United FCS

2014 Annual Report

United FCS, ACA

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United FCS, ACA

Our Annual Report is available on our website (www.unitedfcs.com) 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.

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 at P.O. Box 1330, Willmar, MN 56201-1330, (320) 235-1771. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail at financialreporting@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

To request free copies of our United FCS Annual or Quarterly Reports contact us as stated above.

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Greetings,

At United FCS, we take our mission and service commitment seriously. Everything we do is centered on doing everything within our power to support the long-term success of customers and the rural communities we serve throughout Minnesota and Wisconsin. We do this through a number of different ways beyond the financial service products we offer such as investing in community projects, or hosting educational events. Here are a few highlights of what your Association did in 2014 that do not always get talked about in the Annual Report numbers:

- Improving rural communities – We participated in two healthcare related projects for the RC Hospital and Clinics in Olivia, Minn., which includes an expanded 62,000 square-foot clinic area, and new technology that will allow rural residents to be remotely connected to experts from other areas.
- Supporting local food systems – United FCS supports all agriculture, including local food systems. The Central Rivers Farmshed in Stevens Point, Wis., and the Food Hub in Willmar, Minn., each received funding from United FCS to achieve this goal.
- Education – The 2014 Farm Bill represents major changes to agriculture. We hosted a series of presentations to help educate producers on selections for the various government programs.
- Telling the story of agriculture – We believe every producer has a unique story to tell. That's why we contributed to the Minnesota Farm Bureau's Speak For Yourself program, which trains farmers how to communicate with the public. We also hosted special screenings of the new farm documentary *Farmland,* directed by Academy Award® winner James Moll.
- Supporting the future of agriculture – We continued our sponsorship for great events such as the Wisconsin Farm Bureau's Young Farmer Conference and the Immigrant and Minority Farmers Conference in St. Paul, Minn.
- Giving back to our members – United FCS gave back $6 million in cash patronage to members in 2014. Since 2002, we have distributed a total of more than $72 million in cash patronage.

2014 represented another successful year of service for United FCS. That is not to say that there have not been any challenges along the way. Fluctuating commodity prices and stretches of poor weather have both presented issues for producers, and will likely continue to into the near future. Despite these challenges, United FCS will continue focusing on ways to better serve our members and member success for 2015 and beyond.

We thank you for your continued support and patronage of United FCS.

Sincerely,

Bradley Sunderland
Chairperson of the Board
United FCS, ACA

Marcus L. Knisely
Chief Executive Officer
United FCS, ACA

March 11, 2015

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

United FCS, ACA

(Dollars in thousands)

	2014	2013	2012	2011	2010
Statement of Condition Data					
Loans	**$ 1,484,742**	$ 1,389,316	$ 1,288,686	$ 1,233,358	$ 1,176,885
Allowance for loan losses	**3,280**	2,982	2,871	4,234	5,251
Net loans	**1,481,462**	1,386,334	1,285,815	1,229,124	1,171,634
Investment in AgriBank, FCB	**23,455**	49,688	49,352	36,644	36,651
Other property owned	**150**	54	43	62	2,931
Other assets	**31,723**	30,367	30,144	31,842	34,207
Total assets	**$ 1,536,790**	$ 1,466,443	$ 1,365,354	$ 1,297,672	$ 1,245,423
Obligations with maturities of one year or less	**$ 1,266,736**	$ 1,216,748	$ 1,136,866	$ 1,093,301	$ 1,059,876
Total liabilities	**1,266,736**	1,216,748	1,136,866	1,093,301	1,059,876
Capital stock and participation certificates	**5,071**	5,017	4,931	4,645	4,427
Unallocated surplus	**264,983**	244,678	223,557	199,726	181,120
Total members' equity	**270,054**	249,695	228,488	204,371	185,547
Total liabilities and members' equity	**$ 1,536,790**	$ 1,466,443	$ 1,365,354	$ 1,297,672	$ 1,245,423
Statement of Income Data					
Net interest income	**$ 37,632**	$ 37,486	$ 36,290	$ 36,162	$ 32,255
Provision for (reversal of) credit losses	**(130)**	(31)	(662)	691	1,226
Patronage income	**10,215**	10,796	9,074	6,953	7,593
Other expenses, net	**21,519**	19,966	15,433	17,098	12,535
Provision for income taxes	**157**	1,230	1,541	1,721	1,583
Net income	**$ 26,301**	$ 27,117	$ 29,052	$ 23,605	$ 24,504
Key Financial Ratios					
Return on average assets	**1.9%**	2.0%	2.3%	1.9%	2.2%
Return on average members' equity	**10.1%**	11.3%	13.4%	12.1%	14.0%
Net interest income as a percentage of average earning assets	**2.8%**	3.0%	3.1%	3.1%	3.0%
Members' equity as a percentage of total assets	**17.6%**	17.0%	16.7%	15.7%	14.9%
Net charge-offs as a percentage of average loans	**--**	--	--	0.1%	--
Allowance for loan losses as a percentage of loans	**0.2%**	0.2%	0.2%	0.3%	0.4%
Permanent capital ratio	**15.7%**	13.3%	13.2%	11.7%	11.6%
Total surplus ratio	**15.4%**	12.9%	12.8%	11.4%	11.3%
Core surplus ratio	**15.4%**	12.9%	12.8%	11.4%	11.3%
Other					
Loans serviced for AgriBank, FCB	**$ 151**	$ 222	$ 360	$ 483	$ 661
Patronage distribution payable to members	**$ 6,000**	$ 6,000	$ 5,214	$ 5,000	$ 6,000

The patronage distribution to members accrued for the year ended December 31, 2014 was distributed in cash during the first quarter of 2015. The patronage distributions accrued for the years ended December 31, 2013, 2012, 2011, and 2010 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 (the 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, 2015, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 76 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, and
- 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 Agribusiness Outlook, states that world GDP growth is forecast at 3.3% in 2015 compared to 2.7% in 2014. Developing countries are leading the growth, but that growth is slowing, especially in China. Growth in the U.S. economy is forecast at 2.2% in 2014, the same as in 2013, and forecast at 3.4% growth in 2015.

USDA, in its December Farm Sector Income Forecast, projected that net farm income will be $97.3 billion in 2014, down nearly 25.0% from 2013. The 2014 forecast would be the lowest since 2010, but would remain $12.3 billion above the previous 10-year average. The primary cause for the lower net farm income is a significant drop in crop receipts of $27.2 billion nearly offset by an increase in livestock receipts of $25.7 billion with higher farm cash expenses of $19.4 billion as the main driver of changes in 2014 net farm income. The rate of growth in farm assets, 3.2% in 2014, is expected to diminish compared to recent years. This slowdown in farm asset growth is a result of lower net income leading to less capital investment, and moderation in the growth of farmland values. Farm sector debt is expected to increase 3.1%, slightly less than the expected increase in the value of farm assets. Despite the anticipated higher debt, the historically low levels of debt relative to assets and equity reaffirm the Ag sector's strong financial position.

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

Cash Grain-Corn/Soybeans: The USDA is projecting ending 2014/15 U.S. corn stocks to increase to just below 2.0 billion bushels (bu). Global coarse grain supplies for 2014/15 are projected to be 1.1 million tons higher. USDA is projecting a season average price of $3.20-$3.80/bu. USDA is projecting ending U.S soybean supplies at 410.0 million bu, the highest since 2006/7. USDA projects the season average price of $9.00-$11.00/bu. Global oilseed production for 2014/15 is projected at 530.7 million tons. Current and projected 2015 corn and soybean prices are below average break-even levels for area producers based on 2014 input costs. We expect that as a result of the decline in corn and soybean prices in 2014, many area producers will have received crop insurance payments if they had revenue assurance coverage.

Sugar: USDA projects that world sugar production for 2014/15 is expected to decline for the third consecutive year and global stocks are projected to fall for the first time since 2009/10. These trends may cause world prices to trend up and to provide support to domestic prices. USDA projects 2014/15 sugar production at 8.6 million short tons, raw value (STRV) an increase over the prior year of 153,000 STRV. The USDA is forecasting lower sugar imports from Mexico for 2014/15. Total U.S. supply for 2014/15 is forecast to be 3.1% lower than the prior year, as domestic production is currently projected to be 1.8% higher and imports are projected to be 6.1% less. While sugar prices are currently down significantly from levels observed during the last two years, we expect area producers to operate above break-even levels for their sugar enterprise in 2015.

Dairy: USDA expects Dairy product prices, and consequently milk prices, to decline in 2015. The forecast for class III milk prices has been reduced to $16.55 -17.35 per cwt in 2015. Although this price outlook is down significantly from 2014 levels, these prices coupled with lower feed prices creates an outlook for break-even to positive net margins for area dairy producers for 2015.

General Livestock: The USDA states, “Producers have an incentive to increase the weights of their animals as the markets for steers, heifers, and cows have reached record-high prices and feed prices have been moderate.”

The December Cold Storage report showed that frozen meat stocks were down 10.0% from the prior year and down slightly from the prior month. The report showed that (compared to year-ago levels), frozen beef stocks were down 12.0%, frozen pork stocks were down 11.0%, frozen chicken stocks were down 6.0% and frozen turkey stocks were down 14.0%.

The December Hogs and Pigs report showed the December 1, 2014 U.S. hogs and pigs inventory was up 2.0% from one year ago, and up 1.0% from the prior quarter. Breeding stock inventory was up 4.0 % from year-ago levels and marketing hog inventory was up 2.0% from year-ago levels. The September-November 2014 pig crop was up 4.0% from year-ago levels. Sows farrowing during this period were up 3.0% from 2013. The average pigs saved per litter was higher than in 2013. The hog industry, especially for those not impacted severely by PED (Porcine Epidemic Diarrhea) virus, will show strong profits in 2014 as pork prices have climbed to record levels due to reduced production from PED, continued strong consumer demand and the significant decrease in feed costs. For 2015 the outlook is less certain based on the 4.0% increase in December 2014 - May 2015 farrowing intentions that producers reported in the same December Hogs and Pigs report.

Turkey production for the first ten months of 2014 was 2.0% lower than during the same period in 2013. The decrease in production was due to a combination of lower number of birds slaughtered partially offset by a fractional increase in average bird weights. Given relatively strong prices and lower feed and energy costs, turkey integrators are expected to increase production in 2015. Higher production is expected to be offset by lower stocks in the first half of 2015, but whole turkey and most turkey part prices are expected to have some downward pressure in most of 2015. The industry outlook for 2015 is for producer’s to operate profitability-based on lower feed costs and supplies of turkey balancing with good demand.

