2015
Annual Report

United FCS, ACA

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United FCS, ACA

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. The 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 at:

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

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in United FCS, ACA. To request free copies of the AgriBank and combined AgriBank and affiliated Associations' financial reports contact us as stated above.

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Greetings,

With a new year upon us, it is time to reflect on 2015. As an association, 2015 was another good year. Thanks to the dedication of both our members and employees, United FCS is well positioned as we continue to experience a tough economic climate across many different sectors of agriculture. Low commodity prices placed a damper on what was an ideal growing season for many producers. Experts are predicting that these prices will last throughout 2016 and possibly beyond.

However, we cannot help but to keep thinking positively. As we enter our 100th year of business as the Farm Credit System, it serves as an important reminder in times like this. For 100 years we have seen different economic cycles come and go. But regardless of the cycle, Farm Credit and United FCS have stood firm as a source of sound and constructive credit and financial services for our members. We have helped agriculture and rural communities grow throughout the years within Minnesota and Wisconsin. We will continue that proud legacy into the future.

Our association was certainly busy in 2015. Last year we sponsored a host of activities, educational seminars and events that promote agriculture. These gatherings include the Linder Farm Network Outlook meetings, annual insurance updates, the Immigrant & Minority Farmers Conference, Farmfest, and the Wisconsin Farm Bureau's Young Farmer Conference.

One of the core missions of the Farm Credit System is to help young and beginning farmers. We can help achieve that by expanding learning opportunities for students. In 2015, United FCS joined three additional associations in sponsoring the Farm Credit Fellows Program at North Dakota State University. Students will now get valuable experience learning about the world of agricultural financing. This program will better prepare those participants for their careers after graduation.

Another exciting event of note for our association took place in early October, when we officially broke ground on our new office location in Olivia, Minnesota. With the impressive amount of growth we have seen, and the added staff to meet that growth, a new facility was needed. The building will be roughly twice the size of our current facility, located only one block away. This new office will allow for both members and staff to conduct business in a personal and professional setting.

On behalf of United FCS, we want to thank you for your continued support. Our success is made possible through the hard work of the people we serve - our members.

Sincerely,

Bradley Sunderland
Chairperson of the Board
United FCS, ACA

Marcus L. Knisely
Chief Executive Officer
United FCS, ACA

March 11, 2016

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

United FCS, ACA

(dollars in thousands)

	2015	2014	2013	2012	2011
Statement of Condition Data					
Loans	**$ 1,632,914**	$ 1,484,742	$ 1,389,316	$ 1,288,686	$ 1,233,358
Allowance for loan losses	**4,359**	3,280	2,982	2,871	4,234
Net loans	**1,628,555**	1,481,462	1,386,334	1,285,815	1,229,124
Investment in AgriBank, FCB	**23,455**	23,455	49,688	49,352	36,644
Other property owned	**118**	150	54	43	62
Other assets	**33,824**	31,723	30,367	30,144	31,842
Total assets	**$ 1,685,952**	$ 1,536,790	$ 1,466,443	$ 1,365,354	$ 1,297,672
Obligations with maturities of one year or less	**$ 1,398,474**	$ 1,266,736	$ 1,216,748	$ 1,136,866	$ 1,093,301
Total liabilities	**1,398,474**	1,266,736	1,216,748	1,136,866	1,093,301
Capital stock and participation certificates	**5,045**	5,071	5,017	4,931	4,645
Unallocated surplus	**282,433**	264,983	244,678	223,557	199,726
Total members' equity	**287,478**	270,054	249,695	228,488	204,371
Total liabilities and members' equity	**$ 1,685,952**	$ 1,536,790	$ 1,466,443	$ 1,365,354	$ 1,297,672
Statement of Income Data					
Net interest income	**$ 40,072**	$ 37,632	$ 37,486	$ 36,290	$ 36,162
Provision for (reversal of) credit losses	**1,491**	(130)	(31)	(662)	691
Other expenses, net	**15,134**	11,461	10,400	7,900	11,866
Net income	**$ 23,447**	$ 26,301	$ 27,117	$ 29,052	$ 23,605
Key Financial Ratios					
Return on average assets	**1.5%**	1.9%	2.0%	2.3%	1.9%
Return on average members' equity	**8.4%**	10.1%	11.3%	13.4%	12.1%
Net interest income as a percentage of average earning assets	**2.7%**	2.8%	3.0%	3.1%	3.1%
Members' equity as a percentage of total assets	**17.1%**	17.6%	17.0%	16.7%	15.7%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.1%
Allowance for loan losses as a percentage of loans	**0.3%**	0.2%	0.2%	0.2%	0.3%
Permanent capital ratio	**15.4%**	15.7%	13.3%	13.2%	11.7%
Total surplus ratio	**15.1%**	15.4%	12.9%	12.8%	11.4%
Core surplus ratio	**15.1%**	15.4%	12.9%	12.8%	11.4%
Net Income Distributed					
Patronage distributions:					
Cash	**$ 5,997**	$ 5,996	$ 5,210	$ 5,007	$ 5,999

The patronage distribution to members accrued for the year ended December 31, 2015 was distributed in cash during the first quarter of 2016. The patronage distributions accrued for the years ended December 31, 2014, 2013, 2012, and 2011 were distributed in cash during the first quarter of each subsequent year. No income was distributed to members in the form of dividends, stock, or allocated surplus during these periods.

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, 2016, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 74 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). United FCS, ACA is one of the affiliated Associations 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.

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

Commodity Forecasts

Informa Economics, in its October 2015 Agribusiness Outlook, states that world GDP growth is forecast at 2.6% in 2015 and is expected to grow 2.8% in 2016. Annual growth in China, the world's second largest economy is expected to fall from 7.3% in 2014 to 6.8% in 2015 and to 5.7% in 2016. Growth in the U.S. economy is forecast at 2.6% in 2015, and potentially 3.3% in 2016. However, weak foreign demand and a strong dollar will continue to pressure exports, although continued low energy prices will somewhat offset these negative pressures.

The United States Department of Agriculture (USDA), in its November 2015 Farm Sector Income Forecast, projects net farm income to decline to $55.9 billion in 2015, down 38.0% from 2014's downwardly revised estimate of $90.4 billion. The 2015 forecast would be the lowest since 2002 and a drop of 55.0% from the recent high of $123.3 billion in 2013. USDA's report highlights an 8.7% decrease in crop receipts in 2015 and a 12.0% decrease in 2015 livestock receipts. Declining farm sector assets resulting from a modest decline in farmland values and other assets – as well as higher debt – are forecast to erode by 4.8%, the first drop since 2009. After several years of steady improvement, farm financial risk indicators such as the debt-to-asset ratio are expected to rise in 2015, indicating greater financial pressure on the sector. However, debt-to-asset and debt-to-equity ratios remain low relative to historical levels.

The following reflect economic conditions for various commodities based on various USDA December 2015 reports, including World Agricultural Supply and Demand, Sugar and Sweeteners Outlook, Livestock, Dairy and Poultry Outlook, USDA Milk Production Report, and the Cold Storage Report:

Cash Grains-Corn/Soybeans: The USDA projects ending 2015/16 U.S. corn stocks at 1.8 billion bushels (bu), 3.1% higher than the 2014/15 estimated ending stocks. Projected U.S. corn production for 2015/16 is 13.7 billion bu., 4.0% below last year's record levels. USDA is projecting a season average corn price of $3.35 - $3.95/bu. USDA projects ending U.S soybean stocks for 2015/16 at 465.0 million bu., vs. the 2014/15 estimated ending stocks of 191.0 million bu. USDA projects the season soybean average price of $8.15 - $9.65/bu. Current and projected 2016 corn and soybean prices are below average break-even levels for area producer's based on 2015 input costs. Area producers, in general, produced record corn and soybean yields in 2015. USDA estimated that in 2015 Minnesota farmers produced record level corn and soybean yields which were also significantly higher than 2014 results. Even with these strong yields, we anticipate that many producers operated at or below break-even levels due to the drop in corn and soybean prices.

Dairy: USDA forecasts 2015 fourth quarter, class III milk prices will average $15.00-$15.20 per hundredweight (cwt), down substantially from 2014's yearly average price of $22.34. USDA forecasts 2016 class III milk prices at $14.75 - $15.55 per cwt, down from 2015 levels. This price forecast, even with lower feed prices and strong forage production in 2015, will still likely have area dairy producers operating at break-even to moderate losses for 2016. Wisconsin and Minnesota milk production has been consistently strong in 2015 with both states showing increases in production of 2.4% for Minnesota and 4.3% for

Wisconsin in the month of November. Even with stronger production, area producers likely operated at break-even to slightly below break-even in 2015 due to the significant drop in milk prices that occurred in 2015.

