ArborOne, ACA

SECOND QUARTER 2013

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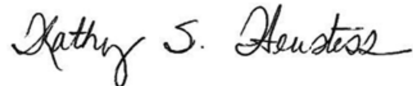
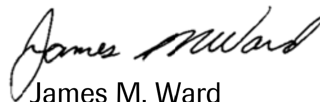
CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2013 quarterly report of **ArborOne, ACA**, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Kathy S. Heustess
President and Chief Executive Officer

Tammy G. Smith
Chief Financial Officer



James M. Ward
Chairman of the Board

August 7, 2013

ArborOne, ACA

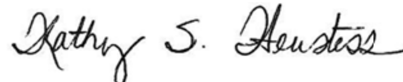
Report on Internal Control Over Financial Reporting

The Association's 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. This process provides 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.

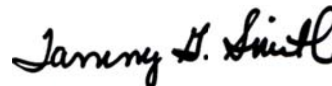
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions 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 June 30, 2013. In making the assessment, management used the 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 June 30, 2013, the internal control over financial reporting was effective based upon the COSO (1992) criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2013.



Kathy S. Heustess
President and Chief Executive Officer



Tammy G. Smith
Chief Financial Officer

August 7, 2013

ArborOne, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of **ArborOne, ACA**, (the Association) for the period ended June 30, 2013. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2012 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

SIGNIFICANT EVENTS

As of June 30, 2013, Agfirst Farm Credit Bank (the Bank) declared a special patronage distribution in the amount of $275.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including tobacco, cash grains, poultry, swine and forestry. Farm size varies and many of the borrowers in the region have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, somewhat impact the level of dependency on a given commodity. Approximately twenty-one percent of the portfolio has significant outside income to diversify dependence on agriculture, consisting of lifestyle loans and loans to less than full-time farmers with retirement income, salaried income and non-agricultural business income. Further, approximately nineteen percent of the assets carry federal guarantees as a risk management tool.

The gross loan volume of the Association as of June 30, 2013, was $334,032, an increase of $35,247 as compared to $298,785 at December 31, 2012. Net loans outstanding at June 30, 2013, were $328,708 as compared to $294,073 at December 31, 2012. During the six months ended June 30, 2013, the Association's sold participations to the Bank through the capitalized participation pools (CPP) program decreased by $25,485. As of June 30, 2013, the Association had $71,226 of such participations outstanding. The Association had investment securities classified as available for sale in the amount of $45,915 at June 30, 2013 compared to $53,492 at December 31, 2012. The Association entered into commitments to acquire Successor-in-Interest Contracts (SIIC), beginning in the fourth quarter of 2005. As of June 30, 2013, the Association had $22,715 in other investments for SIIC, compared to $45,553 at December 31, 2012. Net loans and investments accounted for 92.89 percent of total assets at June 30, 2013, as compared to 90.57 percent of total assets at December 31, 2012.

Net loans and investments increased by $4,220 during the reporting period. This was primarily due to an increase in the originated loan volume, a decrease in participations sold loan volume, and an increase in nonaccrual loan volume. This increase was partially offset by a decrease in participations purchased loan volume, the annual payments on the SIIC contracts, and the decrease in fair values as well as normal payments on the investments available-for-sale. The increase in originated loan volume is attributed to an increased concentration in our 12 county territory. The decrease in participations sold volume is mainly due to reduced participation in the CPP program as a result of adequate capital levels. The increase in nonaccrual loan volume is mainly due to three core loans moving into nonaccrual status which was partially offset by the payoff of one core nonaccrual loan. The decrease in participations purchased loan volume is attributed to payments along with tightening lending policies which has strengthened the Association's capital position.

Investment securities available-for-sale consist of mission related investments (Rural America Bonds) which decreased by $7,577 when compared to December 31, 2012. The decrease in the investment securities available-for-sale is due mainly to the change in the unrealized loss in the amount of $5,122 which is largely a result of rising interest rates. In addition, there was a payoff on one bond along with normal paydowns totaling $2,280, and net amortization of fees of $6 on one Rural America bond. These decreases were partially offset by advances of $123 on an existing Rural America Bond.

As of June 30, 2013, six Rural America Bonds have been downgraded making them ineligible investments. The Association has notified FCA of the downgrades, as required. During the second quarter of 2013, a credit impairment in the amount of $292 was taken on two ineligible bonds. No new bonds were added during 2013.

The other investments for SIIC decreased by $22,838 which was due to the annual payment on the contracts.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual loans increased from $5,622 at December 31, 2012, to $6,689 at June 30, 2013. This was mainly due to the transfer of three core agricultural loans to nonaccrual status. This increase was partially offset by the payoff of one core agricultural nonaccrual loan.

As of June 30, 2013, the Association has seven properties classed as OPO totaling $5,531, a decrease of $1,910 as compared to $7,441 at December 31, 2012. The decrease was due to the partial sale of one large participation account and the partial sale of one core account. Association staff is working diligently to market the OPO properties.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on credit quality, current conditions, and expected future conditions. The allowance for loan losses at June 30, 2013, was $5,324, compared to $4,712 at December 31, 2012. The $5,324 allowance for loan losses consisted of $4,411 in general reserves and $913 in specific reserves for one participation loan and two core agricultural loans. There were recoveries of $26 for the six months ended June 30, 2013 attributed mainly to both core agricultural and participation loans. The charge-offs for the period ended June 30, 2013 were $83 which consisted of mainly one core agricultural loan. The allowance for loan losses for the period ending June 30, 2013 is considered by management to be adequate to cover any future possible losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2013

Net income for the three months ended June 30, 2013, totaled $1,185, a decrease of $3,895, as compared to $5,080 for the same period in 2012.

