11,665	$ 560	$ 7,966	$ 453

	As of December 31, 2014			For the year ended December 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ 15	$ --
Production and intermediate term	196	231	104	206	--
Agribusiness	--	--	--	--	--
Other	891	908	513	1,524	--
Total	$ 1,087	$ 1,139	$ 617	$ 1,745	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 1,989	$ 2,745	$ --	$ 2,181	$ 184
Production and intermediate term	2,262	3,482	--	2,378	144
Agribusiness	297	469	--	441	27
Other	1,410	1,620	--	552	4
Total	$ 5,958	$ 8,316	$ --	$ 5,552	$ 359
Total impaired loans:					
Real estate mortgage	$ 1,989	$ 2,745	$ --	$ 2,196	$ 184
Production and intermediate term	2,458	3,713	104	2,584	144
Agribusiness	297	469	--	441	27
Other	2,301	2,528	513	2,076	4
Total	$ 7,045	$ 9,455	$ 617	$ 7,297	$ 359

The recorded investment in the loan is the unpaid principal amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

Unpaid principal balance represents the contractual principal balance of the loan.

We had $1.8 million of commitments to lend additional money to borrowers whose loans were at risk at December 31, 2016. These commitments are with loans that are adequately collateralized.

Troubled Debt Restructurings (TDRs)

Included within our loans are troubled debt restructurings (TDRs). These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

TDR Activity

(in thousands)

For the year ended December 31	**2016**		2015		2014	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 3,753**	**$ 3,753**	$ 138	$ 138	$ 214	$ 214
Production and intermediate term	**9,048**	**9,505**	757	801	417	417
Total	**$ 12,801**	**$ 13,258**	$ 895	$ 939	$ 631	$ 631

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment of the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off.

The primary types of modification included interest rate reduction below market, deferral of principal, and extension of maturity.

We had TDRs in the production and intermediate term loan category of $366 thousand and $3 thousand that defaulted during the years ended December 31, 2016 and 2015, respectively, in which the modifications were within twelve months of the respective reporting period. There were no TDRs that defaulted during the year ended December 31, 2014.

TDRs Outstanding

(in thousands)

As of December 31	**2016**	2015	2014
Accrual status:			
Real estate mortgage	**$ 3,734**	$ 636	$ 533
Production and intermediate term	**6,587**	2,002	1,768
Agribusiness	**--**	123	256
Other	**1,322**	--	--
Total TDRs in accrual status	**$ 11,643**	$ 2,761	$ 2,557
Nonaccrual status:			
Real estate mortgage	**$ 1,379**	$ 961	$ 1,047
Production and intermediate term	**2,808**	151	148
Agribusiness	**--**	--	--
Other	**--**	1,316	1,410
Total TDRs in nonaccrual status	**$ 4,187**	$ 2,428	$ 2,605
Total TDRs:			
Real estate mortgage	**$ 5,113**	$ 1,597	$ 1,580
Production and intermediate term	**9,395**	2,153	1,916
Agribusiness	**--**	123	256
Other	**1,322**	1,316	1,410
Total TDRs	**$ 15,830**	$ 5,189	$ 5,162

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $1.7 million at December 31, 2016. The Association strives to work with its customers experiencing financial difficulties and at times with terms better than market, however, these loans remain fully collateralized with our expectation that the association will fully collect all existing principal and future interest in the majority of cases.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	**2016**	2015	2014
Balance at beginning of year	**$ 4,359**	$ 3,280	$ 2,982
Provision for loan losses	**1,982**	1,491	421
Loan recoveries	**81**	18	33
Loan charge-offs	**(674)**	(430)	(156)
Balance at end of year	**$ 5,748**	$ 4,359	$ 3,280

The increase in allowance for loan losses is related to $2.0 million provision expense recorded in 2016 due to declining credit quality and outlooks for key commodities.

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type

(in thousands)	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2015	**$ 509**	**$ 2,494**	**$ 571**	**$ 785**	**$ 4,359**
Provision for (reversal of) loan losses	**44**	**1,748**	**259**	**(69)**	**1,982**
Loan recoveries	**--**	**81**	**--**	**--**	**81**
Loan charge-offs	**--**	**(674)**	**--**	**--**	**(674)**
Balance as of December 31, 2016	**$ 553**	**$ 3,649**	**$ 830**	**$ 716**	**$ 5,748**
Ending balance: individually evaluated for impairment	**$ 21**	**$ 673**	**$ --**	**$ --**	**$ 694**
Ending balance: collectively evaluated for impairment	**$ 532**	**$ 2,976**	**$ 830**	**$ 716**	**$ 5,054**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2016	**$ 777,315**	**$ 547,967**	**$ 234,689**	**$ 125,156**	**$ 1,685,127**
Ending balance: individually evaluated for impairment	**$ 9,843**	**$ 14,184**	**$ 41**	**$ 1,322**	**$ 25,390**
Ending balance: collectively evaluated for impairment	**$ 767,472**	**$ 533,783**	**$ 234,648**	**$ 123,834**	**$ 1,659,737**

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2014	$ 367	$ 1,085	$ 563	$ 1,265	$ 3,280
Provision for (reversal of) loan losses	143	1,613	11	(276)	1,491
Loan recoveries	--	18	--	--	18
Loan charge-offs	(1)	(222)	(3)	(204)	(430)
Balance as of December 31, 2015	$ 509	$ 2,494	$ 571	$ 785	$ 4,359
Ending balance: individually evaluated for impairment	$ 23	$ 537	$ --	$ --	$ 560
Ending balance: collectively evaluated for impairment	$ 486	$ 1,957	$ 571	$ 785	$ 3,799
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2015	$ 715,408	$ 559,756	$ 223,816	$ 146,897	$ 1,645,877
Ending balance: individually evaluated for impairment	$ 2,792	$ 5,266	$ 164	$ 1,316	$ 9,538
Ending balance: collectively evaluated for impairment	$ 712,616	$ 554,490	$ 223,652	$ 145,581	$ 1,636,339