Sugar: U.S. Sugar production for 2015/16 is forecast at 9.0 million short tons, raw value (STRV), up 4.0% from 2014/15, including a forecast of record U.S. sugar beet yields. The USDA is forecasting a 10.6% decrease in sugar imports for 2015/16 as lower than expected U.S. sugar needs reduce the potential for U.S. imports of Mexican sugar. Total U.S. ending stocks for 2015/16 are forecast to be 6.1% lower than the prior year due to lower supply and no overall change in use. Area beet growers harvested a record crop in 2015 as a result of a nearly ideal growing season. Strong beet yields combined with higher sugar prices should allow area producers to operate at break-even to slightly profitable levels for their sugar enterprises in 2015. The area sugar beet cooperative began harvest in early August to better manage processing.

General Livestock: The USDA states, “Cattle prices are forecast to decline almost 8 percent compared with 2015, due to larger supplies of heavy cattle, high cold storage stock levels, and sluggish foreign demand.”

The December Cold Storage report showed that frozen meat stocks were up 21.0% from the prior year and down 3.0% from the prior month. The report showed that (compared to year-ago levels), frozen beef stocks were up 27.0%, frozen pork stocks were up 14.0%, frozen chicken stocks were up 27.0%, and frozen turkey stocks were up 1.0%.

The December Hogs and Pigs report showed the December 1, 2015 U.S. hogs and pigs inventory was up 1.0% from one year ago, and up less than 1.0% from the prior quarter. Breeding stock inventory was up 1.0% from year-ago levels and marketing hog inventory was up 1.0% from year-ago levels. The September-November 2015 pig crop was down 1.0% from year-ago levels. Sows farrowing during this period were down 4.0% from 2014. The average pigs saved per litter was a record high for the September-November period. The hog industry is projected to show slight profits in 2015 as increased pork production has outpaced pork demand and caused hog prices to decline significantly from 2014 levels. For 2016, the industry’s outlook is for slight profitability due to production at flat to slightly below 2015 levels coupled with an increase in pork demand.

In the spring of 2015 the U.S. Poultry industry was confronted with multiple outbreaks of Highly-Pathogenic Avian Influenza (AI). To date, the heaviest incidence of the virus in our market area has fallen on turkeys, particularly in Minnesota and our local service area. The virus has affected production, trade and prices. Area producers have now been able to fully repopulate barns and anticipate being back to full production in the second half of 2016.

U.S. Turkey meat production has declined year-over-year for six consecutive months since the AI outbreak in the first half of 2015. Given the strong prices for whole birds and some turkey cuts, plus lower feed and energy costs, turkey integrators are expected to increase production in 2016, with production expected to be significantly higher in the second-half of 2016. Turkey cold storage at the end of 2015 is forecast to be down slightly from the prior year. With increasing production in 2016, stock levels are forecast to gradually increase and move above prior year levels starting in the 2nd quarter of 2016. With lower stocks of whole birds in cold storage and lower turkey production expected through 1st quarter 2016, whole bird prices are forecast to be higher than the previous year through the first half of 2016 but to move below prior year in second-half 2016.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.6 billion at December 31, 2015, an increase of $148.2 million from December 31, 2014.

Components of Loans

(in thousands)

As of December 31	2015	2014	2013
Accrual loans:			
Real estate mortgage	**$ 706,474**	$ 631,799	$ 588,393
Production and intermediate term	**552,039**	514,074	504,181
Agribusiness	**222,947**	194,649	166,478
Other	**145,300**	139,732	125,437
Nonaccrual loans	**6,154**	4,488	4,827
Total loans	**$ 1,632,914**	$ 1,484,742	$ 1,389,316

The other category is primarily comprised of energy, communication, international, 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, 2014 resulted primarily from mortgage loan growth to new and existing members, along with higher usage of operating commitments by our agricultural producers as well as our agribusiness segment.

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, asset 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 $204.0 million, $237.4 million, and $265.5 million at December 31, 2015, 2014, and 2013, respectively.

Portfolio Distribution

Our portfolio is concentrated primarily in the following states at December 31, 2015: Minnesota 52.6% and Wisconsin 24.9%. The remainder of our portfolio is composed of loans outside of Minnesota and Wisconsin.

Agricultural concentrations exceeding 5.0% of our portfolio at December 31, 2015 included: cash grains 37.6%, dairy 11.9%, sugar beets 6.2%, landlords 5.4%, food products 5.3%, and rural utilities 5.2%. Additional commodity concentration information is included in Note 3 to the accompanying Consolidated Financial Statements.

Our production and intermediate term loan portfolio shows some seasonality. These loans are normally at their lowest levels during January and February because of operating repayments 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 from December 31, 2014, but remains in good condition. Adversely classified loans increased to 2.2% of the portfolio at December 31, 2015, from 0.8% of the portfolio at December 31, 2014. Adversely classified loans are loans and leases with serious contractual performance deficiencies and/or borrowers that exhibit serious weakness in repayment capacity, equity and/or collateral. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At December 31, 2015, $137.8 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Risk assets are comprised of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due (accruing loans include accrued interest receivable), and other property owned.

Components of Risk Assets

(dollars in thousands) As of December 31	**2015**	2014	2013
Loans:			
Nonaccrual	**$ 6,154**	$ 4,488	$ 4,827
Accruing restructured	**2,761**	2,557	2,500
Accruing loans 90 days or more past due	**623**	--	--
Total risk loans	**9,538**	7,045	7,327
Other property owned	**118**	150	54
Total risk assets	**$ 9,656**	$ 7,195	$ 7,381
Total risk loans as a percentage of total loans	**0.6%**	0.5%	0.5%
Nonaccrual loans as a percentage of total loans	**0.4%**	0.3%	0.3%
Total delinquencies as a percentage of total loans	**0.2%**	0.1%	0.2%

Our risk assets have increased from December 31, 2014, but remain at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The increase in nonaccrual loans was due to a decline in credit quality primarily as a result of continued low commodity prices. Nonaccrual loans remained at acceptable levels as of December 31, 2015, 2014, and 2013 and 59.8%, 71.4%, and 65.1% of our nonaccrual loans were current at December 31, 2015, 2014, and 2013, respectively.

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.

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	2015	2014	2013
Allowance as a percentage of:			
Loans	**0.3%**	0.2%	0.2%
Nonaccrual loans	**70.8%**	73.1%	61.8%
Total risk loans	**45.7%**	46.6%	40.7%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to risk funds	**13.8%**	4.9%	6.4%

Our Allowance for Loan Losses was increased in 2015 due to declining credit quality and outlooks for key commodities. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2015.

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	2015	2014	2013
Net income	**$ 23,447**	$ 26,301	$ 27,117
Return on average assets	**1.5%**	1.9%	2.0%
Return on average members' equity	**8.4%**	10.1%	11.3%

Changes in these ratios relate directly to:

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

Changes in Significant Components of Net Income

(in thousands)	For the year ended December 31			Increase (decrease) in net income	
	2015	2014	2013	**2015 vs 2014**	2014 vs 2013
Net interest income	**$ 40,072**	$ 37,632	$ 37,486	**$ 2,440**	$ 146
Provision for (reversal of) credit losses	**1,491**	(130)	(31)	**(1,621)**	99
Patronage income	**8,521**	10,215	10,796	**(1,694)**	(581)
Other income, net	**9,113**	7,898	8,963	**1,215**	(1,065)
Operating expenses	**32,547**	29,417	28,929	**(3,130)**	(488)
Provision for income taxes	**221**	157	1,230	**(64)**	1,073
Net income	**$ 23,447**	$ 26,301	$ 27,117	**$ (2,854)**	$ (816)

Net Interest Income

Changes in Net Interest Income

(in thousands)	**2015 vs 2014**	2014 vs 2013
Changes in volume	**$ 3,238**	$ 3,533
Changes in interest rates	**(879)**	(2,938)
Changes in nonaccrual income and other	**81**	(449)
Net change	**$ 2,440**	$ 146

Net interest income included income on nonaccrual loans that totaled $315 thousand, $234 thousand, and $682 thousand in 2015, 2014, and 2013, 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%, 2.8%, and 3.0% in 2015, 2014, and 2013, 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) loan losses is 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 26.0 basis points, 33.5 basis points, and 34.5 basis points in 2015, 2014, and 2013, respectively. We recorded patronage income of $3.2 million, $3.8 million, and $3.7 million in 2015, 2014, and 2013, 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 $5.3 million, $6.3 million, and $7.0 million in 2015, 2014, and 2013, 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	**2015**	2014	2013
Salaries and employee benefits	**$ 22,306**	$ 19,577	$ 19,638
Purchased and vendor services	**1,946**	1,756	1,648
Communications	**267**	253	255
Occupancy and equipment	**2,226**	2,231	2,208
Advertising and promotion	**821**	875	781
Examination	**444**	427	447
Farm Credit System insurance	**1,661**	1,403	1,091
Other	**2,876**	2,895	2,861
Total operating expenses	**$ 32,547**	$ 29,417	$ 28,929
Operating rate	**2.2%**	2.2%	2.3%

The operating expense increases were primarily related to ongoing/annual planned compensation/benefits adjustments for employees. In addition, Farm Credit Insurance Corporation (FCSIC) insurance expense increased in 2015 primarily due to an increase in the premium rate charged on accrual loans by FCSIC from 12 basis points in 2014 to 13 basis points in 2015. The Insurance Corporation has announced premiums will increase to 16 basis points for the first half and 18 basis points for the second half of 2016.