Interest income on accruing loans increased by $566 for the three months ended June 30, 2013 compared to $3,416 for the three months ended June 30, 2012. Nonaccrual interest income decreased by $176 as compared to the same period in 2012, which was mainly due to nonaccrual interest income recognized in the amount of $146 on one large participation nonaccrual loan that liquidated in the second quarter of 2012. Interest income on investment securities was $715 compared to $768 for the same period in 2012. Interest income on other investments (SIIC) was $135 for the three months ended June 30, 2013, and $526 for the same period in 2012. The decrease in interest income is primarily due to the decrease in nonaccrual interest income, a decrease in SIIC volume, and a decrease in investments. These decreases were partially offset by an increase in net accruing volume resulting mainly from a decrease in CPP participations sold volume.

Interest expense decreased $176 for the three months ended June 30, 2013, as compared to the comparable period of 2012. The interest expense decrease was primarily due to a reduction in notes payable to the Bank, as a result of a decrease in SIIC volume, as well as a reduction in rates. This reduction was partially offset by an increase in net loans resulting mainly from a decrease in participations sold volume through the CPP program. The Association recorded a provision for loan losses of $658 as compared to a reversal of allowance for loan losses of $1,419 for the comparable period of 2012.

Noninterest income for the three months ended June 30, 2013, totaled $1,538 as compared to $3,568 for the same period of 2012, a decrease of $2,030. The decrease is mainly due to the decrease in loan fees of $186, a decrease in fees for financially related services of $7, a decrease in patronage refunds from other Farm Credit institutions of $925, an increase in the net loss on other property owned of $334, an increase of $292 in realized losses on investments available-for-sale, and a decrease in a nonrecurring payment from 2012 of $369 representing insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC). This decrease in income was partially offset by an increase in other noninterest income of $83.

Noninterest expense for the three months ended June 30, 2013, decreased $89 compared to the same period of 2012. The decrease was primarily due to a decrease in salaries and employee benefits of $226. This decrease was partially offset by an increase in occupancy and equipment of $9, an increase in insurance fund premiums of $29, and an increase in other operating expenses of $99. The Association did not record a provision for income taxes for the three months ended June 30, 2013 or for the same period in 2012.

For the six months ended June 30, 2013

Net income for the six months ended June 30, 2013, totaled $3,805, as compared to $8,119 for the same period in 2012. This was mainly due to an increase in the provision of $2,033, the realized loss of $292 on investments, and the nonrecurring 2012 income events of nonaccrual interest income in the amount of $588 and the FCSIC refund in the amount of $369.

Interest income on investment securities and other investments (SIIC) decreased by $583 due to the annual payments on the SIIC contracts as well as normal payments on the investments available-for-sale. Interest income on loans increased by $442 primarily due to the decrease in participations sold volume through the CPP program. Interest expense decreased by $422 compared to the same period of 2012. This decrease in interest expense was attributed to a reduction in notes payable to the Bank as a result of a decrease in SIIC volume as well as a reduction in rates, which was partially offset by the increase in net loan volume. The

change in net interest income is mainly a result of nonaccrual income. Nonaccrual income was $17 for the six months ended June 30, 2013, as compared to $638 for the same period in 2012. During 2012 nonaccrual income was recognized on two large nonaccrual loans, which was partially offset by the decrease in investment net interest income due to the reduction of investment volume.

The Association recorded a provision for loan losses of $669 for the six months ended June 30, 2013, as compared to a reversal of allowance for loan losses of $1,364 for the same period in 2012.

Noninterest income for the six months ended June 30, 2013, totaled $3,831 as compared to $6,398 for the same period of 2012, a decrease of $2,567. The decrease is primarily due to a decrease in loan fees of $210, a decrease in patronage refunds from other Farm Credit institutions of $1,388, an increase in net loss on other property owned of $401, an increase in realized loss on investments of $279, and a decrease in a nonrecurring payment from 2012 of $369 representing insurance premium refunds FCSIC. The decrease was partially offset by an increase in fees for financially related services of $21, an increase in the net gains on sales of premises and equipment of $8, and an increase in other noninterest income of $51.

Noninterest expense for the six months ended June 30, 2013, decreased $5 compared to the same period of 2012. This decrease is attributable to a decrease in salaries and employee benefits of $282. The decrease in noninterest expense was partially offset by an increase in occupancy and equipment of $22 and insurance fund premiums of $53, and other operating expenses of $202. The Association did not record a provision for income taxes for the six months ended June 30, 2013 or for the comparable period in 2012.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2013, was $340,308 as compared to $342,261 at December 31, 2012. The decrease during the period is primarily attributable to a decrease in SIIC volume, a decrease in participations purchased volume, and a decrease in investment securities available-for-sale. This decrease in total notes payable was partially offset by an increase in originated loan volume and a decrease in participations sold volume.

In September 2008, the Association issued $7,500 of fixed rate unsecured subordinated debt due in 2018, generating proceeds that were primarily used to increase the permanent capital of the Association pursuant to the Farm Credit Administration regulations, and for general corporate purposes. The debt is payable to another association in the Farm Credit System (System). It is subordinate to all other categories of creditors, including any claims of the Bank and general creditors, and is senior to all classes of shareholders. The subordinated debt is not considered System debt, and thus is not guaranteed by the System and not insured by the Farm Credit System Insurance Corporation.