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2013	$ 277	$ 838	$ 474	$ 1,393	$ 2,982
Provision for (reversal of) loan losses	81	295	89	(44)	421
Loan recoveries	10	23	--	--	33
Loan charge-offs	(1)	(71)	--	(84)	(156)
Balance as of December 31, 2014	$ 367	$ 1,085	$ 563	$ 1,265	$ 3,280
Ending balance: individually evaluated for impairment	$ --	$ 104	$ --	$ 513	$ 617
Ending balance: collectively evaluated for impairment	$ 367	$ 981	$ 563	$ 752	$ 2,663
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2014	$ 639,026	$ 519,057	$ 195,500	$ 142,316	$ 1,495,899
Ending balance: individually evaluated for impairment	$ 1,989	$ 2,458	$ 297	$ 2,301	$ 7,045
Ending balance: collectively evaluated for impairment	$ 637,037	$ 516,599	$ 195,203	$ 140,015	$ 1,488,854

The recorded investment in the loan is the unpaid principal amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

NOTE 4: INVESTMENT IN AGRIBANK

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 distributed AgriBank surplus. As of December 31, 2016, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. In December 2016, AgriBank's Board approved the 2017 capital plan, which amended the required stock investments for affiliated Associations, effective January 1, 2017. The new required investment will be the lesser of 4.0% or a multiple component calculation based on a percentage of our average quarterly balance of our note payable to AgriBank with a higher percentage on balances above a sustainable growth rate and includes a component for additional investments under the asset pool program. The 2017 component requirements are currently 2.25% on average note payable, with an additional 4.5% on growth in excess of a 5.5% sustainable growth rate and an 8% investment under the asset pool program.

Effective January 1, 2014, we entered into a contractual agreement with AgriBank whereby our required investment in AgriBank was reduced by up to $26.2 million. In return for this lower required investment amount, we agreed to pay an additional spread on a portion of our note payable with AgriBank equal to the reduction in our required investment.

As of December 31, 2016, we were also required by AgriBank to maintain an investment equal to 8.0% of the quarter end balance of the participation interests in real estate loans sold to AgriBank under the AgriBank Asset Pool program.

The balance of our investment in AgriBank, all required stock, was $23.5 million for each year ended December 31, 2016, 2015, and 2014.

NOTE 5: 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 GFA and our assets serve as collateral.

Note Payable Information

(dollars in thousands)

As of December 31	**2016**	2015	2014
Line of credit	**$ 2,000,000**	$ 1,700,000	$ 1,500,000
Outstanding principal under the line of credit	**1,399,907**	1,378,968	1,249,843
Interest rate	**1.8%**	1.6%	1.5%

Our note payable matures October 31, 2017, at which time the note will be renegotiated. As discussed in Note 4, effective January 1, 2014, we agreed to pay an additional spread on a portion of our note payable in return for a reduction in our required investment in AgriBank.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. At December 31, 2016, and throughout the year, we materially complied with the GFA terms and were not declared in default under any GFA covenants or provisions.

NOTE 6: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% 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 or lease is made. For the year ended December 31, 2016, the aggregate par value of the stock was added to the principal amount of the related obligation. Effective January 1, 2017, the borrower acquires ownership of the capital stock at the time the loan or lease is made but does not usually make a cash investment. We retain a first lien on the stock or participation certificates owned by customers.

Regulatory Capitalization Requirements

Select Capital Ratios

As of December 31	**2016**	2015	2014	Regulatory Minimums
Permanent capital ratio	**15.5%**	15.4%	15.7%	7.0%
Total surplus ratio	**15.3%**	15.1%	15.4%	7.0%
Core surplus ratio	**15.3%**	15.1%	15.4%	3.5%

These ratios are calculated in accordance with FCA Regulations and are discussed below:

- The permanent capital ratio is average at-risk capital plus any allocated excess stock divided by average risk-adjusted assets.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any allocated excess stock investment in AgriBank divided by average risk-adjusted assets.

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The final rule replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The final rule also added a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio.

FCA Revised Capital Requirements

	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:			
Common equity tier 1 ratio	4.5%	2.5%	7.0%
Tier 1 capital ratio	6.0%	2.5%	8.5%
Total capital ratio	8.0%	2.5%	10.5%
Non-risk-adjusted:			
Tier 1 leverage ratio	4.0%	1.0%	5.0%
UREE leverage ratio	1.5%	0.0%	1.5%

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

Regulatory capital included any allocated investment in AgriBank that is in excess of the required investment under an allotment agreement with AgriBank. We had no allocated excess stock at December 31, 2016, 2015, or 2014. Effective January 1, 2017, the regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and as such any stock in excess of our AgriBank required investment will not be included in the common equity tier 1, tier 1 capital, total capital, or leverage ratios.

Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value.

As of December 31	Number of Shares 2016	2015	2014
Class A common stock (protected)	**--**	--	2
Class B common stock (at-risk)	**945,669**	973,705	977,465
Class E participation certificates (at-risk)	**34,771**	35,394	36,715

Under our bylaws, we are also authorized to issue Class C and Class D common stock. Each of these classes of stock is at-risk and nonvoting with a $5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class B stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2016, 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 assets remaining after payment or retirement of all liabilities shall be distributed pro rata to all holders of stock.

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

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

Patronage Distributions

We accrued patronage distributions of $6.0 million for each year ended December 31, 2016, 2015, and 2014. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. Additionally, effective January 1, 2017, patronage distributions may be restricted or prohibited without prior FCA approval if capital ratios fall below the total requirements, including the buffer amounts. We do not foresee any events that would result in this prohibition in 2017.

NOTE 7: INCOME TAXES

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands)

For the year ended December 31	2016	2015	2014
Current:			
Federal	**$ 724**	$ 680	$ 651
State	**89**	81	71
Total current	**$ 813**	$ 761	$ 722
Deferred:			
Federal	**$ (393)**	$ (507)	$ (525)
State	**(42)**	(33)	(40)
Total deferred	**(435)**	(540)	(565)
Provision for income taxes	**$ 378**	$ 221	$ 157
Effective tax rate	**1.5%**	0.9%	0.6%

Reconciliation of Taxes at Federal Statutory Rate to Provision for Income Taxes

(in thousands)

For the year ended December 31	2016	2015	2014
Federal tax at statutory rates	**$ 8,334**	$ 8,047	$ 8,996
State tax, net	**39**	25	34
Patronage distributions	**(935)**	(913)	(1,298)
Effect of non-taxable entity	**(6,599)**	(6,604)	(6,953)
Other	**(461)**	(334)	(622)
Provision for income taxes	**$ 378**	$ 221	$ 157

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

Deferred Tax Assets and Liabilities

(in thousands) As of December 31	**2016**	2015	2014
Allowance for loan losses	**$ 1,290**	$ 839	$ 514
Postretirement benefit accrual	**285**	273	253
Accrued incentive	**344**	374	349
Leasing related, net	**(13)**	(253)	(306)
Accrued patronage income not received	**(175)**	(115)	(183)
Accrued pension asset	**(727)**	(492)	(559)
Depreciation	**(20)**	(68)	(55)
Other assets	**55**	43	31
Other liabilities	**(20)**	(17)	--
Deferred tax assets, net	**$ 1,019**	$ 584	$ 44
Gross deferred tax assets	**$ 1,974**	$ 1,529	$ 1,147
Gross deferred tax liabilities	**$ (955)**	$ (945)	$ (1,103)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2016, 2015, or 2014.