Provision for Income Taxes

The variance in provision for income taxes is related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2015, 2014, and 2013. 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, 2015, we had $317.4 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	**2015**	2014	2013
Average balance	**$ 1,230,285**	$ 1,136,067	$ 1,078,635
Average interest rate	**1.5%**	1.5%	1.3%

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) 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 $107.4 million, $116.2 million, and $58.9 million at December 31, 2015, 2014, and 2013, respectively. We paid Farmer Mac commitment fees totaling $324 thousand, $304 thousand, and $189 thousand in 2015, 2014, and 2013, respectively. These amounts are included in "Other operating expenses" in the Consolidated Statements of Income. As of December 31, 2015, no loans have been sold to Farmer Mac under this agreement.

CAPITAL ADEQUACY

Total members' equity increased $17.4 million from December 31, 2014, 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	Regulatory Minimums	2015	2014	2013
Members' equity		**$ 287,478**	$ 270,054	$ 249,695
Surplus as a percentage of members' equity		**98.2%**	98.1%	98.0%
Surplus as a percentage of risk-adjusted assets		**17.1%**	17.1%	16.7%
Permanent capital ratio	7.0%	**15.4%**	15.7%	13.3%
Total surplus ratio	7.0%	**15.1%**	15.4%	12.9%
Core surplus ratio	3.5%	**15.1%**	15.4%	12.9%

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 is included in Note 6 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum permanent capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2015, our long range target for permanent capital was 15%.

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.

Cost of funds under the GFA includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit, and, if applicable, a risk premium component. However, 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, 2015, 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. Prior to March 31, 2014, the required investment was equal to 2.5% 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%. However, AgriBank currently has not communicated a plan to increase the required investment. 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.

In addition, we are required to hold AgriBank stock equal to 8.0% of the quarter end balance in the AgriBank Asset Pool program.

At December 31, 2015, 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. AgriBank's Board of Directors sets the level of:

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

Patronage income for 2013 on our note payable with AgriBank was paid in the form of cash and AgriBank stock. Beginning in 2014, patronage income earned on our note payable with AgriBank is paid in cash. All patronage income earned as part of the AgriBank Asset Pool program is paid in cash.

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 $897 thousand, $798 thousand, and $771 thousand in 2015, 2014, and 2013, respectively.

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. To request free copies of the AgriBank and the combined AgriBank and affiliated Associations' financial reports contact us at:

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

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

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. The 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 stated above.

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 Farm Credit System to better meet the financial needs of agricultural producers and agribusiness operations. CFG is governed 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 $317.8 million, $277.1 million, and $233.5 million of CFG volume at December 31, 2015, 2014, and 2013, respectively. We also had $217.0 million of available commitment on CFG loans at December 31, 2015.

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 ProPartners Financial (ProPartners) alliance with certain other associations in the Farm Credit System to provide producer financing for agribusiness companies. ProPartners is governed 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 was established according to a prescribed formula which included risk funds of the associations. We had $37.2 million, $15.9 million, and $13.9 million of ProPartners volume at December 31, 2015, 2014, and 2013, respectively. We also had $53.5 million of available commitment on ProPartners loans at December 31, 2015. We increased our ownership share in 2015 to 3.6% and that is the primary reason for the 2015 volume increase.

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.

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 $134 thousand, $110 thousand, and $84 thousand at December 31, 2015, 2014, and 2013, respectively. CoBank provides direct loan funds to associations in its chartered territory and makes loans to cooperatives and other eligible borrowers.

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.

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, 2015, 2014, and 2013. This partnership also helps us to manage risk and manage hold levels.

Farm Credit Foundations: We have a relationship and ownership interest with Farm Credit Foundations (Foundations) which involves purchasing human resource information systems, benefit, payroll, and workforce management services. As of December 31, 2015, 2014, and 2013, our investment in

Foundations was $27 thousand. The total cost of services we purchased from Foundations was $143 thousand, $127 thousand, and $114 thousand in 2015, 2014, and 2013, respectively.

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.

Rural Business Investment Company: We and other Farm Credit Institutions are among the forming 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.

AgriHedge: We offer the AgriHedge product to eligible association borrowers. The AgriHedge product is a simple, effective way for farmers to hedge their crop revenue. Farmers are able to establish a hedge price on various commodities including, but not limited to: corn, soybeans, wheat, certain livestock, or class III milk by combining an operating loan with a third-party commodity swap product. This product combination enables the farmer to hedge commodity price risk without the typical upfront cash flows for fees and on-going margin calls (including costs of borrowing) of a traditional swap product. Fees incurred are paid by the farmer when the contract is settled and cash is received or paid. Eligible participants must meet certain credit criteria and the hedges must be for their own crop.

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 $22.4 million, $25.2 million, and $23.9 million of volume under this program at December 31, 2015, 2014, and 2013, respectively.

Cash Manager: We offer Cash Manager, for customers that need a cash management product. Cash Manager is a CoBank, ACB (CoBank) (a system bank) 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.

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

On May 8, 2014, the FCA Board approved a proposed rule to modify the regulatory capital requirements for System Banks and Associations. The stated objectives of the proposed rule 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 most recent comment period closed July 10, 2015. The initial comment period on the proposed rule, after extension, closed February 16, 2015.

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 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.

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 11, 2016

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, 2015. 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, 2015, 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, 2015.

Marcus L. Knisely
Chief Executive Officer
United FCS, ACA

Robert M. Haines
Chief Financial Officer
United FCS, ACA

March 11, 2016

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, 2015, 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, 2015.

William J. Oemichen

William Oemichen
Chairperson of the Audit Committee
United FCS, ACA

Members of the Audit Committee:
Suzanne Allen, Vice Chairperson of the Audit Committee
Scott Gerbig, his service on this committee ended effective December 31, 2015
Lynn Pietig, her service on this committee began effective January 1, 2016
Bradley Sunderland
Jeffrey Thompson

March 11, 2016

pwc

Independent Auditor's Report

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, 2015, 2014 and 2013, 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.

Auditor's 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, 2015, 2014 and 2013, 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 11, 2016

PricewaterhouseCoopers LLP, 225 South Sixth Street, Suite 1400, Minneapolis, MN 55402
T: (612) 596 6000, www.pwc.com/us

CONSOLIDATED STATEMENTS OF CONDITION

United FCS, ACA

(in thousands)

As of December 31	**2015**	2014	2013
ASSETS			
Loans	**$ 1,632,914**	$ 1,484,742	$ 1,389,316
Allowance for loan losses	**4,359**	3,280	2,982
Net loans	**1,628,555**	1,481,462	1,386,334
Investment in AgriBank, FCB	**23,455**	23,455	49,688
Accrued interest receivable	**12,963**	11,159	9,941
Other property owned	**118**	150	54
Deferred tax assets, net	**584**	44	--
Other assets	**20,277**	20,520	20,426
Total assets	**$ 1,685,952**	$ 1,536,790	$ 1,466,443
LIABILITIES			
Note payable to AgriBank, FCB	**$ 1,378,968**	$ 1,249,843	$ 1,198,936
Accrued interest payable	**4,719**	4,021	3,727
Deferred tax liabilities, net	**--**	--	521
Patronage distribution payable	**6,000**	6,000	6,000
Other liabilities	**8,787**	6,872	7,564
Total liabilities	**1,398,474**	1,266,736	1,216,748
Contingencies and commitments (Note 10)			
MEMBERS' EQUITY			
Capital stock and participation certificates	**5,045**	5,071	5,017
Unallocated surplus	**282,433**	264,983	244,678
Total members' equity	**287,478**	270,054	249,695
Total liabilities and members' equity	**$ 1,685,952**	$ 1,536,790	$ 1,466,443

