



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the consolidated financial position and consolidated results of operations of United FCS, ACA and its subsidiaries. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. Our 2009 annual report should also be read for a description of our organization, operations and significant accounting policies.

AgriBank, FCB's (AgriBank) financial condition and results of operations materially affect shareholders' investment in United FCS, ACA. To request free copies of the AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our report contact us at P.O. Box 1560, Willmar, Minnesota 56201-1560, (320) 235-1912. You may also contact AgriBank at 375 Jackson Street, St. Paul, Minnesota 55101-1810, (651) 282-8800, or via electronic mail to AGRIBANKMN@agribank.com. The AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

**Loan Portfolio**

Loan volume totaled \$1.05 billion at March 31, 2010, a \$16 million decrease from December 31, 2009. This decrease is primarily due to normal seasonal cash flows and operating loan needs of our customers.

Risk Assets

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

	March 31 2010	December 31 2009
As of:		
Loans:		
Accruing restructured	\$1,399	\$1,446
Past due 90 days or more still accruing	4	403
Nonaccrual	17,484	16,272
Total risk loans	18,887	18,121
Other property owned	129	172
Total risk assets	\$19,016	\$18,293
Risk loans as a % of total loans	1.8%	1.7%
Total delinquencies as a % of total loans	1.4%	1.5%

Despite the slight increase in nonaccrual loans, total risk loans as a percentage of total loans remains well within our established risk management guidelines, and have not changed significantly from December 31, 2009. At March 31, 2010, 27.9% of our nonaccrual loans were current.

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

Portfolio Credit Quality

As a result of a decrease in adverse loan volume, the credit quality of our portfolio has improved from December 31, 2009. Adversely classified assets have decreased to 3.5% of the portfolio at March 31, 2010, from 3.8% of the portfolio at December 31, 2009. Adversely classified assets 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 some circumstances, we use various governmental guarantee programs to reduce the risk of loss. At March 31, 2010, \$34.9 million of our loans were, to some level, guaranteed under these governmental programs.

Agricultural and Economic Conditions

**Cash Grain Farms (Corn/Soybeans):** Corn and soybean crops in our local service area produced average to above average yields in 2009 based on USDA surveys and actual yield results. The majority of our crop producers did operate at profitable levels in 2009. USDA released a current crop harvest report which showed a U.S. corn harvest of 13.1 billion bushels and a U.S. soybean harvest of 3.3 billion bushels. USDA is projecting corn stocks-to-use ratio at a comfortable 14.7% level, and the soybean stocks-to-use ratio is forecast at a 5.7% level. USDA is projecting average corn prices to be down \$.30 to \$.50 per bushel from 2008/2009 levels, with average soybean prices projected to be down \$.25 to \$.75 per bushel from 2008/2009 levels. Projected area yields coupled with the USDA price outlook should allow area producers to operate at break-even to profitable levels in 2010.

**Dairy Farms:** Dairy producers experienced the lowest margins in over 30 years (at times) during 2009 with milk prices dropping in excess of \$5/cwt from 2008 levels due to increased supplies and lower demand. USDA is projecting in its February Farm Sector Income Forecast that dairy cash receipts will increase over \$7 billion in 2010. The number of milk cows is forecast to decline 228,000 from 2009, and milk per cow is forecast to increase 379 pounds, resulting in an anticipated decline of 1.3 billion pounds of milk sold to plants. However, USDA anticipates a \$4-per-cwt increase in the annual average price of milk in 2010, aided by the continued recovery in dairy product exports. Presently, many dairy producers in our local service area are operating at or slightly below break-even levels. To date, credit quality within our dairy portfolio remains satisfactory.

**General Livestock:** Our exposure to poultry and eggs, hogs and cattle on an individual commodity basis represent less than 5% of our total portfolio. However, on a combined basis, the general livestock sector is a material segment of our portfolio. The continuation of the economic slowdown that began in late 2008 continues to impact all of these segments due to weaker domestic and world demand for their products. This has forced these industries to try to rebalance supply with lower demand through production cutbacks. The results of these cutbacks are now evident in the USDA Cold Storage reports, which showed that frozen pork supplies were down 17% from year ago levels, frozen chicken supplies down 4% and frozen turkey down 25%.