We have not provided deferred income taxes on 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. Also, we have not provided deferred income taxes on $1.4 million of patronage allocations in the form of AgriBank stock distributed in 2002 to the ACA and PCA. The Board of Directors has passed a resolution that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under our patronage program. Our total permanent investment in AgriBank is $22.1 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $200.2 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to stockholders in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2016. In addition, we believe we are no longer subject to income tax examinations for years prior to 2013.

NOTE 8: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the Combined AgriBank and affiliated Associations 2016 Annual Report (District financial statements).

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Coordinating Committee (a subset of the Plan Sponsor Committee comprised of AgriBank District representatives) is responsible for decisions regarding retirement benefits at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

AgriBank District Retirement Plan Information

(in thousands) As of December 31	2016	2015	2014
Unfunded liability	**$ 374,305**	$ 453,825	$ 423,881
Projected benefit obligation	**1,269,625**	1,255,259	1,234,960
Fair value of plan assets	**895,320**	801,434	811,079
Accumulated benefit obligation	**1,096,913**	1,064,133	1,051,801

For the year ended December 31	2016	2015	2014
Total plan expense	**$ 53,139**	$ 63,800	$ 45,827
Our allocated share of plan expenses	**2,548**	2,954	2,063
Contributions by participating employers	**90,000**	62,722	52,032
Our allocated share of contributions	**4,185**	2,908	2,324

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these Consolidated Financial Statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

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 this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in “Salaries and employee benefits” in the Consolidated Statements of Income.

Benefits paid to participants in the District were $56.4 million in 2016. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2017 is $90.0 million. Our allocated share of these pension contributions is expected to be $3.9 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Nonqualified Retirement Plan: We also participate in the District-wide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

Pension Restoration Plan Information

(in thousands) As of December 31	2016	2015	2014
Unfunded liability	**$ 28,514**	$ 31,650	$ 27,695
Projected benefit obligation	**28,514**	31,650	27,695
Accumulated benefit obligation	**22,778**	26,323	22,959

For the year ended December 31	2016	2015	2014
Total plan expense	**$ 5,767**	$ 3,776	$ 3,652
Our allocated share of plan expenses	**349**	329	198

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. Our allocated share of plan expenses is included in “Salaries and employee benefits” in the Consolidated Statements of Income. The Pension Restoration Plan is unfunded and we make annual contributions to fund benefits paid to our retirees covered by the plan. Our cash contributions are equal to the benefits paid. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year. We had no cash contributions and paid no benefits during 2016, 2015, and 2014.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee’s active status.

Retiree Medical Plan Information

(in thousands) For the year ended December 31		2016		2015		2014
Postretirement benefit expense	$	**98**	$	152	$	101
Our cash contributions		**44**		48		48

Postretirement benefit costs are included in "Salaries and employee benefits" in the Consolidated Statements of Income. Our cash contributions are equal to the benefits paid.

Defined Contribution Plans

We participate in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

We also participate in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the defined contribution plan if it were not for certain IRS limitations.

Employer contribution expenses for the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Income, were $921 thousand, $833 thousand, and $787 thousand in 2016, 2015, and 2014, respectively. These expenses were equal to our cash contributions for each year.

NOTE 9: 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 may be subject to special approval requirements contained in the FCA 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, 2016 involved more than a normal risk of collectability.

Related Party Loans and Leases Information

(in thousands)		2016		2015		2014
As of December 31:						
Total related party loans and leases	$	**16,264**	$	17,300	$	13,720
For the year ended December 31:						
Advances to related parties	$	**6,268**	$	7,246	$	5,626
Repayments by related parties		**6,962**		8,738		9,032

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. Advances and repayments on loans and leases in the preceding chart are related to those considered related parties at year end.

As discussed in Note 5, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio.

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, tax reporting services, technology services, insurance services, and internal audit services. The total cost of services we purchased from AgriBank was $869 thousand, $897 thousand, and $798 thousand in 2016, 2015, and 2014, respectively.

We also purchase human resource information systems, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2016, 2015, and 2014, our investment in Foundations was $27 thousand. The total cost of services purchased from Foundations was $163 thousand, $143 thousand, and $127 thousand in 2016, 2015, and 2014, respectively.

NOTE 10: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

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, our management team was not aware of any material actions.

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 that may be 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, 2016, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $508.1 million. Additionally, we had $8.4 million of issued standby letters of credit as of December 31, 2016. In addition, we had $1.3 million of other commitments related to our strategic support agreement with FCC Services to provide reinsurance to crop insurance companies as of December 31, 2016.

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 to extend credit 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. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 11: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2016, 2015, or 2014.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

As of December 31, 2016	Fair Value Measurement Using				
	Level 1	Level 2	Level 3	Total Fair Value	Total (Losses) Gains
Impaired loans	**$ --**	**$ 11**	**$ 291**	**$ 302**	**$ (808)**
Other property owned	**--**	**59**	**69**	**128**	**2**

As of December 31, 2015	Fair Value Measurement Using				
	Level 1	Level 2	Level 3	Total Fair Value	Total Losses
Impaired loans	$ --	$ --	$ 641	$ 641	$ (373)
Other property owned	--	59	69	128	(3)

As of December 31, 2014	Fair Value Measurement Using				
	Level 1	Level 2	Level 3	Total Fair Value	Total Gains
Impaired loans	$ --	$ --	$ 493	$ 493	$ 224
Other property owned	--	127	33	160	71

Valuation Techniques

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses independent appraisals and other market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses independent appraisals and other market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

NOTE 12: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 13, 2017, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our 2016 Consolidated Financial Statements or disclosures in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

United FCS, ACA

(Unaudited)

Description of Business

General information regarding the business is incorporated herein by reference from Note 1 to the accompanying Consolidated Financial Statements.

The description of significant business developments, if any, is incorporated herein by reference from the "Management's Discussion and Analysis" section of the accompanying Consolidated Financial Statements.