Broiler meat production for fourth quarter 2014 is 2.0% higher than in the same period of 2013. This would place the 2014 total at an increase of 1.7% from 2013. The forecast of continued low feed and energy costs, lower than prior year cold storage holdings, along with favorable economic conditions are expected to encourage broiler integrators to expand production in 2015. With higher year-over-year production expected in fourth quarter 2014 and into 2015, broiler prices are expected to continue to experience some downward pressure, but are also expected to benefit somewhat from very strong beef prices. For 2015 the industry will generate strong profits due to strong demand, high chicken meat prices and reduced feed expenses.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.5 billion at December 31, 2014, an increase of $95.4 million from December 31, 2013. The components of loans are presented in the following table (in thousands):

As of December 31	**2014**	2013	2012
Accrual loans:			
Real estate mortgage	**$ 655,009**	$ 604,015	$ 498,093
Production and intermediate term	**515,179**	493,490	492,689
Agribusiness	**191,964**	175,506	178,135
Communication	**26,479**	21,040	21,128
Energy	**57,472**	57,122	57,487
Rural residential real estate	**6,781**	7,233	7,133
Other	**27,370**	26,083	28,886
Nonaccrual loans	**4,488**	4,827	5,135
Total loans	**$ 1,484,742**	$ 1,389,316	$ 1,288,686

The other category is comprised of finance leases as well as loans and related assets originated under our mission related investment authority.

The increase in total loans from December 31, 2013 resulted primarily from mortgage loan growth to new and existing members.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan and lease programs to our borrowers. We determine interest margins charged on each lending program based on cost of funds, market conditions, asset risk, 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 $237.4 million, $265.5 million, and $299.7 million at December 31, 2014, 2013, and 2012, respectively.

Portfolio Distribution

Our portfolio is concentrated primarily in the following states at December 31, 2014: Minnesota 53.2% and Wisconsin 25.7%. 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, 2014 included: cash grains 34.4%, dairy 11.5%, sugar beets 6.4%, food products 5.3%, rural utilities 5.2%, and landlords 5.0%. Additional commodity concentration information is included in Note 3.

Our production and intermediate term loan portfolio shows some seasonality. These loans are normally at their lowest levels during the winter months because of operating repayments following harvest. Borrowings increase throughout the planting and growing seasons to meet farmers' operating and capital needs.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2013. Adversely classified loans decreased to 0.8% of the portfolio at December 31, 2014, from 0.9% of the portfolio at December 31, 2013. 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. As of December 31, 2014, $151.7 million of our loans were, to some level, guaranteed under these government programs. We also have a standby commitment to program in place with Farmer Mac. At December 31, 2014, $118.1 million of our loans were, to some level, guaranteed under the Farmer Mac program.

Risk Assets

The following table summarizes risk information (accruing loans include accrued interest receivable) (dollars in thousands):

As of December 31	**2014**	2013	2012
Loans:			
Nonaccrual	**$ 4,488**	$ 4,827	$ 5,135
Accruing restructured	**2,557**	2,500	5,897
Accruing loans 90 days or more past due	**--**	--	--
Total risk loans	**7,045**	7,327	11,032
Other property owned	**150**	54	43
Total risk assets	**$ 7,195**	$ 7,381	$ 11,075
Risk loans as a percentage of total loans	**0.5%**	0.5%	0.9%
Nonaccrual loans as a percentage of total loans	**0.3%**	0.3%	0.4%
Total delinquencies as a percentage of total loans	**0.1%**	0.2%	0.5%

Our risk assets have remained consistent from December 31, 2013 and remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The decrease in nonaccrual loans was due to principal payments, classification upgrades, and continued strong credit quality. Nonaccrual loans remained at an acceptable level at December 31, 2014 and 71.4% of our nonaccrual loans were current.

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.

The following table presents allowance coverage, charge-off, and adverse asset information:

As of December 31	**2014**	2013	2012
Allowance as a percentage of:			
Loans	**0.2%**	0.2%	0.2%
Nonaccrual loans	**73.1%**	61.8%	55.9%
Total risk loans	**46.6%**	40.7%	26.0%
Net charge-offs as a percentage of average loans	**--**	--	--
Adverse assets to risk funds	**4.9%**	6.4%	11.3%

Our allowance for loan losses remained stable in 2014 due to continued strong credit quality. The increase in the allowance for loan losses as a percentage of nonaccrual loans is due to improved credit quality and the resulting decrease in nonaccrual loans. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2014. Additional loan information is included in Notes 3, 9, 10, 11, and 12.

RESULTS OF OPERATIONS

The following table presents profitability information (dollars in thousands):

For the year ended December 31	**2014**	2013	2012
Net income	**$ 26,301**	$ 27,117	$ 29,052
Return on average assets	**1.9%**	2.0%	2.3%
Return on average members' equity	**10.1%**	11.3%	13.4%

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.

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

	For the year ended December 31			Increase (decrease) in net income	
	2014	2013	2012	**2014 vs 2013**	2013 vs 2012
Net interest income	**$ 37,632**	$ 37,486	$ 36,290	**$ 146**	$ 1,196
Provision for (reversal of) credit losses	**(130)**	(31)	(662)	**99**	(631)
Patronage income	**10,215**	10,796	9,074	**(581)**	1,722
Other income, net	**7,898**	8,963	10,479	**(1,065)**	(1,516)
Operating expenses	**29,417**	28,929	25,912	**(488)**	(3,017)
Provision for income taxes	**157**	1,230	1,541	**1,073**	311
Net income	**$ 26,301**	$ 27,117	$ 29,052	**$ (816)**	$ (1,935)

Net Interest Income

The following table quantifies changes in net interest income (in thousands):

	2014 vs 2013	2013 vs 2012
Changes in volume	**$ 3,533**	$ 2,338
Changes in interest rates	**(2,938)**	(1,373)
Changes in nonaccrual income and other	**(449)**	231
Net change	**$ 146**	$ 1,196

Net interest income included income on nonaccrual loans that totaled $234 thousand, $682 thousand, and $452 thousand in 2014, 2013, and 2012, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Interest expense increased during 2014 due to an additional spread on a portion of our note payable with AgriBank. Refer to the Relationship with AgriBank section for additional discussion.

Net interest margin (net interest income as a percentage of average earning assets) was 2.8%, 3.0%, and 3.1% in 2014, 2013, and 2012, respectively. Net interest margin decreased in 2014 due to margin compression resulting from rate competition. We expect margins to compress in the future.

Provision for (reversal of) Credit Losses

The fluctuation in the provision for (reversal of) credit losses is related to our estimate of losses in our portfolio for the applicable years. During the year ended December 31, 2014, $551 thousand reversal of provision was recorded to reduce the reserve on letters of credit, which was also partially offset by provision expense on our loan portfolio recorded in 2014. Additional information is included in Notes 3, 9, and 11.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. AgriBank's Board of Directors sets the patronage rate. The patronage rates were 33.5 basis points, 34.5 basis points, and 32 basis points in 2014, 2013, and 2012, respectively. We recorded patronage income of $3.8 million, $3.7 million, and $3.3 million in 2014, 2013, and 2012, 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. Patronage declared on these pools is solely at the discretion of the AgriBank Board of Directors. We recorded asset pool patronage income of $6.3 million, $7.0 million, and $5.7 million in 2014, 2013, and 2012, respectively.

Other Income

The decrease in other income is primarily due to decreased fee income as result of market conditions.

Operating Expenses

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets) for the past three years (dollars in thousands):

For the year ended December 31	**2014**	2013	2012
Salaries and employee benefits	**$ 19,577**	$ 19,638	$ 18,263
Purchased and vendor services	**1,756**	1,648	1,592
Communications	**253**	255	264
Occupancy and equipment	**2,231**	2,208	1,963
Advertising and promotion	**875**	781	729
Examination	**427**	447	455
Farm Credit System insurance	**1,403**	1,091	516
Other	**2,895**	2,861	2,130
Total operating expenses	**$ 29,417**	$ 28,929	$ 25,912
Operating rate	**2.2%**	2.3%	2.2%

FCSIC insurance expense increased in 2014 primarily due to an increase in the premium rate charged on accrual loans by FCSIC from 10 basis points in 2013 to 12 basis points in 2014.

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 2014, 2013, and 2012. Refer to Note 7 for additional discussion.

FUNDING AND LIQUIDITY

Funding

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 5. The following table summarizes note payable information (dollars in thousands):

For the year ended December 31	**2014**	2013	2012
Average balance	**$ 1,136,067**	$ 1,078,635	$ 1,020,609
Average interest rate	**1.5%**	1.3%	1.4%

Our other source of lendable funds is from unallocated surplus. 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.

Liquidity

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2014, we had $248.7 million available under our line of credit. We generally apply excess cash to this line of credit.

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 $116.2 million, $58.9 million, and $56.5 million at December 31, 2014, 2013, and 2012, respectively. We paid Farmer Mac commitment fees totaling $304 thousand, $189 thousand, and $39 thousand in 2014, 2013, and 2012, respectively. These amounts are included in "Other operating expenses" in the Consolidated Statements of Income. As of December 31, 2014, no loans have been sold to Farmer Mac under this agreement.

CAPITAL ADEQUACY

Total members' equity increased $20.4 million from December 31, 2013 primarily due to net income for the year partially offset by patronage distribution accruals.

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

As of December 31	**2014**	2013	2012
Members' equity	**$ 270,054**	$ 249,695	$ 228,488
Surplus as a percentage of members' equity	**98.1%**	98.0%	97.8%
Surplus as a percentage of risk-adjusted assets	**17.1%**	16.7%	15.6%
Permanent capital ratio	**15.7%**	13.3%	13.2%
Total surplus ratio	**15.4%**	12.9%	12.8%
Core surplus ratio	**15.4%**	12.9%	12.8%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

At December 31, 2014, our permanent capital, total surplus, and core surplus ratios exceeded the regulatory minimum requirements. Additional discussion of these regulatory ratios is included in Note 6.

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, 2014, our optimum permanent capital target was 14%.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio section for further discussion of the changes in assets. Additional members' equity information is included in Note 6.

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, 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.

The marginal cost of debt approach simulates matching the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing AgriBank surplus. 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. On March 5, 2014, the AgriBank Board of Directors approved an amendment to the AgriBank capital plan which reduced the base required stock investment for all affiliated associations, including United FCS, ACA from 2.5% to 2.25% effective March 31, 2014. As of December 31, 2014, we were required to maintain a stock 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. Our 2014 growth did not exceed the 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.

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, 2014, our entire investment in AgriBank consisted of stock representing 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 for each of the following:

- 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 2012 and 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.