During 2009, the hog sector experienced significant losses of upwards to \$40/head due to continued supply and demand imbalances caused by continued decrease in demand due to worsening economic conditions and concerns associated with H1N1 influenza. The hog industry began to operate profitably in the 1st quarter of 2010 and the near-term outlook is for the hog industry to continue to operate above break-even levels into the third quarter of 2010. The March 2010 USDA Hogs and Pigs report reported that U.S. hog supplies were down 3% from March 2009 levels with the breeding herd down 4%. Based on this report and the March Cold Storage report it appears that the hog industry is finally starting to achieve a more balanced supply and demand.

The outlook for the poultry industry is somewhat uncertain at present. USDA is forecasting that broiler production will be up 1% from 2009 levels, as most of the broiler industry operated profitably in the second half of 2009. This was due to the industry's significant cutback in production that balanced supplies with demand, resulting in improved product prices. Lower feed costs also contributed to improved profitability. The major negative item facing the broiler industry is export restrictions that some countries have enacted, primarily Russia. These export restrictions are lowering export demand at a time that the domestic market can't absorb the extra supplies. This led to flat or slightly lower chicken product prices. USDA is forecasting that broiler prices should average 0.2 cents per pound higher than 2009.

USDA is forecasting that turkey prices should average 2.8 cents per pound higher in 2010 than 2009 due to supply cut-backs. Turkey exports have not been impacted to the levels that the chicken industry has been. Industry expectations are to operate profitably in 2010.

**Other Crops:** Sugar beets, potatoes, cranberries and all other fruits and vegetable crops make up less than 5% of our total portfolio on an individual commodity basis. However, on a combined basis these commodities play an important role in our local service area. In general, these commodities have experienced good production conditions, favorable pricing opportunities and were profitable in 2009.

**Ethanol:** The majority of the ethanol industry was able to operate profitably in the 4th quarter of 2009 into the first two months of 2010 due primarily to a decrease in corn costs. Margins started to fall in March and are currently at \$0-.03/gallon prior to debt servicing. The current outlook for ethanol based on futures prices for corn, natural gas, and crude oil is that ethanol margins will be slightly profitable the remainder of 2010.

#### Allowance for Loan Loss

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

Comparative allowance coverage of various loan categories follows:

	March 31	December 31
Allowance as a percentage of:	2010	2009
Loans	0.4%	0.4%
Nonaccrual loans	23.2%	24.1%
Total risk loans	21.5%	21.6%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2010.

### Results of Operations

Net income for the three months ended March 31, 2010, totaled \$5.6 million compared to \$918 thousand for the same period of 2009. The following table illustrates profitability information:

As of March 31	2010	2009
Return on average assets	2.0%	0.4%
Return on average members' equity	13.2%	2.3%

The following table summarizes the changes in components of net income for the three months ended March 31, 2010, compared to the three months ended March 31, 2009 (in thousands):

Increase (decrease) in net income	2010 vs 2009
Net interest income	\$1,028
Provision for loan losses	4,096
Patronage income	323
Financially related services and miscellaneous income, net	885
Operating expenses	(416)
Provision for income taxes	(1,277)
Total change in net income	\$4,639

Net interest income was \$7.8 million for the three months ended March 31, 2010. The following table quantifies changes in net interest income for the three months ended March 31, 2010, compared to the three months ended March 31, 2009 (in thousands):

Change in net interest income	2010 vs 2009
Changes in volume	\$668
Changes in rates	478
Changes in nonaccrual income and other	(118)
Net change	\$1,028

The change in the provision for loan losses is related to the relative stability of our risk loans and the improvement in our credit quality.

The change in patronage income is related to increased patronage from AgriBank. This income is based on our note payable due to AgriBank, and because of an increase in the patronage rate, the amount of patronage income has increased. Additionally, patronage income on our sale of a participation interest in certain real estate loans to AgriBank increased. This is due to our share of distributions from Allocated Insurance Reserve Accounts (AIRA) totaling \$130 thousand. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt.