Description of Property

Property Information

Location	Description	Usage
Antigo, WI	Owned	Branch
Madison, MN	Owned	Branch
Marshall, MN	Owned	Branch
Marshfield, WI	Owned	Branch
Medford, WI	Owned	Branch
Olivia, MN	Owned	Branch
Redwood Falls, MN	Owned	Branch
Stevens Point, WI	Owned	Branch
Thorp, WI	Owned	Branch
Wausau, WI	Owned	Branch
Willmar, MN	Owned	Headquarters/Branch
Litchfield, MN	Leased	Branch
St. Louis Park, MN	Leased	Commercial Finance Group
St. Paul, MN	Leased	Insight Technology Unit

Legal Proceedings

Information regarding legal proceedings is discussed in Note 10 to the accompanying Consolidated Financial Statements. We were not subject to any enforcement actions as of December 31, 2016.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 6 to the accompanying Consolidated Financial Statements.

Description of Liabilities

Information regarding liabilities is discussed in Notes 5, 6, 7, 8, and 10 to the accompanying Consolidated Financial Statements.

Selected Financial Data

The "Consolidated Five-Year Summary of Selected Financial Data" is presented at the beginning of the accompanying Consolidated Financial Statements.

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" section of the accompanying Consolidated Financial Statements.

Board of Directors

Our Board of Directors is organized into the following committees to carry out Board responsibilities:

- The **Audit Committee** provides oversight for financial reporting, the adequacy of our internal control systems, the quality, scope and independence of the Association's internal audit program and outside auditors, the processes for monitoring compliance with laws and regulations, and the code of ethics. The Audit Committee also oversees the adequacy of management's action with respect to recommendations arising from auditing activities.
- The **Compensation Committee** ensures that Association compensation programs are managed in a prudent and a fiscally responsible manner, that compensation practices are aligned with sound operation and long-term performance of the Association, and that regulatory disclosures are accurate, comprehensive, and communicated in an understandable format.

Board of Directors as of December 31, 2016, including business experience during the last five years

Name	Term	Principal occupation and other business interests
Suzanne Allen Appointed Director Audit Committee Vice Chairperson Financial Expert Service Began: 2011	2015-2019	**Principal Occupation:** CFO of Compudyne, a technology company (September 2016-Present) VP and Treasurer of Otter Tail Corporation, a diversified publicly traded company (June 2016-August 2016; May 2015-January 2016; May 2008-September 2013) VP Finance and Accounting of TO Plastics, Thermoformed Products and Packaging Solutions Company (February 2016-May 2016) VP Finance and Accounting of Avenia Inc, an electrical construction company (September 2013-May 2015) **Other Affiliations:** Director: Coffee House Press, a publishing company
Scott Gerbig Director Vice Chairperson Service Began: 2008	2013-2017	**Principal Occupation:** Self-employed dairy farmer
Ed Hegland Director Compensation Committee Service Began: 2012	2016-2020	**Principal Occupation:** President and manager of Hegland Farms of Appleton, Inc., a family owned grain farming operation **Other Affiliations:** Director: Minnesota Soybean Growers Association, a trade association Director: National Biodiesel Board, a biodiesel trade association
Gregory Jans Director Compensation Committee Service Began: 1994	2014-2018	**Principal Occupation:** Self-employed dairy farmer **Other Affiliations:** Vice Chair: Dairy Authority Board, a state authority involved in building a dairy research and education center Meeker County Soil & Water Board Vice Chair: Meeker County Planning and Zoning Commission
James Jarvis Director Service Began: 2008	2015-2019	**Principal Occupation:** Self-employed grain, timber, and hay farmer Manager of a seasonal vegetable plant distribution and sales operation Owner of a campground **Other Affiliations** Board Member: Waushara County Human Services Board Member: Waushara County Farm Bureau Board Committee Member: Mt. Morris Township Land Use Committee
William Oemichen Appointed Director Audit Committee Chairperson Financial Expert Service Began: 2009	2013-2017	**Principal Occupation:** State of Wisconsin Director of the Office of Preparedness & Emergency Healthcare, Attorney, and retired President and CEO of Cooperative Network **Other Affiliations** Treasurer: Group Health Cooperative of South Central Wisconsin, a health care insurance company Board Chair: Wisconsin College Savings Program, $4.3 billion state 529 fund Board Member: FCC Services, Inc., an education and insurance company Board Chair: SeventhWave, an energy conservation company Board Member: U.S. Selective Service Board for Wisconsin Member: WI State Homeland Security Council Co-Chairperson: Cooperative Committee of Business Law Section of Minnesota State Bar Association Advisor: Peak Ridge Capital Ag Tech I Fund, a venture capital fund
Lynn Pietig Director Audit Committee Service Began: 2015	2015-2019	**Principal Occupation:** Owner of Pietig Book-Works, an accounting and tax practice Self-employed grain and livestock farmer **Other Affiliations:** Treasurer: Morgan Memorial Foundation Inc., a nursing home and assisted living facility
Richard Pooley Appointed Director Compensation Committee Chairperson Service Began: 1992	2016-2020	**Principal Occupation:** Retired Vice President of Dunwoody College of Technology, a private, non-profit technical college in Minneapolis, MN
Richard Price Compensation Committee Service Began: 2008	2016-2020	**Principal Occupation:** Self-employed dairy farmer
Bradley Sunderland Board Chairperson Audit Committee Service Began: 1993	2016-2020	**Principal Occupation:** Self-employed grain and livestock farmer **Other Affiliations:** Director: Hanley Falls Cooperative Elevator, a feed, grain and seed cooperative
Jeffrey Thompson Director Audit Committee Service Began: 1996	2013-2017	**Principal Occupation:** Self-employed grain farmer
Mary Kay Van Der Geest Director Compensation Committee Service Began: 2008	2014-2018	**Principal Occupation:** President of Van Der Geest Dairy Cattle, a dairy and cropping farming operation **Other Affiliations:** Partner in Van Der Geest Maine Dairy Inc., a dairy farming operation Partner in Van Der Geest Dairy Sales, a cattle sales organization

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings, or other official activities. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or special activities. For 2016, the Board of Directors had adopted a rate of $480 per full day meeting, $240 for a half-day meeting, and $160 for a conference call meeting (1/3 of a day). The monthly retainer is $500 for a director, $600 for Audit Committee members (excluding chair), $700 for Audit Committee Chairperson, and $850 for the Board Chairperson.