CAPITAL RESOURCES

Total members' equity at June 30, 2013, decreased to $71,687 from the December 31, 2012, total of $73,022. The decrease is primarily attributable to a decrease in other comprehensive income and is partially offset by an increase in retained earnings.

Total capital stock and participation certificates were $1,325 on June 30, 2013, compared to $1,315 on December 31, 2012. This decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business and the annual retirement of B stock.

The Association reports other comprehensive income (loss) (OCI) in its Consolidated Statements of Changes in Members' Equity. The Association has an unrealized loss of $216 as of June 30, 2013, as compared to an unrealized loss of $219 as of December 31, 2012 for FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Association also has an unrealized gain of $726 as of June 30, 2013 as compared to an unrealized gain of $5,848 as of December 31, 2012 on investments available-for-sale. The resulting effect was a net loss of $5,119 to Accumulated Other Comprehensive Income for the six months ending June 30, 2013. This net loss to Accumulated Other Comprehensive Income is attributed mostly to rising interest rates which adversely affect the market values of Rural America Bonds in the investment securities available-for-sale portfolio.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2013, the Association's total surplus ratio and core surplus ratio were

20.49 percent and 17.78 percent, respectively, and the permanent capital ratio was 20.91 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, "Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements", in the Notes to the Financial Statements, and the 2012 Annual Report to Shareholders for recently issued accounting pronouncements.

REGULATORY MATTERS

For the six months ended June 30, 2013, the FCA took no enforcement action against the Association.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, ***www.agfirst.com***. Copies of the Association's Annual and Quarterly reports are also available upon request free of charge by calling 1-800-741-7332, writing Casey Pitts, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, ***www.arborone.com***. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

ArborOne, ACA

Consolidated Balance Sheets

(dollars in thousands)	**June 30, 2013**	**December 31, 2012**
	(unaudited)	*(audited)*
Assets		
Cash	$ 6	$ 432
Investment securities:		
Available for sale (amortized cost of $45,189 and $47,644, respectively)	45,915	53,492
Loans	334,032	298,785
Less: allowance for loan losses	5,324	4,712
Net loans	328,708	294,073
Other investments	22,715	45,553
Accrued interest receivable	4,154	4,051
Investments in other Farm Credit institutions	10,982	13,057
Premises and equipment, net	3,723	3,883
Other property owned	5,531	7,441
Due from AgFirst Farm Credit Bank	2,577	8,110
Other assets	3,459	3,971
Total assets	$ 427,770	$ 434,063
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 340,308	$ 342,261
Subordinated debt payable to other Farm Credit institutions (Note 5)	7,500	7,500
Accrued interest payable	847	936
Patronage refunds payable	364	2,428
Other liabilities	7,064	7,916
Total liabilities	356,083	361,041
Commitments and contingencies		
Members' Equity		
Protected borrower stock	115	118
Capital stock and participation certificates	1,210	1,197
Retained earnings		
Allocated	43,870	43,392
Unallocated	25,982	22,686
Accumulated other comprehensive income	510	5,629
Total members' equity	71,687	73,022
Total liabilities and members' equity	$ 427,770	$ 434,063

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

ArborOne, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012
Interest Income				
Investment securities	$ 714	$ 768	$ 1,448	$ 1,549
Loans	3,987	3,595	7,699	7,257
Other investments	135	526	606	1,088
Total interest income	4,836	4,889	9,753	9,894
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	2,360	2,536	4,668	5,090
Subordinated debt payable to other Farm Credit institutions (Note 5)	169	169	338	338
Total interest expense	2,529	2,705	5,006	5,428
Net interest income	2,307	2,184	4,747	4,466
Provision for (reversal of allowance for) loan losses	658	(1,419)	669	(1,364)
Net interest income after provision for (reversal of allowance for) loan losses	1,649	3,603	4,078	5,830
Noninterest Income				
Loan fees	701	887	1,438	1,648
Fees for financially related services	22	29	75	54
Patronage refunds from other Farm Credit institutions	1,425	2,350	2,916	4,304
Gains (losses) on other property owned, net	(381)	(47)	(403)	(2)
Gains (losses) on sales of premises and equipment, net	—	—	9	1
Total other-than-temporary impairment losses on investment	(371)	—	(371)	—
Portion of loss recognized in other comprehensive income (loss)	79	—	79	(13)
Net impairment losses on investments (Note 2)	(292)	—	(292)	(13)
Insurance Fund refunds	—	369	—	369
Other noninterest income (loss)	63	(20)	88	37
Total noninterest income	1,538	3,568	3,831	6,398
Noninterest Expense				
Salaries and employee benefits	1,346	1,572	2,746	3,028
Occupancy and equipment	146	137	300	278
Insurance Fund premiums	54	25	104	51
Other operating expenses	456	357	954	752
Total noninterest expense	2,002	2,091	4,104	4,109
Net income	$ 1,185	$ 5,080	$ 3,805	$ 8,119

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

ArborOne, ACA

Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012
Net income	$ 1,185	$ 5,080	$ 3,805	$ 8,119
Other comprehensive income net of tax				
Unrealized gains (losses) on investments available for sale:				
Other-than-temporarily impaired	(1)	(31)	(1)	–
Not other-than-temporarily impaired	(3,253)	1,277	(5,121)	(1,205)
Employee benefit plans adjustments	1	1	3	(10)
Other comprehensive income (loss) (Note 8)	(3,253)	1,247	(5,119)	(1,215)
Comprehensive income (loss)	$ (2,068)	$ 6,327	$ (1,314)	$ 6,904