The increase in financially related services and miscellaneous income, net is primarily due to our share of distributions from AIRA of \$1.1 million, partially offset by decreases in crop insurance commission income and in refunds from the Farm Credit System Association Captive Insurance Company.

The operating expense increases were primarily related to salaries and employees benefits expense, partially offset by a decrease in Farm Credit System insurance expense.

The change in provision for income taxes is related to increases in the income of the taxable entities primarily caused by the decrease in provision for loan losses expense.

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

### Funding, Liquidity and Capital

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

Total members' equity increased \$4.4 million from December 31, 2009, due to net income for the period and an increase in capital stock and participation certificates, partially offset by patronage distribution accruals.

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

- The permanent capital ratio is generally average at-risk capital divided by average risk-adjusted assets. At March 31, 2010, our ratio was 11.3%.
- The total surplus ratio is generally average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At March 31, 2010, our ratio was 10.9%.
- The core surplus ratio is generally average unallocated surplus less any deductions made in the computation of total surplus and less any preferred stock investment in AgriBank divided by average risk-adjusted assets. At March 31, 2010, our ratio was 10.9%.

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

The undersigned certify they have reviewed United FCS, ACA's March 31, 2010 quarterly report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Stanley Claussen  
Chairperson of the Board  
United FCS, ACA



Marcus L. Knisely  
Chief Executive Officer  
United FCS, ACA



Jeffrey A. Schmidt  
Chief Credit Officer & Interim Chief Financial Officer  
United FCS, ACA

May 7, 2010

**CONSOLIDATED STATEMENT OF CONDITION**

United FCS, ACA

(Dollars in thousands)

(Unaudited)

	March 31	December 31
	2010	2009
<b>ASSETS</b>		
Loans	\$1,045,916	\$1,062,030
Allowance for loan losses	4,057	3,915
<b>Net loans</b>	<b>1,041,859</b>	1,058,115
Investment in AgriBank, FCB	33,225	33,215
Investment securities	5,305	7,868
Accrued interest receivable	8,589	9,573
Premises and equipment, net	8,641	8,179
Other property owned	129	172
Assets held for lease, net	5,717	6,459
Other assets	6,369	7,211
<b>Total assets</b>	<b>\$1,109,834</b>	\$1,130,792
<b>LIABILITIES</b>		
Note payable to AgriBank, FCB	\$927,136	\$946,460
Accrued interest payable	4,461	4,562
Net deferred income tax liability	1,914	2,226
Patronage distribution payable	1,200	4,800
Other liabilities	3,980	6,022
<b>Total liabilities</b>	<b>938,691</b>	964,070
<b>MEMBERS' EQUITY</b>		
Capital stock and participation certificates	4,170	4,108
Unallocated surplus	166,973	162,614
<b>Total members' equity</b>	<b>171,143</b>	166,722
<b>Total liabilities and members' equity</b>	<b>\$1,109,834</b>	\$1,130,792

**CONSOLIDATED STATEMENT OF INCOME**

United FCS, ACA

(Dollars in thousands)

(Unaudited)

	Three Months	
Period ended March 31	2010	2009
<b>Interest income</b>	<b>\$12,255</b>	\$11,687
<b>Interest expense</b>	<b>4,466</b>	4,926
Net interest income	7,789	6,761
<b>Provision for loan losses</b>	<b>--</b>	4,096
Net interest income after provision for loan losses	7,789	2,665
<b>Other income</b>		
Patronage income	1,374	1,051
Financially related services and miscellaneous income, net	2,416	1,531
<b>Total other income</b>	<b>3,790</b>	2,582
<b>Operating expense</b>		
Salaries and employees benefits	3,509	2,908
Other operating	1,669	1,854
<b>Total operating expenses</b>	<b>5,178</b>	4,762
Income before income taxes	6,401	485
<b>Provision for income taxes</b>	<b>844</b>	(433)
<b>Net income</b>	<b>\$5,557</b>	\$918

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

United FCS, ACA

(Dollars in thousands)