Information regarding compensation paid to each director who served during 2016 follows:

Name	Number of Days Served: Board Meetings	Number of Days Served: Other Official Activities	Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2016
Suzanne Allen	10.2	14.0	$ 3,440	Audit	$ 18,918
Stanley Claussen*	1.8	6.3	--		5,426
Scott Gerbig	10.2	18.3	--		19,698
Ed Hegeland	9.3	34.2	640	Compensation	26,898
Gregory Jans	10.2	28.3	880	Compensation	24,498
James Jarvis	10.2	26.0	--		23,378
William Oemichen	8.2	32.7	4,480	Audit	28,018
Lynn Pietig	10.2	25.7	3,760	Audit	24,418
Richard Pooley	9.2	19.2	880	Compensation	19,618
Richard Price	10.2	35.2	880	Compensation	27,778
Bradley Sunderland	10.2	33.8	3,760	Audit	36,138
Jeffrey Thompson	9.2	25.8	3,760	Audit	24,418
Mary Kay Van Der Geest	9.2	13.7	880	Compensation	16,978
					$ 296,182

*Stanley Claussen resigned from the United FCS Board of Directors on March 8, 2016 following his election to the AgriBank (our cooperatively owned, wholesale funding bank) Board of Directors; as required by AgriBank bylaws.

Senior Officers

Senior Officers as of December 31, 2016, including business experience during the last five years

Name and Position	Business experience and other business interests during the past five years
Marcus L. Knisely Chief Executive Officer	**Business experience:** Association Chief Executive Officer since 1998 **Other business interests:** Board Member and Vice Chair of Farm Credit Foundations Trust Committee Board Member of John Hancock Retirement Plan Services Client Advisory Board Board member of Minnesota AgriGrowth Council
Robert M. Haines Chief Financial Officer	**Business experience:** Association Chief Financial Officer since 2010
Leland G. Fredman Senior Vice President	**Business experience:** Association Senior Vice President since 2009
Roger Koster Chief Information Officer	**Business experience:** Association Chief Information Officer since 1997
Jay A. Nickel Senior Vice President	**Business experience:** Association Senior Vice President since 2007
Jeffrey A. Schmidt Chief Credit Officer	**Business experience:** Association Chief Credit Officer since 2000

Senior Officer Compensation

We believe the design and governance of our CEO and senior officer's compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. Our compensation philosophy aims to provide a competitive total rewards package that will enable us to attract and retain highly qualified officers with the requisite expertise and skills while achieving desired business results aligned with the best interests of our members. The design of our CEO and senior officer's compensation program supports our risk management goals through a set of checks and balances, including (1) a balanced mix of base and variable pay, (2) a balanced use of performance measures that are risk-adjusted where appropriate, and (3) a pay-for-performance process that allocates individual awards based on both results and how those results were achieved.

Senior officers are compensated with annual cash rewards as well as retirement plans available to all eligible/qualified employees. Base salary and short-term incentives are intended to be competitive with annual compensation for comparable positions at similar businesses.

Base Salary: Senior officer base salaries reflect the employee's experience and level of responsibility. The overall senior officer compensation program is subject to annual review and approval by the Compensation Committee of our Board of Directors and is subject to adjustment based on changes in responsibilities and competitive market conditions.

Annual Incentives: Senior officer incentives are paid based on annual performance criteria established by our Board of Directors. The criteria related to overall association performance include association asset growth, profitability, capitalization, credit quality and credit administration, and operating efficiencies. Additionally, performance criteria related to personal performance and individual contributions are paid as a subjective measure. The objective performance measurement criteria and subjective performance in the annual incentive plan are weighted 56% and 44% respectively. Our annual incentive program (for all association staff, excluding the CEO) is designed to pay-out 50% of the earned amount in December of the plan year based on projected year end performance. Following year end, actual accomplishments are tabulated and remaining amounts due under the program are paid-out by February 28 following the plan year. Annual incentive calculations, eligibility, and payouts for the CEO are determined and paid out after conclusion of the plan year, by February 28 following the plan year.

Retirement Plans: We have various post-employment benefit plans which are available to all eligible association employees, including the CEO and senior officers, based on dates of service and are not otherwise differentiated by position. Information regarding the post-employment benefit plans is included in Notes 2 and 8 of this Annual Report.

Compensation to the CEO and Senior Officers

(in thousands) Name	Year	Salary	Bonus	Deferred/ Perquisites	Other	Total
Marcus L. Knisely, CEO	**2016**	**$ 303**	**$ 185**	**$ 168**	**$ 437**	**$ 1,093**
Marcus L. Knisely, CEO	2015	301	176	148	408	1,033
Marcus L. Knisely, CEO	2014	297	126	132	713	1,268
Aggregate Number of Senior Officers, excluding CEO						
Five	**2016**	**$ 841**	**$ 241**	**$ 45**	**$ 614**	**$ 1,742**
Five	2015	814	212	50	508	1,584
Five	2014	793	194	41	950	1,978

The amount in the "Other" category in the preceding table primarily includes:

- Employer match on defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide Pension Plan and the Pension Restoration Plan, as applicable, as disclosed in Note 8 to the accompanying Consolidated Financial Statements. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association's future obligations under the pension plans. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.

No tax reimbursements are made to the CEO and senior officers.

The value of the pension benefits from December 31, 2015 to December 31, 2016 changed primarily due to interest cost, accumulation of an additional year of credited service by plan participants, and changes in actuarial assumptions.

Members may request information on the compensation to the individuals included in the preceding table during 2016.

Effective April 29, 2015, the Farm Credit Administration Board adopted a final rule changing the determination of employees that could be considered highly compensated employees. While not final as of December 31, 2014, employees disclosed for 2014 in the above chart were determined based on the final rule.

Pension Benefits Attributable to the CEO and Senior Officers

(dollars in thousands) **2016** Name	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Marcus Knisely, CEO	AgriBank District Retirement Plan	**38.2**	**$ 2,331**	**$ --**
Marcus Knisely, CEO	AgriBank District Pension Restoration Plan	**38.2**	**1,424**	**--**
Aggregate Number of Senior Officers, excluding CEO				
Four	AgriBank District Retirement Plan	**30.9**	**$ 4,196**	**$ --**
One	AgriBank District Pension Restoration Plan	**35.2**	**113**	**--**

The change in composition of the aggregate senior officer can have a significant impact on the calculation of the accumulated pension benefits.

Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. Therefore, any employee starting employment with the AgriBank District after that date is not eligible to be in the plan.

The AgriBank District Pension Restoration Plan restores retirement benefits to certain highly compensated employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Not all senior officers or highly compensated employees are eligible to participate in this plan.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 9 to the accompanying Consolidated Financial Statements.

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:

P.O. Box 1330
Willmar, MN 56201-1330
(320) 235-1771
www.unitedfcs.com
financialreporting@unitedfcs.com

The total directors' travel, subsistence, and other related expenses were $69 thousand, $59 thousand, and $49 thousand in 2016, 2015, and 2014, respectively.

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, 2017 or at any time during 2016.

Member Privacy

The FCA 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 2016 were $35 thousand. The fees paid were for audit services. Our audit committee has approved non-audit services for merger related preclearance services. At December 31, 2016, we have accrued $25 thousand for non-audit services, which will be paid in 2017.

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 accompanying Consolidated Financial Statements.

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 an addendum to this Annual Report.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

United FCS, ACA

(Unaudited)

Vision Statement

Thriving young, beginning and small farmers in our service area.

Mission Statement

Provide products, services, assistance and advice to young, beginning and small farmers that supports their long-term success.

Objective

To provide sound and constructive credit and a broad array of financial services to young, beginning and small farmers in order to benefit our customers and the rural communities we serve. Emphasis will be placed on young, beginning and small farmers with high probability for long-term success in agriculture.

Regulatory Definitions

Young - If the age of any customer at the time the financial service was originated is equal to or less than 35 years, the financial service qualifies for Young Farmer status.

Beginning - If the length of time in farming for any customer at the time the financial service was originated is equal to or less than 10 years, the financial service qualifies for Beginning Farmer status.

Small - If the most recent earnings statement of any customer at the time the financial service was originated shows gross farm sales of less than $250,000, the financial service qualifies for Small Farmer status.

A Closer Look: Young, Beginning and Small Marketplace Segments

As a member-owned and governed financial services cooperative, United FCS takes its obligation to fulfill the responsibilities under the Farm Credit Act very seriously. The Farm Credit System was created to improve the income and well-being of rural America by furnishing sound, adequate and constructive credit and financial services. To accomplish that mission, it is imperative that we offer services to all eligible customers within our service area. The challenge that all FCS institutions face in serving young, beginning and small farmers (YBS) customers is finding the right balance of definition in determining what is sound, adequate and constructive.

The Association operates under a balanced approach, which represents a philosophy and culture of sustainable Association capital levels and earnings that supports a high quality moderate growth rate. As such, we attempt to mitigate portfolio risk with sound loan underwriting standards and the use of risk management tools, i.e., Farm Service Agency (FSA) guarantees, etc. We also emphasize financial services such as farm accounting, tax preparation, life insurance, business and transitional consulting and crop insurance, along with a wide array of educational opportunities.

As previously stated, it is the intent of United FCS to serve all eligible customers within our service area. However, given the inherent risk of serving the YBS segments, it is important to clearly state our service objectives for these segments:

- Risk Appetite – We have positioned our risk appetite to assume more underwriting risk on young farmers. Credit approval decisions for young farmers will be based on the three subjective factors (sound, adequate and constructive), and will require the use of all available risk mitigators i.e., FSA guarantees, etc. Beginning Farmers and Small Farmers will typically be expected to meet base underwriting standards (not to exceed standard exception thresholds). It should be noted that we will consider a broader set of underwriting ratios when reviewing small farmers, given the likely part-time/agri-consumer nature of that type of operation.

- Market Share – Going forward, we anticipate serving a similar percent of the Young, Beginning and Small Farmer segments present in our service area. Overall market share is projected to grow over the 3-year planning horizon. While new delivery channels and focused emphasis on these targeted segments may result in higher market share, we do not anticipate the growth to exceed total market share growth.

YBS Goals

United FCS, ACA YBS Loan & Lease Portfolio as of 12/31/16				
	% of Association Loans	**Goals**		
		2017	**2018**	**2019**
Young	17.1%	18.0%	19.0%	20.0%
Beginning	19.0%	19.0%	20.0%	21.0%
Small	36.0%	38.0%	38.0%	38.0%

Members can have more than one loan, thus could be counted more than once due to the YBS definitions. The YBS status is as of the date the loan is made or renewed.

YBS utilization of financial services is similar to our entire customer base.

United FCS Service Area Situation Analysis

United FCS will continue meeting the financial service needs of eligible customers within our service area. Young, Beginning and Small Farmers are a significant portion of our service area, and as such, United FCS will continue to serve this segment to ensure their long-term success in agriculture.

The current agricultural environment presents a challenge for young and beginning farmers. Low commodity prices and higher land values are barriers for those getting their start. Low profit margins in the near future may deter younger producers from entering. Young and beginning farmers will need to be creative to enter the business at this time.

Coordination with Governmental Agencies, Outreach and Special Program Utilization/Promotion

United FCS utilizes risk management programs offered through federal and state agencies to assist in the financing of Young, Beginning and Small Farmers within our service area. We utilize FSA guarantee programs to help manage our overall portfolio risk associated with customers who do not meet all normal lending standards. In addition, we utilize the Rural Finance Authority (RFA) and Ag Best Management (AgBMP) programs offered through the State of Minnesota and the Wisconsin Housing & Economic Development Authority (WHEDA) to assist Young, Beginning and Small Farmers in establishing ownership of land and capital assets/improvements necessary to assist them in being successful in their farming careers.

The WHEDA was created in 1972 by the Wisconsin Legislature as an independent authority, not a state agency. As a lender, WHEDA has over $3 billion in assets. WHEDA programs fundamentally do not rely on tax dollars. Instead, proceeds from the sale of revenue bonds allow them to fund financing programs that help stimulate affordable housing and economic development throughout the state. In addition to various direct loan programs, WHEDA also supports economic development and agriculture through their small business guarantee programs. The one farm program most frequently used by United FCS in our Wisconsin counties is the Credit Relief Outreach Program (CROP). This program provides financing resources for farmers by providing guarantees on agricultural production loans of up to $150,000, with a maximum interest rate of prime plus 2%. The program does, however, require payment of a nonrefundable application fee.