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 $798 thousand, $771 thousand, and $867 thousand in 2014, 2013, and 2012, 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 P.O. Box 1330, Willmar, MN 56201-1330, (320) 235-1771. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail at financialreporting@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

To request free copies of our Annual or Quarterly Reports contact us as stated above. Our Annual Report is available on our website (www.unitedfcs.com) 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.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

FCS Commercial Finance Group: We participate in the FCS Commercial Finance Group (CFG) alliance with certain other associations in the AgriBank District to better meet the financial needs of agricultural producers and agribusiness operations. CFG is directed by representatives from each participating association. 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 $277.1 million, $233.5 million, and $215.5 million of CFG volume at December 31, 2014, 2013, and 2012, respectively. We also had $168.5 million of available open commitment on CFG loans at December 31, 2014.

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

ProPartners Financial: We have an alliance with nine other Farm Credit association partners to provide producer financing for agribusiness companies under the trade name, ProPartners Financial (ProPartners). ProPartners is directed by representatives from participating associations and has employees in California, Illinois, Indiana, Kansas, Minnesota, North Dakota, Tennessee, and Washington. The income, expense, and loss sharing arrangements are based on each association's participation interest in ProPartners' volume. Each association's allocation was established according to a prescribed formula which included risk funds of the associations. We had $15.9 million, $13.9 million, and $11.9 million of ProPartners volume at December 31, 2014, 2013, and 2012, respectively. We also had $21.8 million of available open commitment on ProPartners loans at December 31, 2014.

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 human resources, technology, accounting, payroll, reporting, and other finance functions.

CoBank: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $110 thousand, $84 thousand, and $65 thousand at December 31, 2014, 2013, and 2012, respectively. CoBank provides direct loan funds to associations in its chartered territory and makes loans to cooperatives and other eligible borrowers.

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

Farm Credit Leasing: We make leases available to the marketplace through a third party relationship with Farm Credit Leasing, a wholly-owned subsidiary of CoBank. This alliance enables us to expand our product offerings and increase our customer base. This partnership also helps us to manage risk and manage hold levels.

Farm Credit Services of America: 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, 2014, 2013, and 2012.

Farm Credit Foundations: We have a relationship with and are part owners of Farm Credit Foundations (Foundations) which involves purchasing human resource information systems, benefit, payroll, and workforce management services. As of December 31, 2014, 2013, and 2012, our investment in Foundations was $27 thousand**.** The total cost of services we purchased from Foundations was $127 thousand, $114 thousand, and $114 thousand in 2014, 2013, and 2012, respectively.

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 their corn, soybeans, or wheat 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. The net impact to our consolidated financial statements was negligible for the year ended December 31, 2014.

Agriculture and Rural Community Bond Program: We participate 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 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 $25.2 million, $23.9 million, and $26.6 million of volume under this program at December 31, 2014, 2013, and 2012, 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 as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To 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,
- To make System regulatory capital requirements more transparent, and
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The public comment period ended on 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 as follows:

- To strengthen the safety and soundness of System Banks and Associations,
- To ensure that System Banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System Banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System Banks, and
- To 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.

Effective June 18, 2014, the FCA Board adopted a final rule to remove all requirements related to advisory votes at Farm Credit Institutions. This rule eliminates the requirement for advisory votes on CEO and/or senior officer compensation.

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 and it has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

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, 2015

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, 2014. 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, 2014, 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, 2014.

Marcus L. Knisely
Chief Executive Officer
United FCS, ACA

Robert M. Haines
Chief Financial Officer
United FCS, ACA

March 11, 2015

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, 2014, 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, 2014.

William J. Oemichen

William Oemichen
Chairperson of the Audit Committee
United FCS, ACA

Committee Members:
Suzanne Allen
Scott Gerbig
Bradley Sunderland
Jeffrey Thompson

March 11, 2015

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, 2014, 2013 and 2012, 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 at December 31, 2014, 2013 and 2012, 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, 2015

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	**2014**	2013	2012
ASSETS			
Loans	**$ 1,484,742**	$ 1,389,316	$ 1,288,686
Allowance for loan losses	**3,280**	2,982	2,871
Net loans	**1,481,462**	1,386,334	1,285,815
Investment in AgriBank, FCB	**23,455**	49,688	49,352
Accrued interest receivable	**11,159**	9,941	8,966
Other property owned	**150**	54	43
Deferred tax assets, net	**44**	--	--
Other assets	**20,520**	20,426	21,178
Total assets	**$ 1,536,790**	$ 1,466,443	$ 1,365,354
LIABILITIES			
Note payable to AgriBank, FCB	**$ 1,249,843**	$ 1,198,936	$ 1,115,101
Accrued interest payable	**4,021**	3,727	3,240
Deferred tax liabilities, net	**--**	521	672
Patronage distribution payable	**6,000**	6,000	5,214
Other liabilities	**6,872**	7,564	12,639
Total liabilities	**1,266,736**	1,216,748	1,136,866
Contingencies and commitments	**--**	--	--
MEMBERS' EQUITY			
Capital stock and participation certificates	**5,071**	5,017	4,931
Unallocated surplus	**264,983**	244,678	223,557
Total members' equity	**270,054**	249,695	228,488
Total liabilities and members' equity	**$ 1,536,790**	$ 1,466,443	$ 1,365,354

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	**2014**	2013	2012
Interest income	**$ 54,504**	$ 51,372	$ 50,862
Interest expense	**16,872**	13,886	14,572
Net interest income	**37,632**	37,486	36,290
Provision for (reversal of) credit losses	**(130)**	(31)	(662)
Net interest income after provision for (reversal of) credit losses	**37,762**	37,517	36,952
Other income			
Patronage income	**10,215**	10,796	9,074
Financially related services income	**4,553**	4,756	5,104
Fee income	**2,376**	3,184	2,899
Allocated Insurance Reserve Accounts distribution	**--**	--	1,260
Miscellaneous income, net	**969**	1,023	1,216
Total other income	**18,113**	19,759	19,553
Operating expenses			
Salaries and employee benefits	**19,577**	19,638	18,263
Other operating expenses	**9,840**	9,291	7,649
Total operating expenses	**29,417**	28,929	25,912
Income before income taxes	**26,458**	28,347	30,593
Provision for income taxes	**157**	1,230	1,541
Net income	**$ 26,301**	$ 27,117	$ 29,052

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, 2011	$ 4,645	$ 199,726	$ 204,371
Net income	--	29,052	29,052
Unallocated surplus designated for patronage distributions	--	(5,221)	(5,221)
Capital stock and participation certificates issued	698	--	698
Capital stock and participation certificates retired	(412)	--	(412)
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**

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		2014		2013		2012
Cash flows from operating activities						
Net income	**$**	**26,301**	$	27,117	$	29,052
Depreciation on premises and equipment		**812**		840		857
Amortization of premiums (discounts) on loans, net		**13**		(7)		(85)
Provision for (reversal of) credit losses		**(130)**		(31)		(662)
Stock patronage received from Farm Credit Institutions		**(15,304)**		(1,725)		(4,157)
(Gain) loss on other property owned		**(71)**		--		24
Changes in operating assets and liabilities:						
(Increase) decrease accrued interest receivable		**(1,427)**		(991)		1,224
(Increase) decrease other assets		**(715)**		386		(27)
Increase (decrease) accrued interest payable		**294**		487		(997)
(Decrease) increase other liabilities		**(1,215)**		(5,226)		7,169
Net cash provided by operating activities		**8,558**		20,850		32,398
Cash flows from investing activities						
Increase in loans, net		**(94,620)**		(100,160)		(55,494)
Redemptions (purchases) of investment in AgriBank, FCB, net		**41,510**		1,371		(8,574)
Purchases of investment in other Farm Credit Institutions, net		**--**		--		(27)
Sales (purchases) of assets held for lease, net		**56**		49		(145)
Proceeds from sales of other property owned		**71**		--		73
Purchases of premises and equipment, net		**(261)**		(505)		(215)
Net cash used in investing activities		**(53,244)**		(99,245)		(64,382)
Cash flows from financing activities						
Increase in note payable to AgriBank, FCB, net		**50,907**		83,835		37,179
Patronage distributions paid		**(5,996)**		(5,210)		(5,007)
Capital stock and participation certificates retired, net		**(225)**		(230)		(188)
Net cash provided by financing activities		**44,686**		78,395		31,984
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	**$**	**406**	$	490	$	674
Stock applied against loan principal		**126**		174		199
Stock applied against interest		**1**		--		1
Interest transferred to loans		**208**		16		53
Loans transferred to other property owned		**96**		11		78
Patronage distributions payable to members		**6,000**		6,000		5,214
Supplemental information						
Interest paid	**$**	**16,578**	$	13,399	$	15,569
Taxes paid		**741**		405		593

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, 2015, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 76 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, 2015, 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 (the 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. Material 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 other loan fees and costs are not material to the consolidated financial statements taken as a whole.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse 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 restructured loan. 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. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- accruing restructured loans, and
- accruing loans 90 days or more past due.

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.

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.

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 defined benefit retirement plan of the District. 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. New benefits eligible employees hired between October 1, 2001 and December 31, 2006 are on the cash balance formula. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. The District plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the non-qualified defined benefit Pension Restoration Plan of the AgriBank District. 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 plans allow eligible employees to save for their retirement either pre-tax, Roth after-tax, post-tax, or both, with an employer match on a percentage of the employee’s contributions. We provide benefits under this plan in the form of a fixed percentage of salary contribution in addition to the employer match for those employees that do not participate in the District’s defined benefit retirement plan. Employer contributions are expensed when incurred.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

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

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. 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 (reversal of) credit losses” in the Consolidated Statements of Income.

Statements of Cash Flows: 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 — 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 the following:

- 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, and
- 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. In addition, no accounting pronouncements were adopted during 2014.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (dollars in thousands):

	2014		2013		2012	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 656,465**	**44.3%**	$ 605,701	43.6%	$ 500,006	38.8%
Production and intermediate term	**515,868**	**34.7%**	494,192	35.6%	494,645	38.4%
Agribusiness	**192,005**	**12.9%**	175,547	12.6%	178,546	13.9%
Communication	**27,889**	**1.9%**	22,538	1.6%	21,128	1.6%
Energy	**58,363**	**3.9%**	57,958	4.2%	58,279	4.5%
Rural residential real estate	**6,781**	**0.5%**	7,297	0.5%	7,194	0.6%
Other	**27,371**	**1.8%**	26,083	1.9%	28,888	2.2%
Total	**$ 1,484,742**	**100.0%**	$ 1,389,316	100.0%	$ 1,288,686	100.0%

The other category is comprised of finance leases as well as loans and related assets originated under our mission related investment authority.

Portfolio Concentrations

We have individual borrower, agricultural, and territorial concentrations.

As of December 31, 2014, volume plus commitments to our ten largest borrowers totaled an amount equal to 5.9% of total loans and commitments.