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

ArborOne, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2011	$ 150	$ 1,192	$ 37,166	$ 21,452	$ 6,386	$ 66,346
Comprehensive income				8,119	(1,215)	6,904
Protected borrower stock retired	(28)					(28)
Capital stock/participation certificates issued/(retired), net		11				11
Patronage distribution adjustment			(103)	118		15
Balance at June 30, 2012	$ 122	$ 1,203	$ 37,063	$ 29,689	$ 5,171	$ 73,248
Balance at December 31, 2012	$ 118	$ 1,197	$ 43,392	$ 22,686	$ 5,629	$ 73,022
Comprehensive income (loss)				3,805	(5,119)	(1,314)
Protected borrower stock retired	(3)					(3)
Capital stock/participation certificates issued/(retired), net		13				13
Patronage distribution adjustment			478	(509)		(31)
Balance at June 30, 2013	$ 115	$ 1,210	$ 43,870	$ 25,982	$ 510	$ 71,687

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

ArborOne, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 — ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The accompanying financial statements include the accounts of **ArborOne, ACA** (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2012, are contained in the 2012 Annual Report to Shareholders. These unaudited second quarter 2013 consolidated financial statements should be read in conjunction with the 2012 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the six months ended June 30, 2013, are not necessarily indicative of the results to be expected for the year ending December 31, 2013.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2013 the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

Recently Issued Accounting Pronouncements

In February 2013 the FASB issued Accounting Standards Update (ASU) 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date," which addresses the recognition, measurement and disclosure of certain obligations including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The amendments are to be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the Update's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in the Update) and should disclose that fact. The amendments are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter. Early application is permitted. It is not anticipated the adoption of this guidance will have a material impact on the Association's financial condition or results of operations but will result in additional disclosures.

In February 2013 the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The update is intended to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The amendments do not change the requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early application is permitted.

In January 2013, the FASB issued ASU 2013-01 "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The Update clarifies that ordinary trade receivables and payables are not in the scope of ASU 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in

accordance with specific criteria or subject to a master netting arrangement or similar agreement. The effective date is the same as that for ASU 2011-11 below.

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance, in conjunction with ASU 2013-01 above, will not impact the Association's financial condition or its results of operations.

Other recently issued accounting pronouncements are discussed in the 2012 Annual Report to Shareholders.

NOTE 2 — INVESTMENT SECURITIES

The Association's Mission Related Investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. At June 30, 2013 and December 31, 2012, ArborOne held six and five Rural America Bonds totaling $6,710 and $6,550, respectively, whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held as available-for-sale follows:

	June 30, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related Investments (a)	$ 45,189	$ 2,064	$ (1,338)	$ 45,915	5.98%

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission related Investments	$ 47,644	$ 6,104	$ (256)	$ 53,492	5.96%

(a) Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of $1.

In August of 2012, the Association sold its one remaining non-agency CMO for proceeds of $486. Because the Association intended to sell the security, the entire difference of $158 between the investment's amortized cost basis and its fair value was recognized as an other-than-temporary impairment in earnings.

The Association had no investment securities held-to-maturity at either reporting date. As of June 30, 2013, the Association's available-for-sale portfolio consisted solely of mission related investments.

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	944	922	5.00
After five years through ten years	–	–	–
After ten years	44,245	44,993	6.00
Total	$ 45,189	$ 45,915	5.98%

A substantial portion of these investments have contractual maturities in excess of ten years. However, expected maturities for these types of securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	June 30, 2013			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related Investments	$ 16,902	$ (679)	$ 3,457	$ (659)

	December 31, 2012			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related Investments	$ 3,241	$ (86)	$ 2,517	$ (170)

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes. Based on the results of all analyses, the Association has recognized credit-related other-than-temporary impairment of $292 for 2013, which is included in Impairment Losses on Investments in the Statements of Income.

The Association does not intend to sell any remaining debt securities and is not more likely than not to be required to sell before recovery. Therefore, any total other-than temporary impairments would be reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income.

In determining the amount of any credit loss, the Association uses the expected present value technique as its best estimate of the present value of cash flows expected to be collected from the debt security. This technique requires key assumptions related to the underlying collateral, including default rates, degree and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics and collateral type.

Significant inputs used in this technique to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan to collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain default, prepayment, and loss severity assumptions from an independent third party, or generate the assumptions internally. Default and loss severity assumptions are generally estimated using historical loss and performance information to estimate future defaults. Prepayment assumptions are based on forecasted prepayments.

For all other impaired investments, the Association has not recognized any credit losses as the impairments are deemed temporary and result from non-credit related factors. Unrealized losses on mission related investments, classified as available-for-sale, resulted primarily from the timing of cash flows utilized in the modeling process and thus are considered temporary. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings.

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
Cumulative credit losses at beginning of period	$ –	$ 331	$ –	$ 318
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	292	–	292	–
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	–	–	–	13
Reductions for securities sold	–	–	–	–
Reductions for incurred losses	–	–	–	–
Cumulative credit losses at end of period	$ 292	$ 331	$ 292	$ 331

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans outstanding at period end were as follows:

	June 30, 2013	December 31, 2012
Real estate mortgage	$ 144,077	$ 130,881
Production and intermediate-term	180,998	155,611
Agribusiness		
Loans to cooperatives	862	1,242
Processing and marketing	1,441	5,211
Farm-related business	4,610	3,778
Total agribusiness	6,913	10,231
Water and waste disposal	753	754
Rural residential real estate	1,291	1,308
Total Loans	$ 334,032	$ 298,785

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. Participation loan balances at period end were as follows:

June 30, 2013	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,674	$ 59,353	$ 9,387	$ 1,773	$ 2,714	$ –	$ 21,775	$ 61,126
Production and intermediate-term	34,809	31,387	900	928	8,516	–	44,225	32,315
Agribusiness								
Loans to cooperatives	862	–	–	–	–	–	862	–
Processing and marketing	467	86	974	–	–	–	1,441	86
Farm-related business	280	108	–	–	–	–	280	108
Total agribusiness	1,609	194	974	–	–	–	2,583	194
Total	$ 46,092	$ 90,934	$ 11,261	$ 2,701	$ 11,230	$ –	$ 68,583	$ 93,635

December 31, 2012	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 11,784	$ 69,025	$ 9,888	$ 1,913	$ 2,919	$ –	$ 24,591	$ 70,938
Production and intermediate-term	32,758	46,245	1,000	913	8,380	–	42,138	47,158
Agribusiness								
Loans to cooperatives	1,241	–	–	–	–	–	1,241	–
Processing and marketing	1,764	113	1,032	–	–	–	2,796	113
Farm-related business	314	484	–	–	–	–	314	484
Total agribusiness	3,319	597	1,032	–	–	–	4,351	597
Total	$ 47,861	$ 115,867	$ 11,920	$ 2,826	$ 11,299	$ –	$ 71,080	$ 118,693

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at June 30, 2013 and indicates that approximately 31.50 percent of loans had maturities of less than one year:

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 10,318	$ 35,043	$ 98,716	$ 144,077
Production and intermediate-term	88,227	49,649	43,122	180,998
Agribusiness				
Loans to cooperatives	862	–	–	862
Processing and marketing	1,034	121	286	1,441
Farm-related business	4,010	189	411	4,610
Total agribusiness	5,906	310	697	6,913
Water and waste disposal	753	–	–	753
Rural residential real estate	3	346	942	1,291
Total Loans	$ 105,207	$ 85,348	$ 143,477	$ 334,032

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type.

	June 30, 2013	December 31, 2012
Real estate mortgage:		
Acceptable	94.56%	94.30%
OAEM	2.66	1.28
Substandard/doubtful/loss	2.78	4.42
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	91.81%	93.23%
OAEM	0.23	0.52
Substandard/doubtful/loss	7.96	6.25
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	0.01%	0.01%
OAEM	99.99	99.99
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	32.34%	100.00%
OAEM	67.66	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	June 30, 2013	December 31, 2012
Total agribusiness:		
Acceptable	73.28%	87.91%
OAEM	26.72	12.09
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	0.01%	100.00%
OAEM	–	–
Substandard/doubtful/loss	99.99	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	92.41%	91.87%
OAEM	–	–
Substandard/doubtful/loss	7.59	8.13
	100.00%	100.00%
Total Loans:		
Acceptable	92.40%	93.53%
OAEM	1.83	1.24
Substandard/doubtful/loss	5.77	5.23
	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest.

	June 30, 2013					
	30 Through 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	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 834	$ 1,020	$ 1,854	$ 143,791	$ 145,645	$ –
Production and intermediate-term	2,761	4,028	6,789	176,238	183,027	–
Agribusiness						
Loans to cooperatives	–	–	–	880	880	–
Processing and marketing	–	–	–	1,451	1,451	–
Farm-related business	–	–	–	4,634	4,634	–
Total agribusiness	–	–	–	6,965	6,965	–
Energy and water/waste disposal	–	–	–	770	770	–
Rural residential real estate	–	–	–	1,298	1,298	–
Total	$ 3,595	$ 5,048	$ 8,643	$ 329,062	$ 337,705	$ –

	December 31, 2012					
	30 Through 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	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 694	$ 1,841	$ 2,535	$ 129,787	$ 132,322	$ –
Production and intermediate-term	42	3,205	3,247	154,422	157,669	–
Agribusiness						
Loans to cooperatives	–	–	–	1,242	1,242	–
Processing and marketing	–	–	–	5,223	5,223	–
Farm-related business	–	–	–	3,801	3,801	–
Total agribusiness	–	–	–	10,266	10,266	–
Energy and water/waste disposal	–	–	–	785	785	–
Rural residential real estate	10	–	10	1,302	1,312	–
Total	$ 746	$ 5,046	$ 5,792	$ 296,562	$ 302,354	$ –

The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

Nonperforming assets (including related accrued interest) and related credit quality statistics at period end were as follows:

	June 30, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	$ 2,518	$ 2,251
Production and intermediate-term	4,072	3,264
Rural residential real estate	99	107
Total nonaccrual loans	$ 6,689	$ 5,622
Accruing restructured loans:		
Real estate mortgage	$ 764	$ 680
Production and intermediate-term	1,120	793
Total accruing restructured loans	$ 1,884	$ 1,473
Accruing loans 90 days or more past due:		
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 8,573	$ 7,095
Other property owned	5,531	7,441
Total nonperforming assets	$ 14,104	$ 14,536
Nonaccrual loans as a percentage of total loans	2.00%	1.88%
Nonperforming assets as a percentage of total loans and other property owned	4.15%	4.75%
Nonperforming assets as a percentage of capital	19.67%	19.91%

The following table presents information related to impaired loans (including accrued interest) at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	June 30, 2013	December 31, 2012
Impaired nonaccrual loans:		
Current as to principal and interest	$ 853	$ 464
Past due	5,836	5,158
Total impaired nonaccrual loans	6,689	5,622
Impaired accrual loans:		
Restructured	1,884	1,473
90 days or more past due	–	–
Total impaired accrual loans	1,884	1,473
Total impaired loans	$ 8,573	$ 7,095

The following tables present additional information concerning impaired loans and related allowance by loan type at period end.