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	**2015**	2014	2013
Interest income	**$ 58,930**	$ 54,504	$ 51,372
Interest expense	**18,858**	16,872	13,886
Net interest income	**40,072**	37,632	37,486
Provision for (reversal of) credit losses	**1,491**	(130)	(31)
Net interest income after (reversal of) provision for credit losses	**38,581**	37,762	37,517
Other income			
Patronage income	**8,521**	10,215	10,796
Financially related services income	**5,000**	4,553	4,756
Fee income	**2,613**	2,376	3,184
Miscellaneous income, net	**1,500**	969	1,023
Total other income	**17,634**	18,113	19,759
Operating expenses			
Salaries and employee benefits	**22,306**	19,577	19,638
Other operating expenses	**10,241**	9,840	9,291
Total operating expenses	**32,547**	29,417	28,929
Income before income taxes	**23,668**	26,458	28,347
Provision for income taxes	**221**	157	1,230
Net income	**$ 23,447**	$ 26,301	$ 27,117

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, 2012	$ 4,931	$ 223,557	$ 228,488
Net income	--	27,117	27,117
Unallocated surplus designated for patronage distributions	--	(5,996)	(5,996)
Capital stock and participation certificates issued	514	--	514
Capital stock and participation certificates retired	(428)	--	(428)
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**

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		2015		2014		2013
Cash flows from operating activities						
Net income	**$**	**23,447**	$	26,301	$	27,117
Depreciation on premises and equipment		**781**		812		840
Amortization of premiums (discounts) on loans, net		**41**		13		(7)
Provision for (reversal of) credit losses		**1,491**		(130)		(31)
Stock patronage received from Farm Credit Institutions		**(24)**		(15,304)		(1,725)
Loss (Gain) on other property owned		**3**		(71)		--
Changes in operating assets and liabilities:						
Increase in accrued interest receivable		**(2,020)**		(1,427)		(991)
(Increase) decrease in other assets		**(773)**		(715)		386
Increase in accrued interest payable		**698**		294		487
Increase (decrease) in other liabilities		**1,915**		(1,215)		(5,226)
Net cash provided by operating activities		**25,559**		8,558		20,850
Cash flows from investing activities						
Increase in loans, net		**(148,186)**		(94,620)		(100,160)
Redemptions of investment in AgriBank, FCB, net		**--**		41,510		1,371
Sales of assets held for lease, net		**116**		56		49
Proceeds from sales of other property owned		**62**		71		--
Purchases of premises and equipment, net		**(397)**		(261)		(505)
Net cash used in investing activities		**(148,405)**		(53,244)		(99,245)
Cash flows from financing activities						
Increase in note payable to AgriBank, FCB, net		**129,125**		50,907		83,835
Patronage distributions paid		**(5,997)**		(5,996)		(5,210)
Capital stock and participation certificates retired, net		**(282)**		(225)		(230)
Net cash provided by financing activities		**122,846**		44,686		78,395
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	**$**	**420**	$	406	$	490
Stock applied against loan principal		**164**		126		174
Stock applied against interest		**--**		1		--
Interest transferred to loans		**216**		208		16
Loans transferred to other property owned		**33**		96		11
Patronage distributions payable to members		**6,000**		6,000		6,000
Supplemental information						
Interest paid	**$**	**18,160**	$	16,578	$	13,399
Taxes paid		**941**		741		405

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, 2016, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 74 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, 2016, 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 member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of 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. In addition to the authorization described for the District our FLCA subsidiary also services certain long-term real estate loans owned by AgriBank.

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.

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.

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

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 Investment: The carrying amount of the investment in the Rural Business Investment Company, for 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.

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.

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 receivables net of the unearned income plus the residual receivable. 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 the Internal Revenue Code compensation or other 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.

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. 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 management's 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 assumptions 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, but are not yet effective, and have determined that no such standards are expected to have a material impact to our Consolidated Financial Statements. Except as noted below, no accounting pronouncements were adopted during 2015.

In February 2016, the FASB issued guidance entitled, “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 guidance entitled, “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 only 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, or financial statement disclosures.

In August 2014, the FASB issued guidance, “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 becomes effective for all entities for interim and annual periods ending after December 15, 2016, and early application is permitted. We do not expect the adoption of this guidance to have an effect on our financial condition, results of operations, cash flows, or financial statement disclosures.

In May 2014, the FASB issued guidance entitled, “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. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition or our results of operations.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

We identified loans that required reclassification among the various loan type categories that are used to report disaggregated loan information in 2014 and 2013. We have evaluated the impact on the loan footnote disclosures and have concluded that these errors did not, individually or in the aggregate, result in a material misstatement of our previously issued consolidated financial statements. We concluded that a revision of loan type information for all years presented in the 2015 Annual Report was appropriate. As such, the revisions are reflected in the financial information of the applicable prior periods. The revisions had no impact on our financial position, results of operations, or regulatory capital ratios as of December 31, 2014, and 2013.

The following tables present the effect of these revisions of the disclosure of the summary of loans outstanding as of December 31, 2014 and 2013. Other disclosures included in the 2015 Annual Report have also been revised to consistently present the changes in classification.

(in thousands) As of December 31, 2014	As Previously Reported	Adjustment	As Revised
Real estate mortgage	$ 656,465	$ (23,210)	$ 633,255
Production and intermediate term	515,868	(1,104)	514,764
Agribusiness	192,005	2,685	194,690
Other	120,404	21,629	142,033
Total	$ 1,484,742	$ --	$ 1,484,742

As of December 31, 2013	As Previously Reported	Adjustment	As Revised
Real estate mortgage	$ 605,701	$ (15,623)	$ 590,078
Production and intermediate term	494,192	10,691	504,883
Agribusiness	175,547	(9,027)	166,520
Other	113,876	13,959	127,835
Total	$ 1,389,316	$ --	$ 1,389,316

Loans by Type

(dollars in thousands)	**2015**		2014		2013	
As of December 31	Amount	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 708,611**	**43.3%**	$ 633,255	42.6%	$ 590,078	42.5%
Production and intermediate term	**554,698**	**34.0%**	514,764	34.7%	504,883	36.3%
Agribusiness	**222,988**	**13.7%**	194,690	13.1%	166,520	12.0%
Other	**146,617**	**9.0%**	142,033	9.6%	127,835	9.2%
Total	**$ 1,632,914**	**100.0%**	$ 1,484,742	100.0%	$ 1,389,316	100.0%

The other category is primarily comprised of energy, communication, international, 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

We have borrower, agricultural, and geographic concentrations.

As of December 31, 2015, volume plus commitments to our ten largest borrowers totaled an amount equal to 6.0% of total loans and commitments.

Agricultural Concentrations

As of December 31	**2015**	2014	2013
Cash grains	**37.6%**	34.4%	37.0%
Dairy	**11.9%**	11.5%	12.3%
Sugar Beets	**6.2%**	6.4%	6.6%
Landlords	**5.4%**	5.0%	5.1%
Food Products	**5.3%**	5.3%	4.5%
Rural Utilities	**5.2%**	5.2%	5.3%
Beef Cattle	**3.3%**	3.3%	2.6%
Farm Equipment and Supplies	**2.8%**	3.1%	3.3%
Hogs	**2.7%**	2.2%	2.4%
Cranberries	**2.3%**	2.4%	2.3%
Potatoes	**1.9%**	1.8%	2.1%
Timber	**1.8%**	1.7%	2.0%
Poultry and Eggs	**1.6%**	2.0%	2.2%
Ethanol	**0.6%**	0.8%	1.4%
Other	**11.4%**	14.9%	10.9%
Total	**100.0%**	100.0%	100.0%

Our portfolio is concentrated primarily in the following states at December 31, 2015: Minnesota 52.6% and Wisconsin 24.9%. The remainder of our portfolio consists of assets outside of Minnesota and Wisconsin.