Agricultural concentrations were as follows:

As of December 31	2014	2013	2012
Cash grains	**34.4%**	37.0%	35.3%
Dairy	**11.5%**	12.3%	13.2%
Sugar Beets	**6.4%**	6.6%	5.9%
Food Products	**5.3%**	4.5%	3.9%
Rural Utilities	**5.2%**	5.3%	3.1%
Landlords	**5.0%**	5.1%	4.8%
Beef Cattle	**3.3%**	2.6%	2.8%
Farm Equipment and Supplies	**3.1%**	3.3%	4.8%
Cranberries	**2.4%**	2.3%	2.2%
Hogs	**2.2%**	2.4%	1.9%
Poultry and Eggs	**2.0%**	2.2%	2.6%
Potatoes	**1.8%**	2.1%	2.3%
Timber	**1.7%**	2.0%	1.8%
Ethanol	**0.8%**	1.4%	2.2%
Other	**14.9%**	10.9%	13.2%
Total	**100.0%**	100.0%	100.0%

Our portfolio is concentrated primarily in the following states at December 31, 2014: Minnesota 53.2% and Wisconsin 25.7%. The remainder of our portfolio consists of credit assets outside of Minnesota and Wisconsin, some of which required compliance with FCA territorial concurrence requirements.

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. 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. The following table presents information regarding participations purchased and sold (in thousands):

	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)**	**$ 208,020**	**$ (176,315)**	**$ --**	**$ (1,240)**	**$ 208,020**	**$ (414,937)**
Production and intermediate term	**--**	**(6,378)**	**21,637**	**(144,479)**	**--**	**--**	**21,637**	**(150,857)**
Agribusiness	**--**	**(18,395)**	**652,821**	**(867,092)**	**22,111**	**--**	**674,932**	**(885,487)**
Communication	**--**	**(16,388)**	**229,619**	**(185,342)**	**--**	**--**	**229,619**	**(201,730)**
Energy	**--**	**--**	**361,177**	**(302,814)**	**--**	**--**	**361,177**	**(302,814)**
Rural residential real estate	**--**	**(953)**	**--**	**--**	**--**	**--**	**--**	**(953)**
Other	**--**	**--**	**7,069**	**(6,045)**	**--**	**--**	**7,069**	**(6,045)**
Total	**$ --**	**$ (279,496)**	**$ 1,480,343**	**$ (1,682,087)**	**$ 22,111**	**$ (1,240)**	**$ 1,502,454**	**$ (1,962,823)**

	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2013	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (265,245)	$ 168,784	$ (131,609)	$ 448	$ (1,362)	$ 169,232	$ (398,216)
Production and intermediate term	--	(12,319)	13,498	(91,205)	--	--	13,498	(103,524)
Agribusiness	--	(19,131)	519,819	(768,599)	24,129	--	543,948	(787,730)
Communication	--	(20,926)	186,148	(142,684)	--	--	186,148	(163,610)
Energy	--	--	378,808	(320,850)	--	--	378,808	(320,850)
Rural residential real estate	--	(1,013)	--	--	--	--	--	(1,013)
Other	--	--	7,871	(12,918)	--	--	7,871	(12,918)
Total	$ --	$ (318,634)	$ 1,274,928	$ (1,467,865)	$ 24,577	$ (1,362)	$ 1,299,505	$ (1,787,861)

	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2012	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (298,438)	$ 143,435	$ (102,435)	$ 501	$ (1,303)	$ 143,936	$ (402,176)
Production and intermediate term	--	(11,685)	14,937	(87,537)	--	--	14,937	(99,222)
Agribusiness	--	(39,816)	459,322	(662,837)	44,604	--	503,926	(702,653)
Communication	--	(21,836)	184,545	(141,581)	--	--	184,545	(163,417)
Energy	--	--	341,801	(283,522)	--	--	341,801	(283,522)
Rural residential real estate	--	(1,556)	23	--	--	--	23	(1,556)
Other	--	--	9,444	(8,093)	--	--	9,444	(8,093)
Total	$ --	$ (373,331)	$ 1,153,507	$ (1,286,005)	$ 45,105	$ (1,303)	$ 1,198,612	$ (1,660,639)

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, and
- Loss: loans are considered uncollectible.

We had no loans categorized as loss at December 31, 2014, 2013, or 2012.

The following table summarizes loans and related accrued interest receivable classified under the FCA Uniform Classification System by loan type (dollars in thousands):

	Acceptable		OAEM		Substandard/ Doubtful		Total
As of December 31, 2014	Amount	%	Amount	%	Amount	%	Amount
Real estate mortgage	**$ 652,969**	**98.6%**	**$ 3,495**	**0.5%**	**$ 5,917**	**0.9%**	**$ 662,381**
Production and intermediate term	**516,555**	**99.3%**	**2,126**	**0.4%**	**1,522**	**0.3%**	**520,203**
Agribusiness	**189,410**	**98.3%**	**1,380**	**0.7%**	**1,968**	**1.0%**	**192,758**
Communication	**26,500**	**94.9%**	**--**	**--**	**1,410**	**5.1%**	**27,910**
Energy	**54,516**	**93.3%**	**3,028**	**5.2%**	**891**	**1.5%**	**58,435**
Rural residential real estate	**6,680**	**98.3%**	**5**	**0.1%**	**107**	**1.6%**	**6,792**
Other	**27,420**	**100.0%**	**--**	**--**	**--**	**--**	**27,420**
Total	**$ 1,474,050**	**98.5%**	**$ 10,034**	**0.7%**	**$ 11,815**	**0.8%**	**$ 1,495,899**

	Acceptable		OAEM		Substandard/ Doubtful		Total
As of December 31, 2013	Amount	%	Amount	%	Amount	%	Amount
Real estate mortgage	$ 604,402	99.0%	$ 2,972	0.5%	$ 3,230	0.5%	$ 610,604
Production and intermediate term	495,774	99.5%	1,034	0.2%	1,590	0.3%	498,398
Agribusiness	164,665	93.4%	8,631	4.9%	2,921	1.7%	176,217
Communication	21,066	93.4%	--	--	1,497	6.6%	22,563
Energy	54,706	94.3%	--	--	3,331	5.7%	58,037
Rural residential real estate	7,113	97.3%	20	0.3%	174	2.4%	7,307
Other	26,131	100.0%	--	--	--	--	26,131
Total	$ 1,373,857	98.2%	$ 12,657	0.9%	$ 12,743	0.9%	$ 1,399,257

	Acceptable		OAEM		Substandard/ Doubtful		Total
As of December 31, 2012	Amount	%	Amount	%	Amount	%	Amount
Real estate mortgage	$ 498,243	98.9%	$ 2,756	0.5%	$ 3,026	0.6%	$ 504,025
Production and intermediate term	493,888	99.0%	2,224	0.4%	2,780	0.6%	498,892
Agribusiness	162,480	90.7%	10,006	5.6%	6,618	3.7%	179,104
Communication	21,165	100.0%	--	--	--	--	21,165
Energy	54,876	94.1%	--	--	3,440	5.9%	58,316
Rural residential real estate	6,976	96.8%	55	0.8%	174	2.4%	7,205
Other	24,863	85.9%	--	--	4,082	14.1%	28,945
Total	$ 1,262,491	97.2%	$ 15,041	1.2%	$ 20,120	1.6%	$ 1,297,652

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (in thousands):

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
Real estate mortgage	**$ 19**	**$ 1,023**	**$ 1,042**	**$ 661,339**	**$ 662,381**
Production and intermediate term	**562**	**133**	**695**	**519,508**	**520,203**
Agribusiness	**--**	**41**	**41**	**192,717**	**192,758**
Communication	**--**	**--**	**--**	**27,910**	**27,910**
Energy	**--**	**--**	**--**	**58,435**	**58,435**
Rural residential real estate	**--**	**--**	**--**	**6,792**	**6,792**
Other	**176**	**7**	**183**	**27,237**	**27,420**
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
Real estate mortgage	$ 242	$ 1,145	$ 1,387	$ 609,217	$ 610,604
Production and intermediate term	594	395	989	497,409	498,398
Agribusiness	--	16	16	176,201	176,217
Communication	--	--	--	22,563	22,563
Energy	--	--	--	58,037	58,037
Rural residential real estate	128	64	192	7,115	7,307
Other	--	--	--	26,131	26,131
Total	$ 964	$ 1,620	$ 2,584	$ 1,396,673	$ 1,399,257

As of December 31, 2012	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
Real estate mortgage	$ 319	$ 1,377	$ 1,696	$ 502,329	$ 504,025
Production and intermediate term	458	363	821	498,071	498,892
Agribusiness	3,444	--	3,444	175,660	179,104
Communication	--	--	--	21,165	21,165
Energy	--	--	--	58,316	58,316
Rural residential real estate	89	62	151	7,054	7,205
Other	--	--	--	28,945	28,945
Total	$ 4,310	$ 1,802	$ 6,112	$ 1,291,540	$ 1,297,652

There were no loans 90 days or more past due and still accruing interest at December 31, 2014, 2013, and 2012.

Risk Loans

The following table presents risk loan information (accruing loans include accrued interest receivable) (in thousands):

As of December 31	2014	2013	2012
Nonaccrual loans:			
Current	$ 3,206	$ 3,143	$ 2,916
Past due	1,282	1,684	2,219
Total nonaccrual loans	4,488	4,827	5,135
Accruing restructured loans	2,557	2,500	5,897
Accruing loans 90 days or more past due	--	--	--
Total risk loans	$ 7,045	$ 7,327	$ 11,032
Volume with specific reserves	$ 1,087	$ 2,725	$ 1,758
Volume without specific reserves	5,958	4,602	9,274
Total risk loans	$ 7,045	$ 7,327	$ 11,032
Total specific reserves	$ 617	$ 997	$ 587

For the year ended December 31	2014	2013	2012
Income on accrual risk loans	$ 125	$ 275	$ 309
Income on nonaccrual loans	234	682	452
Total income on risk loans	$ 359	$ 957	$ 761
Average risk loans	$ 7,297	$ 11,543	$ 11,802

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 $116.2 million, $58.9 million, and $56.5 million at December 31, 2014, 2013, and 2012, respectively. Fees paid to Farmer Mac for these commitments totaled $304 thousand, $189 thousand, and $39 thousand in 2014, 2013, and 2012, respectively. These amounts are included in “Other operating expenses” in the Consolidated Statements of Income. As of December 31, 2014, no loans have been sold to Farmer Mac under this agreement.