	June 30, 2013			Quarter Ended June 30, 2013		Six Months Ended June 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 500	$ 495	$ 73	$ 415	$ 2	$ 419	$ 4
Production and intermediate-term	2,843	2,761	840	2,358	9	2,382	20
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 3,343	$ 3,256	$ 913	$ 2,773	$ 11	$ 2,801	$ 24
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 2,782	$ 3,876	$ –	$ 2,307	$ 9	$ 2,331	$ 19
Production and intermediate-term	2,349	3,177	–	1,949	8	1,969	17
Rural residential real estate	99	155	–	82	–	83	1
Total	$ 5,230	$ 7,208	$ –	$ 4,338	$ 17	$ 4,383	$ 37
Total impaired loans:							
Real estate mortgage	$ 3,282	$ 4,371	$ 73	$ 2,722	$ 11	$ 2,750	$ 23
Production and intermediate-term	5,192	5,938	840	4,307	17	4,351	37
Rural residential real estate	99	155	–	82	–	83	1
Total	$ 8,573	$ 10,464	$ 913	$ 7,111	$ 28	$ 7,184	$ 61

	December 31, 2012			Year Ended December 31, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 401	$ 400	$ 73	$ 559	$ 40
Production and intermediate-term	2,285	2,254	551	3,188	229
Total	$ 2,686	$ 2,654	$ 624	$ 3,747	$ 269
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,530	$ 3,613	$ –	$ 3,529	$ 254
Production and intermediate-term	1,772	2,531	–	2,471	177
Rural residential real estate	107	159	–	149	11
Total	$ 4,409	$ 6,303	$ –	$ 6,149	$ 442
Total impaired loans:					
Real estate mortgage	$ 2,931	$ 4,013	$ 73	$ 4,088	$ 294
Production and intermediate-term	4,057	4,785	551	5,659	406
Rural residential real estate	107	159	–	149	11
Total	$ 7,095	$ 8,957	$ 624	$ 9,896	$ 711

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at each reporting period.

A summary of changes in the allowance for loan losses and recorded investment in loans at period end were as follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:						
Balance at March 31, 2013	$ 1,262	$ 3,080	$ 86	$ 294	$ 3	$ 4,725
Charge-offs	–	(81)	–	–	–	(81)
Recoveries	1	21	–	–	–	22
Provision for loan losses	(17)	704	(32)	3	–	658
Balance at June 30, 2013	$ 1,246	$ 3,724	$ 54	$ 297	$ 3	$ 5,324
Balance at December 31, 2012	$ 1,621	$ 2,860	$ 167	$ 61	$ 3	$ 4,712
Charge-offs	(2)	(81)	–	–	–	(83)
Recoveries	3	23	–	–	–	26
Provision for loan losses	(376)	922	(113)	236	–	669
Balance at June 30, 2013	$ 1,246	$ 3,724	$ 54	$ 297	$ 3	$ 5,324
Balance at March 31, 2012	$ 1,174	$ 1,827	$ 116	$ 53	$ 9	$ 3,179
Charge-offs	(5)	(262)	(56)	–	–	(323)
Recoveries	2	1,711	–	–	–	1,713
Provision for loan losses	(35)	(1,477)	93	1	(1)	(1,419)
Balance at June 30, 2012	$ 1,136	$ 1,799	$ 153	$ 54	$ 8	$ 3,150
Balance at December 31, 2011	$ 1,208	$ 1,827	$ 131	$ 53	$ 9	$ 3,228
Charge-offs	(99)	(276)	(56)	–	–	(431)
Recoveries	3	1,714	–	–	–	1,717
Provision for loan losses	24	(1,466)	78	1	(1)	(1,364)
Balance at June 30, 2012	$ 1,136	$ 1,799	$ 153	$ 54	$ 8	$ 3,150
Loans individually evaluated for impairment	$ 73	$ 840	$ –	$ –	$ –	$ 913
Loans collectively evaluated for impairment	1,173	2,884	54	297	3	4,411
Balance at June 30, 2013	$ 1,246	$ 3,724	$ 54	$ 297	$ 3	$ 5,324
Loans individually evaluated for impairment	$ 73	$ 551	$ –	$ –	$ –	$ 624
Loans collectively evaluated for impairment	1,548	2,309	167	61	3	4,088
Balance at December 31, 2012	$ 1,621	$ 2,860	$ 167	$ 61	$ 3	$ 4,712
Recorded investment in loans outstanding:						
Loans individually evaluated for impairment	$ 3,282	$ 5,192	$ –	$ –	$ 99	$ 8,573
Loans collectively evaluated for impairment	142,363	177,835	6,965	770	1,199	329,132
Ending balance at June 30, 2013	$ 145,645	$ 183,027	$ 6,965	$ 770	$ 1,298	$ 337,705
Loans individually evaluated for impairment	$ 2,931	$ 4,057	$ –	$ –	$ 107	$ 7,095
Loans collectively evaluated for impairment	129,391	153,612	10,266	785	1,205	295,259
Ending balance at December 31, 2012	$ 132,322	$ 157,669	$ 10,266	$ 785	$ 1,312	$ 302,354

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information regarding TDRs as of the restructuring date that occurred during the periods presented. There were no TDRs that occurred during the three month periods ended June 30, 2013 or 2012 or during the six month period ended June 30, 2012.

