
ArborOne, ACA


SECOND QUARTER 2011

TABLE OF CONTENTS

Report on Internal Control Over Financial Reporting2
Management’s Discussion and Analysis of
 Financial Condition and Results of Operations3
Consolidated Financial Statements
 Consolidated Balance Sheets7
 Consolidated Statements of Income8
 Consolidated Statements of Changes in Members’ Equity9
Notes to the Consolidated Financial Statements10

CERTIFICATION

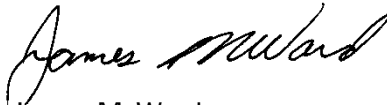
The undersigned certify that we have reviewed the June 30, 2011 quarterly report of **ArborOne, ACA**, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Jasper W. Shuler
Chief Executive Officer



Tammy G. Smith
Chief Financial Officer



James M. Ward
Chairman of the Board

August 8, 2011

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, 2011. 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, 2011, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2011.



Jasper W. Shuler
Chief Executive Officer



Tammy G. Smith
Chief Financial Officer

August 8, 2011

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**, (Association) for the period ended June 30, 2011. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2010 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

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, 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-six 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, 2011, was \$292,853, a decrease of \$15,317 as compared to \$308,170 at December 31, 2010. Net loans outstanding at June 30, 2011, were \$290,598 as compared to \$306,736 at December 31, 2010. During the six months ended June 30, 2011, the Association's sold participations to AgFirst Farm Credit Bank (the Bank) increased by \$38,774. As of June 30, 2011, the Association had \$123,475 of such participations outstanding. The Association has investment securities that are classified as available for sale in the amount of \$42,985 at June 30, 2011 compared to \$926 at December 31, 2010. The Association entered into commitments to acquire Successor-in-Interest Contracts (SIIC), beginning in the fourth quarter of 2005. As of June 30, 2011, the Association had \$64,596 in other investments for SIIC, compared to \$84,750 at December 31, 2010. Net loans and investments accounted for 92.16 percent of total assets at June 30, 2011, as

compared to 92.79 percent of total assets at December 31, 2010.

Net loans and investments decreased by \$47,281 during the reporting period. This was primarily due to the sale of six Rural America Bonds, an increase in participations sold loan volume, a decrease in participations purchased loan volume, and the annual payments on SIIC contracts, partially offset by the growth of core loans. The Association has tightened its lending policies as well as strengthened its capital position.

Investment securities available for sale increased by \$42,059 and investments held to maturity decreased by \$53,048. During the month of June, 2011, the Association sold certain mission related investments from its held-to-maturity portfolio in the amount of \$18,369 with a realized gain of \$607. This held-to-maturity portfolio consisted entirely of private placement securities purchased under the Rural America Bond Program approved by the Farm Credit Administration (FCA). The remaining securities in this portfolio were transferred to an available-for-sale classification pursuant to ASC Topic 320 in the amount of \$40,790. The sale of the six Rural America Bonds was partially offset by the addition of four new bonds for the period in the amount of \$5,660, as well as advances on an existing Rural America Bond. As of June 30, 2011, the Rural America Bonds reflected an unrealized gain in the amount of \$1,659. The increase in the available-for-sale portfolio was partially offset by the sale of one of the two remaining Non-Agency investment securities in the amount of \$438 with a realized loss of \$74. The one remaining Non-Agency investment security had an unrealized loss of \$252 as of June 30, 2011 compared to an unrealized loss of \$275 as of December 31, 2010. As of June 30, 2011 the Association's available-for-sale investments consist of the one remaining Non-Agency CMO and the previously held-to-maturity mission related investments. The other investments for SIIC decreased by \$20,154 which was due to the annual payments on the contracts and partially offset by purchasing additional contracts. The Association continues to review and engage in investments in Rural America and participation opportunities, while serving customers within the territory.

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 decreased from \$17,087 at December 31, 2010, to \$15,437 at June 30, 2011. This was mainly due to the liquidation of several participation nonaccrual loans, the transfer of participation and core loans

to Other Property Owned (OPO), and taking chargeoffs during the period. These decreases were partially offset by both large participation accounts and core agricultural loans moving to a nonaccrual status.

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, 2011, was \$2,255, compared to \$1,434 at December 31, 2010. The \$2,255 allowance for loan losses consisted of \$1,308 in general reserves and \$947 in specific reserves for three participation loans. There were recoveries of \$18 for the six months ended June 30, 2011. The chargeoffs for the period ended June 30, 2011 were \$2,305 of which five were participation loans and two were core agricultural loans. The allowance for loan losses for the period ending June 30, 2011 is considered by management to be adequate to cover any future possible losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2011

Net income for the three months ended June 30, 2011, totaled \$1,832, as compared to \$1,722 for the same period in 2010. Net interest income before provision for loan loss increased \$293, for the three months ended June 30, 2011, as compared to the same period in 2010. Interest expense decreased by \$189.