Nonaccrual loans by loan type were as follows (in thousands):

As of December 31	2014	2013	2012
Real estate mortgage	$ 1,456	$ 1,686	$ 1,913
Production and intermediate term	690	703	1,957
Agribusiness	41	41	412
Communication	1,410	1,497	--
Energy	891	836	792
Rural residential real estate	--	64	61
Total	$ 4,488	$ 4,827	$ 5,135

All risk loans are considered to be impaired loans. The following table provides additional impaired loan information (in thousands):

	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	--	--	--	--	--
Communication	--	--	--	915	--
Energy	891	908	513	593	--
Rural residential real estate	--	--	--	16	--
Other	--	--	--	--	--
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
Communication	1,410	1,614	--	541	--
Energy	--	--	--	--	--
Rural residential real estate	--	6	--	11	4
Other	--	--	--	--	--
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
Communication	1,410	1,614	--	1,456	--
Energy	891	908	513	593	--
Rural residential real estate	--	6	--	27	4
Other	--	--	--	--	--
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	--	--	--	--	--
Communication	1,497	1,500	255	1,257	--
Energy	836	926	615	889	--
Rural residential real estate	64	66	42	63	--
Other	1	--	--	--	--
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
Communication	--	--	--	--	--
Energy	--	--	--	--	--
Rural residential real estate	--	8	--	--	3
Other	--	--	--	3,812	202
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
Communication	1,497	1,500	255	1,257	--
Energy	836	926	615	889	--
Rural residential real estate	64	74	42	63	3
Other	1	--	--	3,812	202
Total	$ 7,327	$ 10,469	$ 997	$ 11,543	$ 957

	As of December 31, 2012			For the year ended December 31, 2012	
	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	$ 223	$ 224	$ 26	$ 214	$ --
Production and intermediate term	682	804	111	676	--
Agribusiness	--	--	--	--	--
Communication	--	--	--	--	--
Energy	792	822	411	465	--
Rural residential real estate	61	63	39	96	--
Other	--	--	--	--	--
Total	$ 1,758	$ 1,913	$ 587	$ 1,451	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 2,206	$ 3,138	$ --	$ 2,122	$ 73
Production and intermediate term	2,574	4,409	--	2,554	88
Agribusiness	411	675	--	1,428	374
Communication	--	--	--	--	--
Energy	--	--	--	1	--
Rural residential real estate	--	--	--	--	--
Other	4,083	4,076	--	4,246	226
Total	$ 9,274	$ 12,298	$ --	$ 10,351	$ 761
Total impaired loans:					
Real estate mortgage	$ 2,429	$ 3,362	$ 26	$ 2,336	$ 73
Production and intermediate term	3,256	5,213	111	3,230	88
Agribusiness	411	675	--	1,428	374
Communication	--	--	--	--	--
Energy	792	822	411	466	--
Rural residential real estate	61	63	39	96	--
Other	4,083	4,076	--	4,246	226
Total	$ 11,032	$ 14,211	$ 587	$ 11,802	$ 761

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, 2014.

Troubled Debt Restructurings

Included within our loans are troubled debt restructurings (TDRs). These loans have been modified by granting a concession 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.

The following table presents information regarding TDRs that occurred during the year ended December 31 (in thousands):

	2014		2013		2012	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 214**	**$ 214**	$ --	$ --	$ 148	$ 148
Production and intermediate term	**417**	**417**	385	385	54	55
Communication	**--**	**--**	1,497	1,497	--	--
Total	**$ 631**	**$ 631**	$ 1,882	$ 1,882	$ 202	$ 203

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 types of modification typically include extension of maturity, and interest rate reduction below market.

There were no troubled debt restructurings that defaulted during the years ended December 31, 2014 or 2013 in which the modification was within 12 months of the respective reporting period.

We had troubled debt restructurings of $17 thousand that defaulted during the year ended December 31, 2012, in which the modifications were within 12 months of the reporting period. These restructurings with a payment default occurred in the production and intermediate term loan category.

The following table presents information regarding TDRs outstanding (in thousands):

	2014			2013			2012		
As of December 31	TDRs in Accrual Status	TDRs in Nonaccrual Status	Total TDRs Outstanding	TDRs in Accrual Status	TDRs in Nonaccrual Status	Total TDRs Outstanding	TDRs in Accrual Status	TDRs in Nonaccrual Status	Total TDRs Outstanding
Real estate mortgage	**$ 533**	**$ 1,047**	**$ 1,580**	$ 354	$ 1,081	$ 1,435	$ 516	$ 1,145	$ 1,661
Production and intermediate term	**1,768**	**148**	**1,916**	1,778	148	1,926	1,299	550	1,849
Agribusiness	**256**	**--**	**256**	368	--	368	--	407	407
Communication	**--**	**1,410**	**1,410**	--	1,497	1,497	--	--	--
Other	**--**	**--**	**--**	--	--	--	4,082	--	4,082
Total	**$ 2,557**	**$ 2,605**	**$ 5,162**	$ 2,500	$ 2,726	$ 5,226	$ 5,897	$ 2,102	$ 7,999

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $247 thousand at December 31, 2014.

Allowance for Loan Losses

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

For the year ended December 31	**2014**	2013	2012
Balance at beginning of year	**$ 2,982**	$ 2,871	$ 4,234
Provision for (reversal of) loan losses	**421**	118	(1,362)
Loan recoveries	**33**	60	71
Loan charge-offs	**(156)**	(67)	(72)
Balance at end of year	**$ 3,280**	$ 2,982	$ 2,871

The allowance for loan losses has increased only slightly since December 31, 2013 and remains stable due to continued strong credit quality.

The “Provision for (reversal of) credit losses” in the Consolidated Statements of Income includes a provision for loan losses as presented in the previous chart as well as a 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. During the year ended December 31, 2012, $700 thousand of provision expense was recorded to establish a reserve on letters of credit. No additional provision for credit losses was required during the year ended December 31, 2014 or 2013.

Throughout the year a portion of an established liability may be funded. As a result of any funding, an allowance for loan loss is established through a provision for loan losses while a reversal of credit losses simultaneously occurs. 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, 2012.

The accrued credit losses related to letters of credit were $551 thousand and $700 thousand as of December 31, 2013 and 2012, respectively. There were no accrued credit losses related to letters of credit as of December 31, 2014, as the standby letters of credit were fully funded.

A summary of changes in the allowance for loan losses and period end recorded investment in loans by loan type follows (in thousands):

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Other	Total
Allowance for loan losses:								
Balance as of December 31, 2013	**$ 289**	**$ 831**	**$ 487**	**$ 293**	**$ 902**	**$ 47**	**$ 133**	**$ 2,982**
Provision for (reversal of) loan losses	**112**	**360**	**30**	**(221)**	**130**	**(10)**	**20**	**421**
Loan recoveries	**10**	**23**	**--**	**--**	**--**	**--**	**--**	**33**
Loan charge-offs	**(1)**	**(71)**	**--**	**--**	**(53)**	**(31)**	**--**	**(156)**
Balance as of December 31, 2014	**$ 410**	**$ 1,143**	**$ 517**	**$ 72**	**$ 979**	**$ 6**	**$ 153**	**$ 3,280**
Ending balance: individually evaluated for impairment	**$ --**	**$ 104**	**$ --**	**$ --**	**$ 513**	**$ --**	**$ --**	**$ 617**
Ending balance: collectively evaluated for impairment	**$ 410**	**$ 1,039**	**$ 517**	**$ 72**	**$ 466**	**$ 6**	**$ 153**	**$ 2,663**
Recorded investment in loans outstanding:								
Ending balance as of December 31, 2014	**$ 662,381**	**$ 520,203**	**$ 192,758**	**$ 27,910**	**$ 58,435**	**$ 6,792**	**$ 27,420**	**$ 1,495,899**
Ending balance: individually evaluated for impairment	**$ 1,989**	**$ 2,458**	**$ 297**	**$ 1,410**	**$ 891**	**$ --**	**$ --**	**$ 7,045**
Ending balance: collectively evaluated for impairment	**$ 660,392**	**$ 517,745**	**$ 192,461**	**$ 26,500**	**$ 57,544**	**$ 6,792**	**$ 27,420**	**$ 1,488,854**

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Other	Total
Allowance for loan losses:								
Balance as of December 31, 2012	$ 254	$ 686	$ 1,091	$ 23	$ 631	$ 43	$ 143	$ 2,871
Provision for (reversal of) loan losses	(5)	194	(603)	270	271	2	(11)	118
Loan recoveries	53	4	--	--	--	2	1	60
Loan charge-offs	(13)	(53)	(1)	--	--	--	--	(67)
Balance as of December 31, 2013	$ 289	$ 831	$ 487	$ 293	$ 902	$ 47	$ 133	$ 2,982
Ending balance: individually evaluated for impairment	$ 7	$ 78	$ --	$ 255	$ 615	$ 42	$ --	$ 997
Ending balance: collectively evaluated for impairment	$ 282	$ 753	$ 487	$ 38	$ 287	$ 5	$ 133	$ 1,985
Recorded investment in loans outstanding:								
Ending balance as of December 31, 2013	$ 610,604	$ 498,398	$ 176,217	$ 22,563	$ 58,037	$ 7,307	$ 26,131	$ 1,399,257
Ending balance: individually evaluated for impairment	$ 2,040	$ 2,480	$ 409	$ 1,497	$ 836	$ 64	$ 1	$ 7,327
Ending balance: collectively evaluated for impairment	$ 608,564	$ 495,918	$ 175,808	$ 21,066	$ 57,201	$ 7,243	$ 26,130	$ 1,391,930

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Other	Total
Allowance for loan losses:								
Balance as of December 31, 2011	$ 535	$ 1,037	$ 2,091	$ 13	$ 393	$ 133	$ 32	$ 4,234
Provision for (reversal of) loan losses	(333)	(321)	(999)	10	238	(68)	111	(1,362)
Loan recoveries	57	11	1	--	--	2	--	71
Loan charge-offs	(5)	(41)	(2)	--	--	(24)	--	(72)
Balance as of December 31, 2012	$ 254	$ 686	$ 1,091	$ 23	$ 631	$ 43	$ 143	$ 2,871
Ending balance: individually evaluated for impairment	$ 26	$ 111	$ --	$ --	$ 411	$ 39	$ --	$ 587
Ending balance: collectively evaluated for impairment	$ 228	$ 575	$ 1,091	$ 23	$ 220	$ 4	$ 143	$ 2,284
Recorded investment in loans outstanding:								
Ending balance as of December 31, 2012	$ 504,025	$ 498,892	$ 179,104	$ 21,165	$ 58,316	$ 7,205	$ 28,945	$ 1,297,652
Ending balance: individually evaluated for impairment	$ 2,429	$ 3,256	$ 411	$ --	$ 792	$ 61	$ 4,083	$ 11,032
Ending balance: collectively evaluated for impairment	$ 501,596	$ 495,636	$ 178,693	$ 21,165	$ 57,524	$ 7,144	$ 24,862	$ 1,286,620

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

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. Effective March 31, 2014, 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. Our 2014 growth did not exceed the targeted rate. Prior to March 31, 2014, the required investment was equal to 2.5%.