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 percent (97 percent 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 percent 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

(in thousands)	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)

As of December 31, 2013	AgriBank Participations Purchased	AgriBank Participations Sold	Other Farm Credit Institutions Participations Purchased	Other Farm Credit Institutions Participations Sold	Non-Farm Credit Institutions Participations Purchased	Non-Farm Credit Institutions Participations Sold	Total Participations Purchased	Total Participations Sold
Real estate mortgage	$ --	$ (265,244)	$ 57,530	$ (56,171)	$ 448	$ (1,362)	$ 57,978	$ (322,777)
Production and intermediate term	--	(12,319)	69,088	(129,841)	--	--	69,088	(142,160)
Agribusiness	--	(15,769)	512,291	(725,199)	24,129	--	536,420	(740,968)
Other	--	(25,302)	636,019	(556,654)	--	--	636,019	(581,956)
Total	$ --	$ (318,634)	$ 1,274,928	$ (1,467,865)	$ 24,577	$ (1,362)	$ 1,299,505	$ (1,787,861)

Information in the preceding chart excludes loans entered into under our mission related investment authority and leasing authority.

Credit Quality and Delinquency

One credit quality indicator we utilize is the FCA Uniform Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable: loans are expected to be fully collectible and represent the highest quality
- Other assets especially mentioned (OAEM): loans are currently collectible but exhibit some potential weakness
- Substandard: loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan
- Doubtful: loans exhibit similar weaknesses to substandard loans; however, 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, 2015, 2014, or 2013.

Credit Quality of Loans

(dollars in thousands)

As of December 31, 2015	Acceptable Amount	Acceptable %	OAEM Amount	OAEM %	Substandard/ Doubtful Amount	Substandard/ Doubtful %	Total Amount	Total %
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%**

As of December 31, 2014	Acceptable Amount	Acceptable %	OAEM Amount	OAEM %	Substandard/ Doubtful Amount	Substandard/ Doubtful %	Total Amount	Total %
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%

As of December 31, 2013	Acceptable Amount	Acceptable %	OAEM Amount	OAEM %	Substandard/ Doubtful Amount	Substandard/ Doubtful %	Total Amount	Total %
Real estate mortgage	$ 588,696	99.0%	$ 2,971	0.5%	$ 3,230	0.5%	$ 594,897	100.0%
Production and intermediate term	506,477	99.5%	1,044	0.2%	1,590	0.3%	509,111	100.0%
Agribusiness	155,571	93.1%	8,622	5.2%	2,921	1.7%	167,114	100.0%
Other	123,113	96.1%	20	--	5,002	3.9%	128,135	100.0%
Total	$ 1,373,857	98.2%	$ 12,657	0.9%	$ 12,743	0.9%	$ 1,399,257	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands)

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 Loans		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 Loans		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	$	--

As of December 31, 2013		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 Loans		90 Days Past Due and Accruing
Real estate mortgage	$	242	$	1,145	$	1,387	$	593,510	$	594,897	$	--
Production and intermediate term		594		395		989		508,122		509,111		--
Agribusiness		--		16		16		167,098		167,114		--
Other		128		64		192		127,943		128,135		--
Total	$	964	$	1,620	$	2,584	$	1,396,673	$	1,399,257	$	--

Risk Loans

Risk loans (accruing loans include accrued interest receivable) 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		**2015**		2014		2013
Nonaccrual loans:						
Current as to principal and interest	**$**	**3,679**	$	3,206	$	3,143
Past due		**2,475**		1,282		1,684
Total nonaccrual loans		**6,154**		4,488		4,827
Accruing restructured loans		**2,761**		2,557		2,500
Accruing loans 90 days or more past due		**623**		--		--
Total risk loans	**$**	**9,538**	$	7,045	$	7,327
Volume with specific reserves	**$**	**1,171**	$	1,087	$	2,725
Volume without specific reserves		**8,367**		5,958		4,602
Total risk loans	**$**	**9,538**	$	7,045	$	7,327
Total specific reserves	**$**	**560**	$	617	$	997

For the year ended December 31		**2015**		2014		2013
Income on accrual risk loans	**$**	**138**	$	125	$	275
Income on nonaccrual loans		**315**		234		682
Total income on risk loans	**$**	**453**	$	359	$	957
Average recorded risk loans	**$**	**7,966**	$	7,297	$	11,543

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 $107.4 million, $116.2 million, and $58.9 million at December 31, 2015, 2014, and 2013, respectively. Fees paid to Farmer Mac for these commitments totaled $324 thousand, $304 thousand, and $189 thousand in 2015, 2014, and 2013, respectively. These amounts are included in "Other operating expenses" in the Consolidated Statements of Income. As of December 31, 2015, no loans have been sold to Farmer Mac under this agreement.

Nonaccrual Loans by Loan Type

(in thousands)

As of December 31	**2015**	2014	2013
Real estate mortgage	**$ 2,138**	$ 1,456	$ 1,686
Production and intermediate term	**2,659**	690	703
Agribusiness	**41**	41	41
Other	**1,316**	2,301	2,397
Total	**$ 6,154**	$ 4,488	$ 4,827

Accruing Loans 90 Days or More Past Due by Loan Type

(in thousands)

As of December 31	**2015**	2014	2013
Real estate mortgage	**$ 17**	$ --	$ --
Production and intermediate term	**606**	--	--
Total	**$ 623**	$ --	$ --

Additional Impaired Loan Information by Loan Type

(in thousands)

	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

	As of December 31, 2013			For the year ended December 31, 2013	
	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	$ 190	$ 191	$ 7	$ 197	$ --
Production and intermediate term	137	203	78	150	--
Agribusiness	--	--	--	--	--
Other	2,398	2,492	912	2,209	--
Total	$ 2,725	$ 2,886	$ 997	$ 2,556	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 1,850	$ 2,626	$ --	$ 1,915	$ 259
Production and intermediate term	2,343	4,355	--	2,557	278
Agribusiness	409	594	--	703	215
Other	--	8	--	3,812	205
Total	$ 4,602	$ 7,583	$ --	$ 8,987	$ 957
Total impaired loans:					
Real estate mortgage	$ 2,040	$ 2,817	$ 7	$ 2,112	$ 259
Production and intermediate term	2,480	4,558	78	2,707	278
Agribusiness	409	594	--	703	215
Other	2,398	2,500	912	6,021	205
Total	$ 7,327	$ 10,469	$ 997	$ 11,543	$ 957

The recorded investment in the loan is the face 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 did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2015.

Troubled Debt Restructurings

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)	2015		2014		2013	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 138**	**$ 138**	$ 214	$ 214	$ --	$ --
Production and intermediate term	**757**	**801**	417	417	385	385
Other	**--**	**--**	--	--	1,497	1,497
Total	**$ 895**	**$ 939**	$ 631	$ 631	$ 1,882	$ 1,882

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 face 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 type of modification included was extension of maturity.

We had TDRs in the real estate mortgage loan category of $3 thousand that defaulted during the year ended December 31, 2015, in which the modifications were within twelve months of the respective reporting period. There were no TDRs that defaulted during the years ended December 31, 2014 and 2013.

TDRs Outstanding

(in thousands) As of December 31	2015	2014	2013
Accrual status:			
Real estate mortgage	**$ 636**	$ 533	$ 354
Production and intermediate term	**2,002**	1,768	1,778
Agribusiness	**123**	256	368
Total TDRs in accrual status	**$ 2,761**	$ 2,557	$ 2,500
Nonaccrual status:			
Real estate mortgage	**$ 961**	$ 1,047	$ 1,081
Production and intermediate term	**151**	148	148
Other	**1,316**	1,410	1,497
Total TDRs in nonaccrual status	**$ 2,428**	$ 2,605	$ 2,726
Total TDRs:			
Real estate mortgage	**$ 1,597**	$ 1,580	$ 1,435
Production and intermediate term	**2,153**	1,916	1,926
Agribusiness	**123**	256	368
Other	**1,316**	1,410	1,497
Total TDRs	**$ 5,189**	$ 5,162	$ 5,226

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $170 thousand at December 31, 2015.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	2015	2014	2013
Balance at beginning of year	**$ 3,280**	$ 2,982	$ 2,871
Provision for loan losses	**1,491**	421	118
Loan recoveries	**18**	33	60
Loan charge-offs	**(430)**	(156)	(67)
Balance at end of year	**$ 4,359**	$ 3,280	$ 2,982

The increase in allowance for loan losses is related to $1.5 million provision expense recorded in 2015 due to declining credit quality and outlooks for key commodities.

The "Provision for credit losses" in the Consolidated Statements of Income includes a provision for loan losses as presented in the previous chart as well as any provision for credit losses on letters of credit.

We issue standby letters of credit, which include performance and financial guarantees, for customers in connection with contracts between our customers and third parties. Standby letters of credit are agreements where we are obligated to make payment to a third party on behalf of a customer in the event the customer fails to meet their contractual obligations.