	Six months ended June 30, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Production and intermediate-term	$ –	$ –	$ 371	$ 371
Total	$ –	$ –	$ 371	$ 371

	Six months ended June 30, 2013					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Production and intermediate-term	$ –	$ –	$ 371	$ 371	$ 287	$ –
Total	$ –	$ –	$ 371	$ 371	$ 287	$ –

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

The following table provides information at period end on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table:

	Total TDRs		Nonaccrual TDRs	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Real estate mortgage	$ 764	$ 734	$ –	$ 54
Production and intermediate-term	1,239	1,190	118	397
Total Loans	$ 2,003	$ 1,924	$ 118	$ 451

At June 30, 2013 and December 31, 2012, there were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings.

NOTE 4 – EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the Association:

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
Pension	$ 346	$ 329	$ 692	$ 657
401(k)	32	42	57	77
Other postretirement benefits	46	41	93	82
Total	$ 424	$ 412	$ 842	$ 816

The following is a table of retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 6/30/13	Projected Contributions For Remainder of 2013	Projected Total Contributions 2013
Pension	$ 26	$ 1,332	$ 1,358
Other postretirement benefits	96	106	202
Total	$ 122	$ 1,438	$ 1,560

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2013.

Further details regarding employee benefit plans are contained in the 2012 Annual Report to Shareholders.

NOTE 5 – SUBORDINATED DEBT

In September 2008, the Association issued $7,500 of fixed rate unsecured subordinated debt due in 2018, generating proceeds that were primarily used to increase the permanent capital of the Association pursuant to the Farm Credit Administration regulations, and for general corporate purposes. The debt is payable to another association in the AgFirst District. It is subordinate to all other categories of creditors, including any claims of the Bank and general creditors, and is senior to all classes of shareholders. The subordinated debt is not considered Farm Credit System (System) debt, and thus is not guaranteed by the System and not insured by the Farm Credit System Insurance Corporation.

The subordinated debt bears interest at an annual fixed rate of 9 percent, payable on the fifteenth day of each month, beginning on October 15, 2008. Interest will be deferred if, as of the fifth business day prior to an interest payment date of the debt, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than five

consecutive years or beyond the maturity date of the subordinated debt. During such a period, the Association may not declare or pay any dividends or patronage refunds, among other certain restrictions, until interest payments are resumed and all deferred interest has been paid. The subordinated debt may be redeemed, at the Association's option, on October 15, 2013, or upon the occurrence of certain defined regulatory events, at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided the Association has made payment in full of all amounts then due in respect of its senior indebtedness.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Since it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for these claims.

NOTE 7 – FAIR VALUE MEASUREMENT

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 3.69 percent of the issued stock of the Bank as of June 30, 2013 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.1 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $232 million for the first six months of 2013. In addition, the Association has an investment of $702 related to other Farm Credit institutions.

The classifications of the Association's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at June 30, 2013 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets or liabilities, measured at fair value on a recurring basis at June 30, 2013.

For certain investment securities, the fair value is determined by an independent third party by discounting the expected future cash flows using appropriate interest rates for similar assets.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk.

Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Level 3 assets include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent. 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. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

For other investments, which consist of Tobacco Buyout SIIC, fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.

Other property owned is classified as a level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

For subordinate debt payable to other Farm Credit institutions, fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar liabilities.

Movement from Level 2 to Level 3

Securities comprising the Mission Related Investment category are not generally traded in a secondary market and those that trade may not have readily available quoted prices. Therefore, the fair value of these instruments is estimated by calculating the present value of the future contractual cash flows using a risk adjusted discount rate. We estimate an appropriate yield adjustment based on the 14-point risk rating assigned to each bond. This input to the valuation methodology was determined to be Level 3.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. In tandem with the latest guidance on fair value measurement and disclosure, and movement to available for sale classification, $51.9 million of Mission Related Investments were transferred from Level 2 to Level 3 status effective March 31, 2012. The Association had no transfers of assets or liabilities into or out of Level 1, Level 2, or Level 3 during the first six months of 2013.

	Standby Letters Of Credit	Mission Related Investments
Balance at January 1, 2013	$ 12	$ 53,492
Total gains or (losses) realized/unrealized:		
Included in earnings	–	(292)
Included in other comprehensive income	–	(5,122)
Purchases	–	123
Sales	–	–
Issuances	–	–
Settlements	(5)	(2,286)
Transfers in and/or out of level 3	–	–
Balance at June 30, 2013	$ 7	$ 45,915

	Standby Letters Of Credit	Mission Related Investments
Balance at January 1, 2012	$ 18	$ –
Total gains or (losses) realized/unrealized:		
Included in earnings	–	–
Included in other comprehensive income	–	1,301
Purchases	–	188
Sales	–	–
Issuances	–	–
Settlements	(2)	(104)
Transfers in and/or out of level 3	–	51,885
Balance at June 30, 2012	$ 16	$ 53,270

Information about Sensitivity to Changes in Significant Unobservable Inputs

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

INVESTMENT SECURITIES

The fair values of predominantly all level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these level 3 assets.