As of December 31, 2014, 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, $49.7 million, and $49.4 million at December 31, 2014, 2013, and 2012, 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. The following table summarizes note payable information (dollars in thousands):

As of December 31	**2014**	2013	2012
Line of credit	**$ 1,500,000**	$ 1,400,000	$ 1,225,000
Outstanding principal under the line of credit	**1,249,843**	1,198,936	1,115,101
Interest rate	**1.5%**	1.3%	1.3%

Our note payable matures October 31, 2015 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, 2014, and throughout the year, we were within the specified limitations and in compliance with all debt covenants.

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.

Protection Mechanisms

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If we were to be unable to retire protected borrower equity at par value or stated value, the FCSIC would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Under current capital adequacy regulations, we are required to maintain a permanent capital ratio of at least 7.0%, a total surplus ratio of at least 7.0%, and a core surplus ratio of at least 3.5%. The calculation of these ratios in accordance with the FCA Regulations is discussed as follows:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2014, our ratio was 15.7%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2014, our ratio was 15.4%.
- 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. At December 31, 2014, our ratio was 15.4%.

Regulatory capital includes all of our investment in AgriBank that is in excess of the required investment under an allotment agreement with AgriBank. We no longer have any excess stock at December 31, 2014, 2013, or 2012.

Description of Equities

The following table presents information regarding classes and number of shares of stock and participation certificates outstanding as of December 31, 2014. All shares and participation certificates are stated at a $5.00 par value.

	Shares Outstanding
Class A common stock (protected)	**2**
Class B common stock (at-risk)	**977,465**
Class E participation certificates (at-risk)	**36,715**

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

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

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2014, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed pro rata to all holders of stock and participation certificates.

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

All classes of stock, except Class A, 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, $6.0 million, and $5.2 million at December 31, 2014, 2013, and 2012, respectively. 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 2015.

NOTE 7: INCOME TAXES

Provision for Income Taxes

Our provision for income taxes follows (dollars in thousands):

For the year ended December 31	**2014**	2013	2012
Current:			
Federal	**$ 651**	$ 1,279	$ 1,205
State	**71**	102	101
Total current	**722**	1,381	1,306
Deferred:			
Federal	**(525)**	(144)	75
State	**(40)**	(7)	160
Total deferred	**(565)**	(151)	235
Provision for income taxes	**$ 157**	$ 1,230	$ 1,541
Effective tax rate	**0.6%**	4.3%	5.0%

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

For the year ended December 31	**2014**	2013	2012
Federal tax at statutory rates	**$ 8,996**	$ 9,886	$ 10,402
State tax, net	**34**	59	82
Patronage distributions	**(1,298)**	(1,400)	(1,717)
Effect of non-taxable entity	**(6,953)**	(7,288)	(7,151)
Other	**(622)**	(27)	(75)
Provision for income taxes	**$ 157**	$ 1,230	$ 1,541

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 were composed of the following (in thousands):

As of December 31	**2014**	2013	2012
Allowance for loan losses	**$ 514**	$ 401	$ 355
Postretirement benefit accrual	**253**	242	227
Accrued incentive	**349**	--	--
Leasing related, net	**(306)**	(347)	(376)
Accrued patronage income not received	**(183)**	(237)	(206)
Accrued pension asset	**(559)**	(550)	(616)
Depreciation	**(55)**	(72)	(91)
Other assets	**31**	42	35
Deferred tax assets (liabilities), net	**$ 44**	$ (521)	$ (672)
Gross deferred tax assets	**$ 1,147**	$ 685	$ 617
Gross deferred tax liabilities	**$ (1,103)**	$ (1,206)	$ (1,289)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2014, 2013, or 2012.

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 has passed a resolution that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under our patronage program. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $169.0 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, 2014. In addition, we believe we are no longer subject to income tax examinations for years prior to 2011.

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 2014 Annual Report (District financial statements).

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

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

As disclosed in the District financial statements, the defined benefit pension plan reflects an unfunded liability totaling $423.9 million at December 31, 2014. The pension benefits funding status 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 projected benefit obligation of the District-wide plan was $1.2 billion, $1.0 billion, and $1.1 billion at December 31, 2014, 2013, and 2012, respectively. The fair value of the plan assets was $811.1 million, $759.5 million, and $640.1 million at December 31, 2014, 2013, and 2012, respectively. The accumulated benefit obligation, which 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, exceeds pension plan assets. The accumulated benefit obligation for the District-wide plan was $1.1 billion, $864.2 million, and $908.2 million at December 31, 2014, 2013, and 2012, respectively. 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. Total plan expense for participating employers was $45.8 million, $63.3 million, and $52.7 million for 2014, 2013, and 2012, respectively. Our allocated share of plan expenses included in “Salaries and employee benefits” in the Consolidated Statements of Income was $2.1 million, $2.8 million, and $2.4 million for 2014, 2013, and 2012, respectively. The plan expense for participating employers in 2015 is expected to increase to levels more consistent with 2013 primarily due to changes in discount rate and mortality assumptions. Participating employers contributed $52.0 million, $59.0 million, and $51.3 million to the plan in 2014, 2013, and 2012, respectively. Our allocated share of these pension contributions was $2.3 million, $2.7 million, and $2.3 million for 2014, 2013, and 2012, respectively. Benefits paid to participants in the District were $42.6 million in 2014, none of which were paid to our senior officers who were actively employed during the year. 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 2015 is $57.9 million. Our allocated share of these pension contributions is expected to be $2.7 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 non-qualified 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.

As disclosed in the District financial statements, the Pension Restoration Plan reflects an unfunded liability totaling $27.7 million at December 31, 2014. This 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 projected benefit obligation of the Pension Restoration Plan was $27.7 million, $25.3 million, and $23.5 million at December 31, 2014, 2013, and 2012, respectively. The accumulated benefit obligation for the Pension Restoration Plan was $23.0 million, $19.8 million, and $17.5 million at December 31, 2014, 2013, and 2012, respectively. 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. Total Pension Restoration Plan expense for participating employers was $3.7 million, $3.6 million, and $2.4 million for 2014, 2013, and 2012, respectively. Our allocated share of plan expenses included in “Salaries and employee benefits” in the Consolidated Statements of Income was $198 thousand, $194 thousand, and $119 thousand for 2014, 2013, and 2012, respectively. 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 2014, 2013, and 2012.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plan. The anticipated costs of these benefits are accrued during the period of the employee’s active status. Postretirement benefit costs included in “Salaries and employee benefits” in the Consolidated Statements of Income were $101 thousand, $119 thousand, and $93 thousand for 2014, 2013, and 2012, respectively. Our cash contributions, equal to the benefits paid, were $48 thousand, $48 thousand, and $45 thousand for 2014, 2013, and 2012, respectively.

Defined Contribution Plans

We participate in a District-wide defined contribution retirement savings 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, be 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 retirement savings plan if it were not for certain IRS limitations.

Employer contribution expenses for the retirement savings plans, included in “Salaries and employee benefits” in the Consolidated Statements of Income, were $787 thousand, $749 thousand, and $657 thousand in 2014, 2013, and 2012, 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 are 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, 2014 involved more than a normal risk of collectability.

The following table presents information on loans and leases to related parties (in thousands):

	2014	2013	2012
As of December 31:			
Total related party loans and leases	**$ 13,720**	$ 15,703	$ 18,404
For the year ended December 31:			
Advances to related parties	**$ 5,626**	$ 8,862	$ 8,364
Repayments by related parties	**9,032**	6,928	8,345

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

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 $798 thousand, $771 thousand, and $867 thousand in 2014, 2013, and 2012, respectively.

We also purchase human resource information systems, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2014, 2013, and 2012, our investment in Foundations was $27 thousand. The total cost of services purchased from Foundations was $127 thousand, $114 thousand, and $114 thousand in 2014, 2013, and 2012, 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, 2014, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $467.8 million. Additionally, we had $12.0 million of issued standby letters of credit as of December 31, 2014. Refer to Note 12 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 as of December 31, 2014.

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.

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 and $700 thousand as of December 31, 2013, and 2012, respectively which were valued using Level 3 fair value inputs. As of December 31, 2014 the 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. Total losses related to these liabilities of $700 thousand were recognized in income during the year ended December 31, 2012. 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. Information on assets measured at fair value on a non-recurring basis follows (in thousands):

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

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

As of December 31, 2012	Fair Value Measurement Using				
	Level 1	Level 2	Level 3	Total Fair Value	Total Gains (Losses)
Loans	$ --	$ 827	$ 403	$ 1,230	$ 318
Other property owned	--	--	52	52	(24)

Valuation Techniques

Standby letters of credit: Estimating the fair value of letters of credit is determined by the inherent credit loss in such instruments.

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.

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.

NOTE 12: FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of all our financial instruments is as follows (in thousands):

As of December 31	2014 Carrying Amount	2014 Fair Value	2013 Carrying Amount	2013 Fair Value	2012 Carrying Amount	2012 Fair Value
Financial assets:						
Net loans	**$ 1,481,462**	**$ 1,488,747**	$ 1,386,334	$ 1,377,359	$ 1,285,815	$ 1,303,808
Financial liabilities:						
Note payable to AgriBank, FCB	**$ 1,249,843**	**$ 1,253,296**	$ 1,198,936	$ 1,187,173	$ 1,115,101	$ 1,128,354
Standby letters of credit	**--**	**--**	551	551	700	700
Unrecognized financial instruments:						
Commitments to extend credit and letters of credit		**$ (600)**		$ (583)		$ (569)

Quoted market prices are generally not available for our financial instruments. Accordingly, we base fair values on:

- judgments regarding future expected losses,
- current economic conditions,
- risk characteristics of various financial instruments,
- credit risk, and
- other factors.

These estimates involve uncertainties, matters of judgment, and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Notes 2 and 4, the investment is a requirement of borrowing from AgriBank.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, for which it is practical to estimate that value, follows:

Net loans: Because no active market exists for our loans, fair value is estimated by discounting the expected future cash flows using current interest rates at which similar loans would be made or repriced to borrowers with similar credit risk. In addition, loans are valued using the Farm Credit interest rate yield curve, prepayment rates, contractual loan information, credit classification, and collateral values. As the discount rates are based upon internal pricing mechanisms and other management estimates, management has no basis to determine whether the fair values presented would be indicative of the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of System borrowers, could render our portfolio less marketable outside the System.

For fair value of loans individually impaired, we assume collection will result only from the sale of the underlying collateral. Fair value is estimated to equal the total net realizable value of the underlying collateral. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Note payable to AgriBank: Estimating the fair value of the note payable to AgriBank is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank for additional borrowings with similar characteristics.

Standby letters of credit: Estimating the fair value of letters of credit is determined by the inherent credit loss in such instruments.

Commitments to extend credit and letters of credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments.