(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
<b>Balance at December 31, 2008</b>	\$3,827	\$153,345	\$157,172
Net income	--	918	918
Unallocated surplus designated for patronage distributions	--	(1,198)	(1,198)
Capital stock/participation certificates issued	147	--	147
Capital stock/participation certificates retired	(78)	--	(78)
<b>Balance at March 31, 2009</b>	\$3,896	\$153,065	\$156,961
<b>Balance at December 31, 2009</b>	\$4,108	\$162,614	\$166,722
Net income	--	5,557	5,557
Unallocated surplus designated for patronage distributions	--	(1,198)	(1,198)
Capital stock/participation certificates issued	142	--	142
Capital stock/participation certificates retired	(80)	--	(80)
<b>Balance at March 31, 2010</b>	\$4,170	\$166,973	\$171,143

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: Organization and Significant Accounting Policies

Our 2009 annual report contains a description of our organization and operations, significant accounting policies followed, and financial condition and results of operations as of and for the year ended December 31, 2009. These unaudited first quarter 2010 consolidated financial statements should be read in conjunction with the 2009 annual report.

The accompanying consolidated financial statements contain all information necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and the prevailing practices within the financial services industry. The results of the three months ended March 31, 2010, are not necessarily indicative of the results to be expected for the year ended December 31, 2010.

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

#### Recent Accounting Developments

Effective January 1, 2010, we adopted Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance will provide for a greater level of disaggregated information for assets and liabilities measured on a recurring basis and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on our financial condition and results of operations.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by providing clarification of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The guidance also requires additional disclosure about transfers of financial assets and a transferor's continuing involvement with transferred assets. This guidance is effective as of January 1, 2010. This guidance must be applied to transfers occurring on or after the effective date. Adoption of this guidance had no impact on our financial statements.

### NOTE 2: Investment Securities

We held investment securities of \$5.3 million at March 31, 2010, and \$7.9 million at December 31, 2009, consisting of investment notes in a trust of equipment loans. The securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio. The following table presents the amortized cost, unrealized gains and losses, and fair value of the investment securities (in thousands):

	March 31	December 31
As of:	2010	2009
Amortized cost	\$5,305	\$7,868
Unrealized gains	87	92
Unrealized losses	--	(1)
Fair value	<u>\$5,392</u>	<u>\$7,959</u>
Weighted average yield	3.8%	3.9%

Investment income is recorded in "Interest income" on the Consolidated Statement of Income and totaled \$63 thousand for the period ended March 31, 2010, and \$156 thousand for the period ended March 31, 2009.

### NOTE 3: Allowance for Loan Losses

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

Three months ended March 31	2010	2009
Balance at beginning of year	\$3,915	\$2,944
Provision for loan losses	--	4,096
Loan recoveries	241	2
Loan chargeoffs	(99)	(1,098)
Balance at end of period	<u>\$4,057</u>	<u>\$5,944</u>

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

	March 31	December 31
As of:	2010	2009
Volume with specific reserves	\$2,706	\$2,886
Volume without specific reserves	16,181	15,235
Total risk loans	<u>\$18,887</u>	<u>\$18,121</u>
Total specific reserves	\$702	\$736
Three months ended March 31	2010	2009
Income on accrual risk loans	\$21	\$19
Income on nonaccrual loans	100	141
Total income on risk loans	<u>\$121</u>	<u>\$160</u>
Average recorded investment	\$18,504	\$26,535

### NOTE 4: Contingencies

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

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

### NOTE 5: Fair Value Measurements

The FASB guidance on "Fair Value Measurements and Disclosures" defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. See Notes 2 and 13 in our 2009 Annual Report for a more complete description.

We do not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2010, or December 31, 2009. 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 is as follows (in thousands):

**NOTE 6: Subsequent Events**

We have evaluated subsequent events through May 7, 2010, which is the date the financial statements were available to be issued.

	Fair Value Measurement Using			Total Fair Value	Total Gain (Loss)
	Level 1	Level 2	Level 3		
<b>March 31, 2010</b>					
Loans	\$ --	\$2,004	\$100	\$2,104	\$34
Other property owned	--	--	134	134	--
<b>December 31, 2009</b>					
Loans	\$ --	\$369	\$1,958	\$2,327	\$1,120
Other property owned	--	--	179	179	34

**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. The fair value measurement would fall under level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under level 3 of the hierarchy if the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. 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.

**Other Property Owned:** Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.