Credit losses may be recorded to establish a reserve on letters of credit. The accrued credit losses are recorded in "Other liabilities" in the Consolidated Statements of Condition. No provision for credit losses was required during the year ended December 31, 2015, 2014, or 2013.

Throughout the year a portion of an established liability may be funded. The change in allowance for loan losses due to transactions such as these was $353 thousand and $149 thousand during the year ended December 31, 2014 and 2013, respectively. No transactions of this nature occurred during the year ended December 31, 2015.

The accrued credit losses related to letters of credit were $551 thousand as of December 31, 2013. There were no accrued credit losses related to letters of credit as of December 31, 2015 or 2014.

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, 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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2012	$ 254	$ 686	$ 1,091	$ 840	$ 2,871
(Reversal of) provision for loan losses	(17)	201	(616)	550	118
Loan recoveries	53	4	--	3	60
Loan charge-offs	(13)	(53)	(1)	--	(67)
Balance as of December 31, 2013	$ 277	$ 838	$ 474	$ 1,393	$ 2,982
Ending balance: individually evaluated for impairment	$ 7	$ 78	$ --	$ 912	$ 997
Ending balance: collectively evaluated for impairment	$ 270	$ 760	$ 474	$ 481	$ 1,985
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2013	$ 594,897	$ 509,111	$ 167,114	$ 128,135	$ 1,399,257
Ending balance: individually evaluated for impairment	$ 2,040	$ 2,480	$ 409	$ 2,398	$ 7,327
Ending balance: collectively evaluated for impairment	$ 592,857	$ 506,631	$ 166,705	$ 125,737	$ 1,391,930

The recorded investment in the loan is the face 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

As of December 31, 2015, 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. Prior to March 31, 2014, the required investment was equal to 2.5% plus an additional 1.0% on growth that exceeded a targeted rate. 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, 2015, 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, $23.5 million, and $49.7 million at December 31, 2015, 2014, and 2013, respectively.

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	**2015**	2014	2013
Line of credit	**$ 1,700,000**	$ 1,500,000	$ 1,400,000
Outstanding principal under the line of credit	**1,378,968**	1,249,843	1,198,936
Interest rate	**1.6%**	1.5%	1.3%

Our note payable matures October 31, 2016, 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, 2015, 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. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Regulatory Capitalization Requirements

Select Capital Ratios

As of December 31	Regulatory Minimums	**2015**	2014	2013
Permanent capital ratio	7.0%	**15.4%**	15.7%	13.3%
Total surplus ratio	7.0%	**15.1%**	15.4%	12.9%
Core surplus ratio	3.5%	**15.1%**	15.4%	12.9%

The permanent capital ratio is average at-risk capital 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 excess stock investment in AgriBank divided by average risk-adjusted assets.

Regulatory capital includes any investment in AgriBank that is in excess of the required investment under an allotment agreement with AgriBank. We had no excess stock at December 31, 2015, 2014, or 2013.

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.

	Number of Shares		
As of December 31	**2015**	2014	2013
Class A common stock (protected)	**--**	2	2
Class B common stock (at-risk)	**973,705**	977,465	967,990
Class E participation certificates (at-risk)	**35,394**	36,715	35,403

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, 2015, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock and participation certificates.

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, 2015, 2014, and 2013. 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. We do not foresee any events that would result in this prohibition in 2016.

NOTE 7: INCOME TAXES

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands)

For the year ended December 31	2015	2014	2013
Current:			
Federal	**$ 680**	$ 651	$ 1,279
State	**81**	71	102
Total current	**$ 761**	$ 722	$ 1,381
Deferred:			
Federal	**$ (507)**	$ (525)	$ (144)
State	**(33)**	(40)	(7)
Total deferred	**(540)**	(565)	(151)
Provision for income taxes	**$ 221**	$ 157	$ 1,230
Effective tax rate	**0.9%**	0.6%	4.3%

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

(in thousands)

For the year ended December 31	2015	2014	2013
Federal tax at statutory rates	**$ 8,047**	$ 8,996	$ 9,886
State tax, net	**25**	34	59
Patronage distributions	**(913)**	(1,298)	(1,400)
Effect of non-taxable entity	**(6,604)**	(6,953)	(7,288)
Other	**(334)**	(622)	(27)
Provision for income taxes	**$ 221**	$ 157	$ 1,230

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	2015	2014	2013
Allowance for loan losses	**$ 839**	$ 514	$ 401
Postretirement benefit accrual	**273**	253	242
Accrued incentive	**374**	349	--
Leasing related, net	**(253)**	(306)	(347)
Accrued patronage income not received	**(115)**	(183)	(237)
Accrued pension asset	**(492)**	(559)	(550)
Depreciation	**(68)**	(55)	(72)
Other assets	**43**	31	42
Other liabilities	**(17)**	--	--
Deferred tax assets (liabilities), net	**$ 584**	$ 44	$ (521)
Gross deferred tax assets	**$ 1,529**	$ 1,147	$ 685
Gross deferred tax liabilities	**$ (945)**	$ (1,103)	$ (1,206)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2015, 2014, or 2013.

We have not provided for 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 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 $184.7 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

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, 2015. In addition, we believe we are no longer subject to income tax examinations for years prior to 2012.

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 2015 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 multiple-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	**2015**	2014	2013
Unfunded liability	**$ 453,825**	$ 423,881	$ 255,187
Projected benefit obligation	**1,255,259**	1,234,960	1,014,649
Fair value of plan assets	**801,434**	811,079	759,462
Accumulated benefit obligation	**1,064,133**	1,051,801	864,202

For the year ended December 31	**2015**	2014	2013
Total plan expense	**$ 63,800**	$ 45,827	$ 63,270
Our allocated share of plan expenses	**2,954**	2,063	2,839
Contributions by participating employers	**62,722**	52,032	59,046
Our allocated share of contributions	**2,908**	2,324	2,659

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.

The plan expense for participating employers in 2015 increased to levels more consistent with 2013 primarily due to changes in discount rate and mortality assumptions. Benefits paid to participants in the District were $56.1 million in 2015. 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 plans during 2016 is $57.9 million. Our allocated share of these pension contributions is expected to be $2.8 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 the Internal Revenue Code compensation or other limits.

Pension Restoration Plan Information

(in thousands) As of December 31		**2015**		2014		2013
Unfunded liability	**$**	**31,650**	$	27,695	$	25,263
Projected benefit obligation		**31,650**		27,695		25,263
Accumulated benefit obligation		**26,323**		22,959		19,799

For the year ended December 31		**2015**		2014		2013
Total plan expense	**$**	**3,776**	$	3,652	$	3,577
Our allocated share of plan expenses		**329**		198		194
Our cash contributions		**--**		--		--

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. We had no cash contributions and paid no benefits during 2015, 2014, and 2013.

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		**2015**		2014		2013
Postretirement benefit expense	**$**	**152**	$	101	$	119
Our cash contributions		**48**		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 $833 thousand, $787 thousand, and $749 thousand in 2015, 2014, and 2013, 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, 2015 involved more than a normal risk of collectability.

Related Party Loans and Leases Information

(in thousands)	2015	2014	2013
As of December 31:			
Total related party loans and leases	**$ 17,300**	$ 13,720	$ 15,703
For the year ended December 31:			
Advances to related parties	**$ 7,246**	$ 5,626	$ 8,862
Repayments by related parties	**8,738**	9,032	6,928

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 $897 thousand, $798 thousand, and $771 thousand in 2015, 2014, and 2013, respectively.

We also purchase human resource information systems, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2015, 2014, and 2013, our investment in Foundations was $27 thousand. The total cost of services purchased from Foundations was $143 thousand, $127 thousand, and $114 thousand in 2015, 2014, and 2013, respectively.

NOTE 10: CONTINGENCIES AND COMMITMENTS

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

We may be named as a defendant in lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, we were not aware of any such actions that would have a material impact on our financial condition.

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, 2015, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $519.5 million. Additionally, we had $10.2 million of issued standby letters of credit as of December 31, 2015. Refer to Note 11 for additional discussion regarding standby letters of credit included in the Consolidated Statements of Condition. 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, 2015.

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.

Recurring Basis

We had standby letters of credit of $551 thousand as of December 31, 2013, which were valued using Level 3 fair value inputs. As of December 31, 2014 these particular standby letters of credit were fully funded, thus classified as a loan. Gains of $198 thousand were recognized during the year ended December 31, 2014. No gains or losses were recognized related to these liabilities during the year ended December 31, 2013 or 2015. We had no standby letters of credit during 2015, which were measured at fair value on a recurring basis. These liabilities were determined by the inherent credit loss in such instruments. These losses were recorded in the "Provision for (reversal of) credit losses" in the Consolidated Statements of Income.