NOTE 13: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly consolidated results of operations for the year ended December 31 follows (in thousands):

2014	First	Second	Third	Fourth	Total
Net interest income	**$ 9,088**	**$ 9,348**	**$ 9,500**	**$ 9,696**	**$ 37,632**
Provision for (reversal of) credit losses	**9**	**(445)**	**83**	**223**	**(130)**
Patronage income	**2,497**	**2,418**	**2,443**	**2,857**	**10,215**
Other expense, net	**5,171**	**5,723**	**4,073**	**6,552**	**21,519**
(Benefit from) provision for income taxes	**(31)**	**241**	**95**	**(148)**	**157**
Net income	**$ 6,436**	**$ 6,247**	**$ 7,692**	**$ 5,926**	**$ 26,301**

2013	First	Second	Third	Fourth	Total
Net interest income	$ 9,100	$ 9,152	$ 9,372	$ 9,862	$ 37,486
Provision for (reversal of) credit losses	(46)	309	(169)	(125)	(31)
Patronage income	2,519	2,399	2,369	3,509	10,796
Other expense, net	4,565	5,249	4,154	5,998	19,966
Provision for income taxes	391	77	244	518	1,230
Net income	$ 6,709	$ 5,916	$ 7,512	$ 6,980	$ 27,117

2012	First	Second	Third	Fourth	Total
Net interest income	$ 9,161	$ 9,579	$ 8,550	$ 9,000	$ 36,290
Provision for (reversal of) credit losses	(568)	659	350	(1,103)	(662)
Patronage income	1,632	1,634	2,455	3,353	9,074
Other expense, net	4,142	3,410	3,505	4,376	15,433
Provision for income taxes	373	846	358	(36)	1,541
Net income	$ 6,846	$ 6,298	$ 6,792	$ 9,116	$ 29,052

NOTE 14: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 11, 2015, 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 2014 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 discussed in Note 1 of this Annual Report.

The description of significant business developments, if any, is discussed in the “Management's Discussion and Analysis" section of this Annual Report.

Description of Property

The following table sets forth certain information regarding our properties:

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

Legal Proceedings

Information regarding legal proceedings is discussed in Note10 of this Annual Report. We were not subject to any enforcement actions as of December 31, 2014.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 6 of this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 5, 6, 7, 8, 10, and 12 of this Annual Report.

Selected Financial Data

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

Management’s Discussion and Analysis

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

Information regarding directors who served as of December 31, 2014, including business experience in the last five years and any other business interest where a director serves on the Board of Directors or as a senior officer follows:

Suzanne Allen, Appointed Director, Audit Committee member, and board designated Financial Expert, serves as VP Finance and Accounting of Aevenia, Inc., an electrical construction company. She has previously been VP and Treasurer of Otter Tail Corporation, a diversified publicly traded company, Treasurer of Rural Cellular Corporation, and Treasurer of Nash Finch Company. She serves as a director on the boards of Central Lakes Symphony and Coffee House Press, a publishing company. Her first and current term on the board began in 2011 and expires in 2015.

Stan Claussen, Director, is a self-employed grain farmer. He serves on the AgriBank District Farm Credit Council as Chair, the national Farm Credit Council and also on the boards of Bushmills Ethanol and Fairland Management Company (a farm management services provider). He has served as a director since 1995. His current term on the board began in 2011 and expires in 2015.

Scott Gerbig, Director and Audit Committee member is a self-employed dairy farmer. He has served as a director since 2008. His current term on the board began in 2013 and expires in 2017.

Ed Hegland, Director and Compensation Committee member, is President and manager of Hegland Farms of Appleton, Inc., a family owned grain farming operation. He also serves as a director on the Minnesota Soybean Growers Association, a trade association, and is a member of the executive committee for the National Biodiesel Board, a trade association. His first and current term began in 2012 and expires in 2016.

Gregory Jans, Director and Compensation Committee member, is a self-employed dairy farmer. He also serves as a director for the Minnesota Milk Producers Association, Vice Chair of the Dairy Authority Board, a state authority involved in building a research and education center, and serves on the Meeker County Planning and Zoning Commission. He has served as a director since 1994. His current term on the board began in 2014 and expires in 2018.

James Jarvis, Director, is a self-employed grain, timber, and hay farmer. He also manages a seasonal vegetable plant distribution and sales operation and owns a campground. He also serves on the Human Services Committee of Waushara County, the Land Use Planning Board for the Town of Mt. Morris, and is a Director of the Waushara County Farm Bureau. He has served as a director since 2008. His current term on the board began in 2011 and expires in 2015.

William Oemichen, Appointed Director and Audit Committee chairperson, and board-designated Financial Expert, is President and CEO of Cooperative Network. He is Board Chair of the Monroe Hospital and Clinics, Chair of the Board of Trustees for the Wisconsin College Savings Program, President of the Minnesota Cooperative Education Foundation, Board Vice Chair of the Energy Center of Wisconsin, Past Chair and member of the University of Wisconsin-Madison College of Agricultural and Life Sciences Board of Visitors, Outside Director and Audit Committee member for FCC Services, Inc. and an uncompensated Advisor to Peak Ridge Capital's Agricultural Tech Fund I. He also serves on the Consumer Operated and Oriented Plans advisory board to the U.S. Department of Health and Human Services, is a member of the Selective Service Board for Wisconsin, is a member of the Credit Union National Association's Cooperative Relations Committee, Chairs the Board Nominations Committee for Group Health Cooperative of South Central Wisconsin, previously served as Deputy Minnesota Agriculture Commissioner and as Wisconsin Trade and Consumer Protection Administrator, and is an attorney licensed to practice in Minnesota and Wisconsin. He has served as a director since 2009. His current term on the board began in 2013 and expires in 2017.

Donn Peterson, Director and Compensation Committee member, is a self-employed grain and livestock farmer. He has served as a director since 1996. His current term on the board began in 2011 and expires in 2015.

Richard Pooley, Appointed Director and Compensation Committee Chair, is retired Vice President of Dunwoody College of Technology, a private, non-profit technical college located in Minneapolis, MN. He has served as a director since 1992. His current term on the board began in 2012 and expires in 2016.

Richard Price, Director (Vice Chairperson) and Compensation Committee member, is a self-employed dairy farmer. He has served as a director since 2008. His current term on the board began in 2012 and expires in 2016.

Bradley Sunderland, Director (Chairperson) and Audit Committee member, is a self-employed grain and livestock farmer. He also serves as a director of Hanley Falls Cooperative Elevator, a feed, grain and seed cooperative. He has served as a director since 1993. His current term on the board began in 2012 and expires in 2016.

Jeffrey Thompson, Director and Audit Committee member, is a self-employed grain farmer. He has served as a director since 1996. His current term on the board began in 2013 and expires in 2017.

Mary Kay Van Der Geest, Director, is a self-employed dairy farmer and is President of Van Der Geest Dairy Cattle Inc. She has served as a director since 2008. Her current term on the board began in 2014 and expires in 2018.

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 2014, the Board of Directors had adopted a rate of $350 per full day meeting, $175 for a half-day meeting, and $105 for a conference call meeting (1/3 of a day). The adopted monthly retainer is $430-$780 depending on committee assignment and board leadership position. Specifically, 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.

Information regarding compensation paid to each director who served during 2014 follows:

	Number of Days Served				
	Board Meetings	Other Official Activities	Board Committee Compensation	Name of Committee	Total Compensation Paid in 2014
Suzanne Allen	10.2	15.2	$ 3,020	Audit	$ 17,020
Stan Claussen	7.5	27.0	--		19,670
Scott Gerbig	10.2	12.8	3,020	Audit	16,040
Ed Hegland	7.8	21.0	420	Compensation	17,290
Gregory Jans	9.7	19.5	420	Compensation	17,830
James Jarvis	10.2	23.0	--		19,110
William Oemichen	10.2	29.3	4,080	Audit	23,010
Donn Peterson	8.2	16.5	420	Compensation	15,540
Richard Pooley	9.7	15.3	420	Compensation	15,680
Richard Price*	9.2	30.2	2,710	Audit	22,800
			--	Compensation	--
Bradley Sunderland	10.2	30.8	3,020	Audit	26,600
Jeffrey Thompson**	10.2	17.5	420	Compensation	17,000
			100	Audit	
Mary Kay Van Der Geest	10.2	19.0	--		17,430
					$ 245,020

* Richard Price fulfilled his term on the Audit Committee November 30, 2014 and was appointed to serve on the Compensation Committee effective December 1, 2014.

** Jeffrey Thompson fulfilled his term on the Compensation Committee November 30, 2014 and was appointed to serve on the Audit Committee effective December 1, 2014.

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 accepting 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 senior officer compensation program is consistent with the highest standards of risk management and our long term strategic direction by providing a total compensation package that promotes fulfillment of our mission to provide a 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 short and long term business results aligned with the strategic interests of our members. The design of our senior officer compensation program supports our risk management goals through a set of checks and balances, including (1) a balanced mix of base and at-risk performance pay, (2) use of balanced performance metrics focused on safety, sound operations and long range strategic objectives, and (3) a pay-for-performance process that allocates individual awards based on both results and the individual's contribution to the association's overall success.

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 a 50% of the earned amount in December of the plan year based on projected year end performance. Following year end, actual accomplishments are tabulated and remaining amounts due under the program are paid-out by February 28 following the plan year. Annual incentive calculations, eligibility, and payouts for the CEO are determined and paid out after conclusion of the plan year, by February 28 following the plan year.

Retirement Plans: We have various post-employment benefit plans which are available to all eligible association employees, including the CEO and senior officers, based on dates of service and are not otherwise differentiated by position. Information regarding the post-employment benefit plans is included in Notes 2 and 9 of this Annual Report.

A summary of compensation earned by the CEO, senior officers, and highly compensated individuals follows (in thousands):

Name of Individual	Year	Salary	Bonus	Deferred/ Perquisites	Other	Total
Marcus Knisely, CEO	**2014**	**$ 297**	**$ 126**	**$ 132**	**$ 713**	**$ 1,268**
Marcus Knisely, CEO	2013	224	162	191	190	767
Marcus Knisely, CEO	2012	253	198	83	484	1,018
Aggregate Number of Senior Officers/Highly Compensated Individuals, excluding CEO						
Five	**2014**	**$ 793**	**$ 194**	**$ 41**	**$ 950**	**$ 1,978**
Seven	2013	960	267	31	414	1,672
Five	2012	667	282	11	38	998

Beginning in 2013 for Senior Officers and Highly Compensated Individuals, and beginning in 2012 for the CEO, "Other" includes the changes in value of defined benefit pension plan benefits and non-qualified 401k employer match. 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 of the consolidated financial statements. The value assigned to the annual change in the point-in-time present value of the defined benefit pension attribution is an estimate based on a number of factors, not actual compensation. No tax reimbursements are made to senior officers/highly compensated individuals.