The RFA's mission statement is "To implement and govern a statutory system of rural credits created to develop the state's agricultural resources; focusing on family farm productive resources while also supporting the agricultural processing and manufacturing industry." One of the main goals of RFA is to facilitate and provide loans to family farmers on favorable terms and conditions that are not otherwise available. RFA accomplishes their purpose by purchasing a portion of an agricultural real estate loan from participating lenders. The RFA and lender interest rates are then averaged to form a "blended" interest rate, making it more affordable to finance debt. Minnesota RFA programs primarily direct assistance toward young, beginning and small producers. Parameters for the RFA program include producer equity ceilings to ensure that assistance is focused towards young, beginning and small farm operators.

In 2012, RFA implemented the Pilot Agricultural Microloan Program, an initiative to assist new and established farmers, with a focus on underserved minority groups and local food systems in metro areas. The program's focus is, "To transition the farmer from their current situation to one where operations qualify for traditional avenues of agricultural credit." United FCS serves as an intermediary lender for this program to provide better financial assistance to underserved markets.

United FCS also participates in RFA's Disaster Recovery Loan Program. In 2015, this program was expanded to include losses due to avian influenza. Minnesota poultry farmers affected by avian flu are eligible for low interest loans, with the RFA participation being limited to 45 percent of the principal amount up to a maximum of $200,000. The loan proceeds may be used to replace poultry birds not covered by indemnity payments, make improvements to poultry buildings, or to cover the loss of revenue if the damage or loss is due to highly pathogenic avian influenza.

United FCS continues to co-sponsor the Wisconsin Farm Bureau Young Farmer Conference, with some 300 attendees annually. The Association was also instrumental in passage of the Minnesota Livestock Grant Program, which supports livestock investment in Minnesota with an emphasis on young and beginning farmers.

	# of YBS Customers Utilizing as of 12/31/16	Goal for 2017	Goal for 2018	Goal for 2019
RFA Loan Program (MN)	9	10	10	10
FSA Guarantee	120	125	130	140
AgBMP (MN)	9	10	10	10

Note: higher land prices, current economic conditions and FSA Farm Program parameters create profitability and capital constraints for YBS farmers to utilize, and qualify for the above special programs.

<u>FFA Involvement</u>
United FCS has long supported the FFA, at both the local high school/chapter level and the State Foundation level.

United FCS is a Two-Star Partner of the MN FFA Foundation in its Star Partner Program. United FCS also supports the FFA Legacy Club at the highest level - Rising Sun Circle. The Legacy Club was created by the MN FFA Foundation to generate individual support and was expanded in 2013 to include business support.

The missions of support for these two fundraising arms of the MN FFA Foundation are:

Star Partner Program:

- Support the MN State FFA Association
- Support the FFA Alumni in creation of local FFA Alumni groups
- Support the Post-Secondary Agricultural Student (PAS) Organization
- Support the MN Association of Agricultural Educators (MAAE)
- Support Agricultural Education at the University of Minnesota

Legacy Club:

- Support local high school FFA chapters
- Support start-ups of new high school FFA chapters
- Provide grants to local FFA chapters (Grant size $1,000 to $1,500)

United FCS, through its 12 offices, actively supports local FFA chapters and community high school Ag programs. In addition to financial support, United FCS staff participates on advisory committees and FFA Alumni groups.

<u>4-H</u>
United FCS and its employees actively support 4-H programs in both Minnesota and Wisconsin. We sponsor many judging contests, events, county fairs and leaderships programs through contributions and staff mentorships.

In 2016, United FCS sponsored a variety of 4-H programming. First, we contributed to the Minnesota 4-H Scholarship Fund and the 4-H Dairy Showcase. We also sponsored local students as part of 4-H's Citizenship Washington Focus. This one-week trip to Washington, D.C. is a leadership and citizenship program for high school youth from across the United States. United FCS is also sponsoring local 4-H students as they travel to Washington, D.C. for the presidential inauguration, as part of an extensive civics leadership experience.

<u>MARL Program</u>
The Minnesota Agricultural and Rural Leadership (MARL) program, which is organized within the Southwest Minnesota State University Foundation, is a dynamic leadership development program for active and engaged adult agricultural and rural leaders in Minnesota. United FCS supports this program both financially and through employee involvement.

The MARL program uses intensive study, training and travel experiences to aid participants in strengthening their skills in communication, conflict management and agricultural understanding to ultimately build confident and effective leaders. This is done as part of accomplishing their mission to develop the skills of Minnesota agricultural and rural leaders, so they may maximize their impact and effectiveness in local, state, national and international arenas.

The impact of the MARL program will be seen for years to come. The intent is that upon completion of the program, participants will:

- Lead more effective organizations
- Improve their rural communities
- Enhance agricultural and rural representation
- Improve the professionalism of agriculture and rural Minnesota
- Heighten the impact of their involvement in their communities
- Sharpen their promotional skills
- Participate in the creation of better public policy for agriculture and rural Minnesota

<u>Speak For Yourself</u>
United FCS began supporting the Speak for Yourself (SFY) program in 2014, through a partnership with the Minnesota Farm Bureau. Speak for Yourself empowers farmers to tell their stories in their own words. Farmers are trained on how to talk to the general public about why they farm, address issues in agriculture and present their stories with confidence. After completing the training, the program connects these farmers with opportunities to speak to various groups and organizations. Farmers get to tell their stories, and audiences benefit from first-hand accounts from the people on the front lines of agriculture. As of September 2016, SFY has trained 63 farmers, who have delivered 450 presentations with a reach of nearly 3.2 million consumers.

<u>Cooperative Network</u>
United FCS is a member of Cooperative Network, an association that provides government relations, education, marketing and technical services for cooperatives. The Cooperative Network provides the means for cooperatives of all types to join together to strengthen their businesses, grow our economy and serve our communities. This organization actively supports efforts that will benefit Young, Beginning and Small Farmers.

United FCS' membership aids in offering *The Co-ops Yes! Youth Leadership Conference* to high school students, including those involved in FFA and 4-H. This conference teaches youth about the purpose, operation and scope of cooperative business.

<u>Wisconsin Agricultural Education Center (WAEC)</u>
In 2016, United FCS along with several other Farm Credit System partners, contributed to the Wisconsin Agricultural Education Center project in Manitowoc County, WI. This $13 million project will construct a world-class, interactive, educational center that is completely dedicated to agriculture to carry out WAEC's mission to educate visitors of all ages about how and where their food is produced and why agriculture is so important. The new WAEC will be a key resource in the State of Wisconsin for those who want to learn more about agriculture, hopefully inspiring a new generation of future farmers and instilling a greater appreciation for how agriculture impacts our daily lives.