Non-Recurring Basis

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

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

As of December 31, 2013	Fair Value Measurement Using				Total (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	Gains
Impaired loans	$ --	$ 275	$ 1,540	$ 1,815	$ (477)
Other property owned	--	59	--	59	--

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 fall under 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 fall under 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 fall under 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 fall under Level 3.

NOTE 12: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 11, 2016, 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 2015 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 this Annual Report.

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*
Olivia, MN	Owned	Pending 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

*A new Olivia branch building is under construction and will be completed in 2016.
The current Olivia branch building will be sold.

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, 2015.

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, 10, and 11 to the accompanying Consolidated Financial Statements.

Selected Financial Data

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

Management’s Discussion and Analysis

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

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, 2015, including business experience during the last five years

Name	Term	Principal Occupation and Other Affiliations
Suzanne Allen Appointed Director Audit Committee Vice Chairperson Financial Expert Service Began: 2011	2015-2019	**Principal Occupation:** VP and Treasurer of Otter Tail Corporation, a diversified publicly traded company (May 2015 - Present; May 2008 - September 2013) VP Finance and Accounting of Avenia Inc., an electrical construction company (Sept 2013 - May 2015) **Other Affiliations:** Director: Coffee House Press, a publishing company
Stanley Claussen Director Service Began: 1995	2015-2019	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Chairperson: AgriBank District Farm Credit Council Director: National Farm Credit Council Director: Fairland Management, a land management company Director: Bushmills Ethanol, a ethanol production company
Scott Gerbig Director Audit Committee Service Began: 2008	2013-2017	**Principal Occupation:** Self-employed dairy farmer
Ed Hegland Director Compensation Committee Service Began: 2012	2012-2016	**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:** Director: Minnesota Milk Producers Association, a trade association Vice Chair: Dairy Authority Board, a state authority involved in building a dairy research and education center 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:** 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, $3.9 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 Board Member: Consumer Operated and Oriented Plans advisory board to the U.S. Department of Health and Human Services. 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 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	2012-2016	**Principal Occupation:** Retired Vice President of Dunwoody College of Technology, a private, non-profit technical college in Minneapolis, MN
Richard Price Board Vice Chairperson Compensation Committee Service Began: 2008	2012-2016	**Principal Occupation:** Self-employed dairy farmer
Bradley Sunderland Board Chairperson Audit Committee Service Began: 1993	2012-2016	**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 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

Scott Gerbig's term on the Audit Committee ended on December 31, 2015. Richard Price's term as Board Vice Chairperson ended on December 31, 2015. Effective January 1, 2016, the Board elected Scott Gerbig to serve as Board Vice Chairperson and appointed Lynn Pietig to serve on the Audit Committee.

Stanley Claussen served on the Board during 2015 and through March 8, 2016. Mr. Claussen ran for election to the AgriBank Board of Directors and was elected to the AgriBank Board on March 8, 2016. Mr. Claussen resigned from the United Board upon his election to the AgriBank Board.

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 2015, the Board of Directors had adopted a rate of $420 per full day meeting, $210 for a half-day meeting, and $140 for a conference call meeting (1/3 of a day). The monthly retainer is $430 for a director, $530 for Audit Committee members (excluding chair), $630 for Audit Committee Chairperson and $780 for the Board Chairperson. For 2016, the Board of Directors had adopted a rate of $480 per full day meeting, $240 per half-day, and $160 for a conference call (1/3 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 2015 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 2015
Suzanne Allen	9.8	20.2	$ 3,230	Audit	$ 18,980
Stanley Claussen	12.5	25.5	--		21,540
Scott Gerbig	12.5	19.0	3,580	Audit	19,610
Ed Hegeland	12.5	22.5	560	Compensation	19,880
Gregory Jans	11.5	15.5	770	Compensation	16,520
James Jarvis	12.5	24.2	--		20,580
William Oemichen	10.5	31.7	3,440	Audit	25,290
Donn Peterson*	8.7	8.5	560	Compensation	11,095
Lynn Pietig**	3.8	2.0	--		3,745
Richard Pooley	12.5	18.8	770	Compensation	18,340
Richard Price	11.5	24.0	770	Compensation	20,090
Bradley Sunderland	12.5	21.8	3,580	Audit	23,800
Jeffrey Thompson	12.5	17.8	3,300	Audit	19,120
Mary Kay Van Der Geest	12.5	11.0	--		15,050
					$ 253,640

*Donn Peterson retired from the Board in September 2015

**Lynn Pietig was elected to serve on the Board in October 2015.

Senior Officers

The senior officers and the date each began his/her position include:

Name	Position	Business experience and employment during past five years
Marcus L. Knisely	Chief Executive Officer	Association Chief Executive Officer since 1998.
Robert M. Haines	Chief Financial Officer	Prior to his current position in 2010, Mr. Haines was Vice President of Finance and Operations at Ridgewater College, Willmar, Minnesota from 2007 until July 2010.
Leland G. Fredman	Senior Vice President	Association Senior Vice President since 2009.
Roger Koster	Chief Information Officer	Association Chief Information Officer since 1997.
Jay A. Nickel	Senior Vice President	Association Senior Vice President since 2007.
Jeffrey A. Schmidt	Chief Credit Officer	Association Chief Credit Officer since 2000.

In addition to serving as a senior officer, Mr. Knisely serves on the Farm Credit Foundations Trust Committee.

Senior Officer Compensation

We believe the design and governance of our CEO, senior officer, and highly compensated individuals 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, senior officer, and highly compensated individuals 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, (3) a pay-for-performance process that allocates individual awards based on both results and how those results were achieved, and (4) a long-term portion of variable pay to encourage retention and alignment with members interests.

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 63% and 37% 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.

Long-term Variable Compensation Plan: Certain employees, including senior officers and the CEO, are eligible to participate in long-term incentive compensation. The long-term incentive compensation amounts are paid 23 ½ months after the close of a three year plan performance cycle, based upon performance criteria established by the Board of Directors.

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 9 of this Annual Report.

Compensation to the CEO, Senior Officers, and Highly Compensated Individuals

(in thousands) Name	Year	Salary	Bonus	Deferred/ Perquisites	Other	Total
Marcus Knisely, CEO	**2015**	**$ 301**	**$ 176**	**$ 148**	**$ 408**	**$ 1,033**
Marcus Knisely, CEO	2014	297	126	132	713	1,268
Marcus Knisely, CEO	2013	224	162	191	190	767
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO						
Five	**2015**	**$ 814**	**$ 212**	**$ 50**	**$ 508**	**$ 1,584**
Five	2014	793	194	41	950	1,978
Seven	2013	960	267	31	414	1,672

The amount in “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 plan.

No tax reimbursements are made to the CEO, senior officer, and highly compensated individuals.

The composition of highly compensated employees can change due to incentives available to employees as described above. Highly compensated individuals were included in 2013. No Highly compensated individuals were included in 2015 and 2014.

The value of the pension benefits from December 31, 2014 to December 31, 2015 changed primarily due to interest cost, accumulation of an additional year of credited service by plan participants, and changes in actuarial assumptions. The assumption with the largest impact in 2015 was a change in the discount rate methodology for the pension restoration plan.

Members may request information on the compensation to the individuals included in the preceding table during 2015.

Effective April 29, 2015, the Farm Credit Administration Board adopted a final rule to remove the requirement to report in the chart above the compensation of employees who are not senior officers and who would not otherwise be considered highly compensated employees, but for the payments related to or changes in value related to their pension plan. The exclusion only applies if the individual’s pension plan was available to all similarly situated employees on the same basis. While not final as of December 31, 2014, employees disclosed for 2014 in the above chart were determined based on the November 17, 2014 proposed rule, which was unchanged in the final rule. No disclosures were changed for the 2013 reporting period; therefore, comparability may be limited as a result of this change.

Pension Benefits Attributable to the CEO and Senior Officers

(dollars in thousands) **2015** Name	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Marcus Knisely, CEO	AgriBank District Retirement Plan	**37.1**	**$ 2,224**	**$ --**
Marcus Knisely, CEO	AgriBank District Pension Restoration Plan	**37.1**	**1,122**	**--**
Aggregate Number of Senior Officers/Highly Compensated Individuals, excluding CEO				
Four	AgriBank District Retirement Plan	**29.7**	**$ 3,679**	**$ --**
One	AgriBank District Pension Restoration Plan	**34.0**	**70**	**--**

The change in composition of the aggregate senior officers 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 the Internal Revenue Code compensation or other 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 $59 thousand, $49 thousand, and $52 thousand in 2015, 2014, and 2013, 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, 2016 or at any time during 2015.