OTHER PROPERTY OWNED/IMPAIRED LOANS

Other property owned and impaired loans are valued using appraisals, market comparable sales, replacement costs and income and expense (cash flow) techniques. Certain unobservable inputs are used within these techniques to determine the level 3 fair value of these properties. The significant unobservable inputs are primarily sensitive only to industry, geographic and overall economic conditions, and/or specific attributes of each property.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for certain System financial instruments. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 13,554	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*
Mission-related investments	$ 45,915	Discounted cash flow	Probability of default	0% - 16%
			Risk adjusted discount rate	0.01% - 99.61%

** Ranges for this type of input are not useful because each collateral property is unique.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment rates
		Probability of default
		Loss severity
		Annualized volatility
Other investments	Discounted cash flow	Probability of default
		Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment rates
		Probability of default
		Loss severity
		Annualized volatility
Subordinated debt payable to other Farm Credit institutions	Discounted cash flow	Probability of default
		Risk adjusted discount rate

The following table presents the carrying amounts and fair values of assets and liabilities that are measured at fair value on a recurring and nonrecurring basis, as well as, those financial instruments not measured at fair value, for each of the hierarchy levels at the period ended:

	At or for the Six Months Ended June 30, 2013					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 527	$ 527	$ –	$ –	$ 527	
Investment securities, available-for-sale	45,915	–	–	45,915	45,915	
Recurring Assets	$ 46,442	$ 527	$ –	$ 45,915	$ 46,442	
Liabilities:						
Standby letters of credit	$ 7	$ –	$ –	$ 7	$ 7	
Recurring Liabilities	$ 7	$ –	$ –	$ 7	$ 7	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 7,660	$ –	$ –	$ 7,660	$ 7,660	$ (345)
Other property owned	5,531	–	–	5,894	5,894	(319)
Nonrecurring Assets	$ 13,191	$ –	$ –	$ 13,554	$ 13,554	$ (664)
Other Financial Instruments						
Assets:						
Cash	$ 6	$ 6	$ –	$ –	$ 6	
Loans	321,048	–	–	319,653	319,653	
Other investments	22,715	–	–	23,258	23,258	
Other Assets	$ 343,769	$ 6	$ –	$ 342,911	$ 342,917	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 340,308	$ –	$ –	$ 337,752	$ 337,752	
Subordinated debt payable to other Farm Credit institutions	7,500	–	–	7,567	7,567	
Other Liabilities	$ 347,808	$ –	$ –	$ 345,319	$ 345,319	

	At or for the Year Ended December 31, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 488	$ 488	$ –	$ –	$ 488	$ –
Investment securities, available-for-sale	53,492	–	–	53,492	53,492	–
Recurring Assets	$ 53,980	$ 488	$ –	$ 53,492	$ 53,980	$ –
Liabilities:						
Standby letters of credit	$ 12	$ –	$ –	$ 12	$ 12	$ –
Recurring Liabilities	$ 12	$ –	$ –	$ 12	$ 12	$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 6,471	$ –	$ –	$ 6,471	$ 6,471	$ 1,374
Other property owned	7,441	–	–	7,951	7,951	(1,017)
Nonrecurring Assets	$ 13,912	$ –	$ –	$ 14,422	$ 14,422	$ 357
Other Financial Instruments						
Assets:						
Cash	$ 432	$ 432	$ –	$ –	$ 432	$ –
Loans	287,602	–	–	289,553	289,553	–
Other investments	45,553	–	–	46,510	46,510	–
Other Assets	$ 333,587	$ 432	$ –	$ 336,063	$ 336,495	$ –
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 342,261	$ –	$ –	$ 335,225	$ 335,225	$ –
Subordinated debt payable to other Farm Credit institutions	7,500	–	–	7,748	7,748	–
Other Liabilities	$ 349,761	$ –	$ –	$ 342,973	$ 342,973	$ –

NOTE 8 – ACCUMULATED OTHER COMPREHENSIVE INCOME

	Changes in Accumulated Other Comprehensive income by Component *(a)*		
	Unrealized gains (losses) on Investments	Employee Benefit Plans	Accumulated Other Comprehensive Income
Balance at March 31, 2013	$ 3,980	$ (217)	$ 3,763
Other comprehensive income before reclassifications	(3,546)	–	(3,546)
Amounts reclassified from AOCI	292	1	293
Net current period other comprehensive income	(3,254)	1	(3,253)
Balance at June 30, 2013	$ 726	$ (216)	$ 510
Balance at December 31, 2012	$ 5,848	$ (219)	$ 5,629
Other comprehensive income before reclassifications	(5,414)	–	(5,414)
Amounts reclassified from AOCI	292	3	295
Net current period other comprehensive income	(5,122)	3	(5,119)
Balance at June 30, 2013	$ 726	$ (216)	$ 510
Balance at March 31, 2012	$ 4,091	$ (167)	$ 3,924
Other comprehensive income before reclassifications	1,246	–	1,246
Amounts reclassified from AOCI	–	1	1
Net current period other comprehensive income	1,246	1	1,247
Balance at June 30, 2012	$ 5,337	$ (166)	$ 5,171
Balance at December 31, 2011	$ 6,542	$ (156)	$ 6,386
Other comprehensive income before reclassifications	(1,218)	(12)	(1,230)
Amounts reclassified from AOCI	13	2	15
Net current period other comprehensive income	(1,205)	(10)	(1,215)
Balance at June 30, 2012	$ 5,337	$ (166)	$ 5,171

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*				
(dollars in thousands)	For the three months ended		For the six months ended June 30,		
	2013	**2012**	**2013**	**2012**	**Income Statement Line Item**
Investment Securities:					
Sales gains & losses	$ –	$ –	$ –	$ –	Gains (losses) on investments, net
Holding gains & losses	(292)	–	(292)	(13)	Net other-than-temporary impairment
Net amounts reclassified	(292)	–	(292)	(13)	
Defined Benefit Pension Plans:					
Periodic pension costs	(1)	(1)	(3)	(2)	See footnote 4.
Net amounts reclassified	(1)	(1)	(3)	(2)	
Total reclassifications for period	$ (293)	$ (1)	$ (295)	$ (15)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits to profit/loss.

NOTE 9 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through August 7, 2013, which is the date the financial statements were issued.