A number of assumptions and factors (beyond actual time in position and cash compensation) are utilized in the calculation of the defined benefit pension amounts which are reflected in the annual change in pension benefits included in the preceding table. The assumptions include each individual (represented in the table) working at the institution until normal (unreduced benefits) full retirement age (age 65 or age 62 with at least 30 years of service), no deaths or terminations prior to reaching the unreduced benefit retirement age, annual determination of the discount rate to be used in the present value formula and a broad general assumption on how plan participants will receive pension benefits. While years of operational service and passage of time influence the present value of the defined benefit pension amount, the main trigger in the present value of the defined benefit pension amount is generally the discount rate. The lower the rate the higher the present value and vice versa. The discount rate is determined and reset each year based on a yield curve study of high quality corporate bonds.

The value of the pension benefits from December 31, 2013 to December 31, 2014 changed primarily due to changes in interest rates and changes in actuarial assumptions.

Members may request information on the compensation paid during 2014 to the individuals included in the preceding table.

On February 26, 2015, the FCA published a final rule in the Federal Register to revise compensation disclosures to shareholders and investors. The final rule would exclude certain employees from the current report requirements in the chart above. Under the current rule, an employee who is not otherwise among the Association's five most highly compensated employees may have a significant change in the value of his/her pension, making him/her among the top five most highly compensated employees. This could cause an individual to be excluded from the disclosure, who under normal circumstances, would be considered among the Association's most highly compensated. The final rule would exclude from the requirement any employee who, without changes in value related to their pension plan, would not be considered among the top five most highly compensated employees. The exclusion would only apply 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 final rule. No disclosures were changed from prior reporting periods; therefore, comparability may be limited as a result of this change.

Effective June 18, 2014, the FCA Board adopted a final rule to remove all requirements related to advisory votes at Farm Credit Institutions. This rule eliminates the requirement for advisory votes on CEO and/or senior officer compensation.

A summary of the pension benefits attributable to the CEO, senior officers, and highly compensated individuals as of December 31, 2014 follows (dollars in thousands):

Name of Individual	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Marcus Knisely, CEO	AgriBank District Retirement Plan	**36.0**	**$ 2,092**	**$ --**
	AgriBank District Pension Restoration Plan	**36.0**	**869**	**--**
Aggregate Number of Senior Officers/Highly Compensated Individuals, excluding CEO				
Four	AgriBank District Retirement Plan	**28.7**	**$ 3,261**	**$ --**
One	AgriBank District Pension Restoration Plan	**33.0**	**31**	**--**

Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. Therefore, any employee starting employment within the AgriBank District after that date is not eligible to be in the plan. Employees hired after January 1, 2007 are eligible to participate in the AgriBank District Defined Contribution Retirement Plan.

The AgriBank District Pension Restoration Plan restores retirement benefits to 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.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 9 of this Annual Report.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at P.O. Box 1330, Willmar, MN 56201-1330, (320) 235-1771.

The total directors' travel, subsistence, and other related expenses were $49 thousand, $52 thousand, and $40 thousand in 2014, 2013, and 2012, 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, 2015 or at any time during 2014.

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 2014 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

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.

Equal Employment Opportunity

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, color, religion, national origin, sex, age, disability, veteran status, genetic information, sexual orientation, creed, marital status, status with regard to public assistance, membership or activity involving a local human rights commission, or any other characteristic protected by law. We comply with all state and local equal employment opportunity regulations. We conduct all personnel decisions and processes relating to our employees and job applicants in an environment free of discrimination and harassment.

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 as of the loan transaction date, 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 slightly larger percent of the Young, Beginning and Small Farmer segments present in our local service area (LSA). While new delivery channels and focused emphasis on these targeted segments may result in higher market share, we do not anticipate significant total market share growth.

YBS Demographics

Demographics information is 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*	12/31/14 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%	1,633	61.39%	28.09%	30%
Beginning Farmers	4,224	21.87%	2,028	48.01%	34.89%	35%
Small Farmers	14,754	76.39%	3,395	23.01%	58.40%	60%

* LSA total farmer count is:	19,315
** United FCS' total loan/lease customer count is:	5,813

For the 2012 census, total YBS Farmers in United FCS' LSA included both principal and 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 regulatory 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 and Volume Generated Each Year*				
	12-31-14	**12-31-13**	**12-31-12**	**12-31-11**
# of customers				
Young	405	427	428	422
Beginning	458	497	521	435
Small	592	655	773	737
# of loans				
Young	513	540	537	526
Beginning	560	627	647	530
Small	704	779	906	868
Loan volume				
Young	$ 44,954,961	$ 50,242,483	$ 55,341,736	$ 48,580,654
Beginning	$ 50,936,068	$ 60,065,121	$ 76,461,449	$ 41,209,874
Small	$ 41,630,030	$ 50,277,337	$ 62,330,834	$ 57,219,241

United FCS – *Total YBS Outstanding*				
	12-31-14	**12-31-13**	**12-31-12**	**12-31-11**
# of customers				
Young	1,633	1,609	1,554	1,475
Beginning	2,028	1,976	1,878	1,710
Small	3,395	3,375	3,400	3,314
# of loans				
Young	2,877	2,834	2,705	2,573
Beginning	3,204	3,108	2,891	2,638
Small	5,255	5,333	5,425	5,415
Loan volume				
Young	$ 266,537,304	$ 257,843,486	$ 241,262,430	$ 211,827,940
Beginning	$ 297,933,976	$ 284,813,836	$ 284,533,201	$ 230,938,850
Small	$ 328,545,968	$ 329,225,168	$ 324,382,310	$ 309,202,188

For the past three years, United FCS' total outstanding YBS loans have shown increases in two of the three categories for number of loans. United FCS' total outstanding YBS loan volume and number of customers has shown increases in all three categories.

The number of Beginning Farmers being served by United FCS has seen the greatest increase of all three categories from 2011 to 2014, at 19%. Young Farmers utilizing United FCS has increased by 11%, followed by Small Farmers, which has seen a 3% increase in the past three years.

YBS Goals

Loan Numbers:

	United FCS YBS Loan Performance – Portfolio* as of 12/31/14				
	# Loans	% of Assn. Loans	Goals		
			2015	2016	2017
Young	2,877	22.74%	23%	24%	25%
Beginning	3,204	25.33%	26%	27%	28%
Small	5,255	41.54%	45%	45%	45%
	*12,650 loans as of 12/31/14				

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

Financial Services

In addition to the 5,813 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.

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 and 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.

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.

In past years, we have led the development, education and promotion of the Wisconsin Dairy Investment Tax Credit, which became law and, as a result, led to more than $2.0 billion of new investment in the State's dairy industry. United FCS has provided grant money ($50,000) to the Wisconsin School for Beginning Dairy and Livestock Farmers with funds supporting programming costs for start-up and transitioning farmers. Additionally, a grant for Dairy State Academy ($25,000), which is a hands-on teaching school for farmers to gain additional experience and education in agriculture, was provided at the Academy's inception. Again in 2014, United FCS presented a $5,000 endowment to this school, now called the Agriculture Center of Excellence, for a scholarship to be awarded to a student 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.

United FCS actively supports organizations that strive to promote agriculture. One such instance was the sponsorship of a greenhouse project at the New London-Spicer School District, which was placed in use for the 2013-2014 school year. This project, led by the school's ag department, will promote agricultural plant production and agricultural literacy, both in the school and community. It will also encourage young people to get involved in raising their own fresh produce and establishment of local food systems.

	# of YBS Customers Utilizing as of 12/31/14	Goal for 2015	Goal for 2016	Goal for 2017
RFA Loan Program (MN)	10	20	20	20
FSA Guarantee	107	120	125	130
AgBMP (MN)	9	15	17	17

Note: Higher land prices, current economic conditions and USDA 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. United FCS support goes to both the local high school/chapter level and the State Foundation level.

In 2014, United FCS increased our support of the MN FFA Foundation to the Two-Star Partner level in the Star Partner Program. United FCS also supports the FFA Legacy Club at the highest level - Rising Sun Circle. The Legacy Club is relatively new and was originally created by the MN FFA Foundation to generate individual support. It expanded to include business support in 2013.

These two fund raising arms of the MN FFA Foundation have different missions of support:

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)

Both the Star Partner Program and the Legacy Club have important missions – one that aligns with the United FCS Brand Promise and Vision.

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

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

MARL Program

The 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

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 600 of them being in Wisconsin and 800 in Minnesota.

Local Food Efforts

Two local food projects received funding from United FCS in 2014. Both projects are 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 and products they raise.

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 2014, 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 2015. 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.

Seven 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 will be providing 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 agriculture related graduates that are vital to the long-term success of agriculture.

Assistance Opportunities

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

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

United FCS Supports YBS Farmers By Offering:

- Modified core credit underwriting standards balanced with prudent credit risk management designed to assist the Young and Beginning segments of our portfolio
- Subsidized interest rate products for Young and Beginning Farmers
- Outreach programs to all producers irrespective of their age, GFI or years farming
- An alliance with Farm Credit Leasing, which YBS customers can benefit from
- Continuing Education Scholarships
- Grain marketing seminars, crop insurance meetings and young farmer conferences, including:
    - 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 2015.
    - Farm Bill Meetings – In early December 2014, United FCS sponsored two meetings on the 2014 Farm Bill, which was attended by nearly 800 producers. Also attending were 100 students from the Ag Business program at Ridgewater College in Willmar, MN. At these meetings, producers learned valuable information that will assist them in making the appropriate decisions for the 2014 Farm Bill.
- 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, moneys in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied first. If the balance in Funds Held does not fully satisfy the entire installment, the customer must pay the difference by the installment due date.

Account Maximum

The amount in Funds Held may not exceed the unpaid principal balance of the loan held on our books and must be in compliance with any existing loan prepayment terms and covenants.

Interest Rate

Interest will accrue on Funds Held at a simple rate of interest that may be changed by the Associations from time to time. The interest rate may never exceed the interest rate charged on the related loan. Interest rates are currently reported on customer's year end loan statements.

Withdrawals

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

Association Options

In the event of default on any loan, or if Funds Held exceeds the maximum limit as established above, or if the Association discontinues their Funds Held program, the Association may apply funds in the account to the unpaid loan balance and other amounts due, and shall return any excess funds to the customer.

Uninsured Account

Funds Held is not a depository account and is not insured. In the event of the lender's liquidation, all borrowers having funds in these uninsured accounts shall be notified in accordance with FCA Regulation 627.2735. The notice shall advise that the funds ceased earning interest when receivership was instituted and all funds will be applied against the outstanding indebtedness of any loans of such borrower unless, within 15 days of notice, the borrower directs the receiver to otherwise apply such funds in the manner provided in existing loan documents.

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

United FCS, ACA
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Visit us at www.unitedfcs.com