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 2015 were $33 thousand. The fees paid were for audit services.

Financial Statements

The "Report of Management”, “Report on Internal Control Over Financial Reporting”, “Report of Audit Committee”, “Independent Auditor’s Report", "Consolidated Financial Statements”, and “Notes to Consolidated Financial Statements" are presented prior to this portion of the Annual Report.

Young, Beginning, and Small Farmers and Ranchers (YBS)

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 local 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 income 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 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 solid Association capital and strong Association 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 local service area (LSA). Overall market share is projected to grow over the 5-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 Demographics

Demographics information from the 2012 USDA National Agricultural Statistic Service, 2012 Census of Agriculture – Minnesota/Wisconsin County Data. (This represents the most recent data from the USDA)

	Census Data		United FCS Data			
YBS Categories	Total Farmers in LSA Per YBS Category	As % of Total Farmers*	12/31/15 United FCS YBS Customers	United FCS YBS Customers as % of Total Farmers in LSA Per YBS Category	United FCS YBS Customers as % of Total United FCS Customers**	United FCS Long-term YBS Customer Goals as a % of Total Customers
Young Farmers	2,660	13.77%	1,617	60.79%	28.14%	30%
Beginning Farmers	4,224	21.87%	2,045	48.41%	35.58%	35%
Small Farmers	14,754	76.39%	3,302	22.38%	57.46%	60%

* LSA total farmer count is:	19,315
** United FCS' total loan/lease customer count is:	5,747

For the 2012 census, total Farmers in United FCS' LSA included both principal & junior operators, which is consistent with United FCS data practices. Previous census data was reported based on principal operators only. United's YBS customers as a percentage of YBS farmers in our LSA are lower than what has been reported in the past. This change is attributed to a difference in the way census data was presented in previous years.

Farmers can qualify in more than one category, thus could be counted more than once in the United FCS statistics due to the YBS definitions. The YBS designation is established as of the date the loan is made or renewed.

To compare census data and United FCS information (matching as close as possible to FCA definitions for YBS categories) the following data was used from the 2012 Census of Agriculture:

- Beginning – 9 years or less on present farm
- Young – farmers ages 34 and under
- Small – under $250,000 gross sales

Farmers can be counted more than once in the 2012 census statistics, which is consistent with regulatory definitions (see regulatory definitions above). All census information is point-in-time.

Based on the best information available, as is documented in the tables above, United FCS results demonstrate that we are fulfilling our objective in the YBS marketplace. Our long-term goals illustrate that United FCS will continue to place a priority on serving the YBS farmer sector relative to our total customer portfolio.

United FCS YBS Loan facts

United FCS – *YBS New Customers, Loans & Volume Generated Each Year*				
December 31	**2015**	**2014**	**2013**	**2012**
# of customers				
Young	366	405	427	428
Beginning	413	458	497	521
Small	574	592	655	773
# of loans				
Young	464	513	540	537
Beginning	526	560	627	647
Small	690	704	779	906
Loan volume				
Young	$ 42,038,604	$ 44,954,961	$ 50,242,483	$ 55,341,736
Beginning	$ 51,354,211	$ 50,936,068	$ 60,065,121	$ 76,461,449
Small	$ 47,821,303	$ 41,630,030	$ 50,277,337	$ 62,330,834

United FCS – *Total YBS Outstanding*				
December 31	**2015**	**2014**	**2013**	**2012**
# of customers				
Young	1,617	1,633	1,609	1,554
Beginning	2,045	2,028	1,976	1,878
Small	3,302	3,395	3,375	3,400
# of loans				
Young	2,830	2,877	2,834	2,705
Beginning	3,212	3,204	3,108	2,891
Small	5,105	5,255	5,333	5,425
Loan volume				
Young	$ 275,337,761	$ 266,537,304	$ 257,843,486	$ 241,262,430
Beginning	$ 309,980,754	$ 297,933,976	$ 284,813,836	$ 284,533,201
Small	$ 328,468,169	$ 328,545,968	$ 329,225,168	$ 324,382,310

For the past three years, United FCS' total outstanding YBS loans have shown increases in two of the three categories for outstanding loan volume. In 2015, compared to 2014, we saw a decrease in the number of customers, loans and total outstanding loan volume for the Small Farmer segment. Historically, this is due to the increasing gross income in the cash crop sector. However, we anticipate more to qualify as a Small Farmer going forward, given the commodity price drop in cash grains.

The number of Beginning Farmers being serviced by United FCS has seen the greatest increase of all three categories from 2012 to 2015, at 9%. Young Farmers utilizing United FCS has increased by 4%.

YBS Goals

Loan Numbers:

	United FCS, ACA YBS Loan Performance – Portfolio* as of 12/31/15					
	# Loans	% of Assn. Loans	Goals			
			2015	2016	2017	2018
Young	2,830	22.73%	23%	24%	25%	26%
Beginning	3,212	25.80%	26%	27%	28%	29%
Small	5,105	41.00%	45%	45%	45%	45%
	*12,451 loans as of 12/31/15					

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.

Financial Services

In addition to the 5,747 loan customers, United FCS also has nearly 2,100 customers who only purchase financial services products. Of the approximately 7,900 total customers, roughly 60% purchase one or more non-loan financial service products.

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

Marketplace Situation Analysis

United FCS will continue meeting the financial service needs of eligible customers within the marketplaces we serve. Young, Beginning and Small Farmers are a significant portion of our marketplace, 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 marketplace. 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.

In 2012, United FCS presented a $5,000 endowment to Northcentral Technical College (NTC). This contribution provides an annual scholarship to NTC students enrolled in the Agribusiness or Dairy Science Program.

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 12/31/15	Goal for 2016	Goal for 2017	Goal for 2018
RFA Loan Program (MN)	9	10	10	10
FSA Guarantee	111	125	140	155
AgBMP (MN)	8	15	15	15
WHEDA Crop Loan (WI)	1	5	5	5

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.

FFA Involvement
United FCS has long supported the FFA in Minnesota and Wisconsin, 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.

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.

MARL Program
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

Speak For Yourself
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 2015, SFY has trained 63 farmers, who have delivered 307 presentations to 10,434 individuals.

Cooperative Network
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.

The United States has approximately 29,000 cooperatives with 700 of them being in Wisconsin and 800 in Minnesota.

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. Three acres will be leased to United Acres, Inc. The purpose of United Acres, Inc. is a community garden. Vegetable planting, along with 24 fruit trees, will occur in the spring of 2016. The project is coordinating with various local and state agencies in order to supply different entities with fresh food.

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 incorporate more local food projects going forward.

Immigrant and Minority Farming Conference
In 2015, 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 2016. 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 and 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.

Farm Credit Fellows Program – North Dakota State University
During the 2015-2016 academic year, United FCS joined AgCountry Farm Credit Services, Farm Credit Services of North Dakota and Farm Credit Services of Mandan to sponsor the Farm Credit Fellows Program at the NDSU Department of Agribusiness and Applied Economics. One of the core missions of the Farm Credit System is to help young and beginning farmers. We can help achieve that mission by expanding learning opportunities for students. Those participating in the Fellowship will now get valuable experience learning about the world of agricultural financing. This program will better prepare students for their careers after graduation.

The Farm Credit Fellowship is open to College of Agribusiness and Applied Economics and College of Business undergraduates in their sophomore, junior and senior years at NDSU. Students that are successful in joining the program are required to take a core curriculum of classes, attend educational activities about the Farm Credit System and will receive a $1,000 grant to cover various costs associated with the fellowship.

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 & 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, gross farm income 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, including:
    - Brock Seminar – The purpose of this seminar is to provide an education opportunity on “Maximizing Profits” for United FCS customers and area producers. The key note speaker is Richard Brock, a nationally recognized marketing consultant. United FCS co-sponsored this seminar with Farm Credit Leasing in December 2014.
    - Linder Farm Meeting – The purpose of this Ag outlook seminar is to provide an education opportunity for United FCS customers and all area producers to hear several nationally recognized speakers. Topics include weather forecasts, latest machinery values, grain markets, economic outlook, and world trade issues. United FCS has been a main sponsor of this annual LFN Seminar for over 10 years and will again partner with Linder Farm Network to sponsor two meetings in January 2016.
- Succession/retirement planning seminars and farm transition workshops
- Multiple communication channels, including social media, to increase awareness of United FCS YBS programs.

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.

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P.O. Box 1330 • Willmar, MN 56201-1330 • (320) 235-1771

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