Local Food Efforts

United FCS provides funding to local food projects designed to support local food systems. These efforts keep food in the same region where it is grown. Young, Beginning and Small Farmers are a targeted segment in the local food efforts. This allows new or small farmers to establish a market for the crops they grow.

United FCS purchased six acres of farmland in 2015 for the construction of a new branch office in Olivia, MN. The new office building was completed in 2016 on three acres. The three remaining acres were transformed into a community garden. This community garden project is run separately from United FCS, and a limited liability corporation - United Acres Inc. - was established by an independent group to oversee and operate the garden. The purpose of United Acres, Inc. is a community garden focused on healthy food access and education. The 2016 growing season was completed for United Acres. The year started with installing water access and planting 28 trees, consisting of apple, pear, plum, and cherry. The next step was planting one and a half acres of various vegetables. United Acres has been selling produce to RC Hospital & Clinic and two local grocers. The fall wrap up saw a donation of pattern tiling done on the land, with the building of a ditch for water control. The focus for United Acres in the upcoming year is developing more outlets for produce and educational programs. The garden was also part of the ProAg tour, during which more than 200 students were able to visit the garden.

In 2015, United FCS, along with AgriBank, provided a grant to the Central Rivers Farmshed located in Stevens Point, WI. The donation went towards heating a revitalized greenhouse in the form of a new high-efficiency furnace in their 11,000-square-foot greenhouse. In addition to the greenhouse, the Farmshed hosts a number of other community agriculture efforts such as a farm-to-school program, sustainable agriculture education events and the annual Local Food Fair. Future project plans call for an USDA-approved commercial kitchen to be installed and constructing an additional building on the property to house a learning center and gathering space for local producers. Central Rivers Farmshed is a 501c3 nonprofit organization representing all aspects of the food system whose members are committed to making Central Wisconsin a renowned, local food community. Farmshed's mission is to expand the connection between local residents and their food by providing opportunities for participation, education, cooperation, and action to support a local food economy in Central Wisconsin.

United FCS and AgriBank teamed up to provide a grant to the Willmar Food Hub in late 2014. Located in downtown Willmar, MN, The Hub will feature five tenants with a focus on local foods. A USDA-approved commercial kitchen will be included, along with flash freezers, which will allow users to keep and store fresh food. The project also includes multiple greenhouses used to grow vegetables. The project is ongoing.

Community Sponsored Agriculture (CSA) is part of a larger national push for local food options. It is important that United FCS continues supporting opportunities that can enhance the agricultural offerings in the rural areas we serve, and introduce farmers to previously unaware consumers. United FCS will support more local food projects going forward.

Immigrant and Minority Farming Conference

In 2016, United FCS was a sponsor of the Immigrant and Minority Farming Conference in St. Paul, MN. United FCS will be a Visionary Sponsor of this event in 2017. The conference brings experienced farmers and educators together to teach immigrant and minority farmers about marketing, business planning and production practices that will help farmers raise and sell locally grown food. Attendees of this conference typically meet United FCS' Small, Beginning and Young Farmer definitions.

NDSU Credit Training Alliance

In 2012, United FCS, along with three other Farm Credit Associations, partnered with North Dakota State University to implement credit training. This training consists of two components – online video training and mentor relationships within the respective associations. As a part of the online portion, modules and webinars were developed.

7 Modules

1. 5 C's of Credit
2. Balance Sheet
3. Income Statement
4. Cash Flow Statement
5. Analyzing Financial Performance
6. Understanding Tax Returns
7. Working with Borrowers

Webinars:

- Marketing plans & how to understand them
- Crop insurance
- Understanding biofuel industry
- Macroeconomics of agriculture
- Implications of farm policy

Credit staff completes this training, allowing us to better serve the Young, Beginning, and Small market segments. In the future, the goal is to make this training available online for Young, Beginning and Small Farmers to gain expertise in these areas.

NDSU Center for Risk and Trading

A state-of-the-art commodity simulation facility opened in 2012 on the campus of North Dakota State University. United FCS provides financial support to the Commodity Trading Room in order to continue upgrading technology and the creation of additional scholarships.

The current technology gives students the opportunity to analyze mock commodity markets, using the same equipment and programs available at all professional organizations. United FCS views this as a great opportunity to support a program which produces high quality students that are vital to the long-term success of agriculture, both as potential future employees as well as future farmers.

Assistance Opportunities

United FCS offers opportunities for assistance to YBS farmers. The Association assists Young Farmers with FSA guarantee loan fees. We allocate a pool of $40,000 for this purpose, with a maximum of $5,000 per customer. For customers who qualify for both Young and Beginning Farmer status, United FCS offers two other forms of assistance:

- All or part of loan origination fees may be waived
- A customer may be reimbursed for up to $1,000 of Educational and Business Management Program expenses.

United FCS Supports YBS Farmers By Offering:

- Modified core credit underwriting standards balanced with prudent credit risk management designed to assist the Young and Beginning segments of our portfolio
- Subsidized interest rate products for Young and Beginning Farmers
- Outreach programs to all producers irrespective of their age, GFI or years farming
- An alliance with Farm Credit Leasing, which YBS customers can benefit from
- Continuing Education Scholarships
- Grain marketing seminars, crop insurance meetings and young farmer conferences
- Succession/retirement planning seminars and farm transition workshops
- Multiple communication channels, including social media, to increase awareness of United FCS YBS programs

Reference

- United FCS, ACA Board Policy 2.60
- FCA Reg 614.4165
- FCA Bookletter 40 (revised)

FUNDS HELD PROGRAM

United FCS, ACA

(Unaudited)

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 Association 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 held on our books and must be in compliance with any existing loan prepayment terms and covenants.

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

Withdrawals

Money in Funds Held may be withdrawn at any time, unless restrictions are designated in the loan agreement or other loan documents.

Association Options

In the event of default on any loan, or if Funds Held exceeds the maximum limit as established above, or if the Association discontinues their Funds Held program, the Association 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 the lender's liquidation, all borrowers having funds in these uninsured accounts shall be notified in accordance with FCA Regulation 627.2735. The notice shall advise that the funds ceased earning interest when receivership was instituted and all funds will be applied against the outstanding indebtedness of any loans of such borrower unless, within 15 days of notice, the borrower directs the receiver to otherwise apply such funds in the manner provided in existing loan documents.

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

United FCS, ACA

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Visit us at www.unitedfcs.com