Interest income on accruing loans decreased by \$10 for the three months ended June 30, 2011 compared to \$3,618 for the three months ended June 30, 2010. Nonaccrual interest income was \$82 compared to \$2 for the three months ended June 30, 2010. Interest income on investment securities was \$891 compared to \$599 for the same period in 2010. Interest income on other investments (SIIC) was \$744 for the three months ended June 30, 2011, and \$1,032 for the same period in 2010. The increase in interest income is primarily due to the increase in loan and bond volume while partially offset by a decrease in SIIC volume and an increase in the Capitalized Participation Pool (CPP) with the Bank.

Interest expense decreased \$189 for the three months ended June 30, 2011, as compared to the comparable period of 2010. The interest expense decrease was primarily due to a reduction in notes payable to the Bank coupled with a decrease in rates. The Association recorded a provision for loan losses of \$1,172 for the quarter compared to \$544 for the comparable period of 2010. This was mainly a result of chargeoffs during the quarter of \$1,912.

Noninterest income for the three months ended June 30, 2011, totaled \$3,024 as compared to \$2,551 for the same period of 2010, an increase of \$473. The increase is mainly

due to a net gain on the sale of investment securities of \$532, an increase in patronage of \$139, and loan fees of \$29.

Noninterest expense for the three months ended June 30, 2011, increased \$31 compared to the same period of 2010. Increases in salaries and employee benefits and the insurance fund premium were primarily offset by a decrease in occupancy and equipment. The Association did not record a provision for income taxes for the three months ended June 30, 2011.

For the six months ended June 30, 2011

Net income for the six months ended June 30, 2011, totaled \$1,770, as compared to \$4,146 for the same period in 2010. This was mainly due to the increase in provisions taken during the year. Net interest income increased \$446 or 13.32 percent compared to June 30, 2010. Interest income on loans and other investments (SIIC) decreased by \$436 and investment securities increased by \$524. Interest expense decreased by \$358 to the same period of 2010. This change in net interest income is a result of loan volume growth offset by the paydown in other investments volume, an increase in CPPs, as well as lower interest rates.

Nonaccrual income was \$82 for the six months ended June 30, 2011, as compared to \$132 for the same period in 2010. The Association recorded a provision for loan loss of \$3,108 for the six months ended June 30, 2011, as compared to \$36 for the same period in 2010. This was primarily due to the timing of chargeoffs during the first six months, while prior year chargeoffs were mainly taken during the last two quarters.

Noninterest income for the six months ended June 30, 2011, totaled \$5,154 as compared to \$4,808 for the same period of 2010, an increase of \$346. The increase is primarily due to an increase in the net gain on sale of investments of \$617, an increase in the net gain on sale of other property owned of \$137, and an increase in loan fees of \$102. This increase was partially offset by a nonrecurring payment received in 2010 of \$380 which represented insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC) and a decrease in fees for financially related services of \$45.

Noninterest expense for the six months ended June 30, 2011, increased \$99 compared to the same period of 2010. This increase is attributable to an increase in salaries and employee benefits of \$263 and the insurance fund premium of \$17. This increase in noninterest expense was offset by a decrease in occupancy and equipment of \$159 and other operating expenses of \$22. The Association did not record a provision for income taxes for the six months ended June 30, 2011, compared to \$3 in the same period in 2010.

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, 2011, was \$356,050 as compared to \$402,448 at December 31, 2010. The decrease during the period is primarily attributable to a decrease in SIIC volume, a decrease in participations purchased volume, and an increase 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, 2011, increased to \$61,938 from the December 31, 2010, total of \$58,384. The increase is primarily attributable to the increase in other comprehensive income, as well as an increase in capital stock and retained earnings.

Total capital stock and participation certificates were \$1,195 on June 30, 2011, compared to \$1,154 on December 31, 2010. This is attributed to an increase in Class C capital stock partially offset by a decrease in 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 OCI gain of \$35 as of June 30, 2011, as compared to \$44 in 2010 for FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Association also has an

unrealized OCI gain of \$1,408 as of June 30, 2011 as compared to an unrealized loss of \$366 as of December 31, 2010 on investments available for sale. This was mainly due to the transfer of Rural America Bonds from held-to-maturity to available-for-sale.

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, 2011, the Association's total surplus ratio and core surplus ratio were 17.11 percent and 14.75 percent, respectively, and the permanent capital ratio was 17.55 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 2010 Annual Report to Shareholders for recently issued accounting pronouncements.

REGULATORY MATTERS

On July 8, 2010, the Farm Credit Administration issued an advance notice of proposed rulemaking (ANPRM) to gather public comments on the promulgation of Tier 1 and Tier 2 capital standards for Farm Credit System institutions. The Tier 1/Tier 2 capital standards would be similar to the capital tiers delineated in the Basel Accord that other Federal financial regulatory agencies have adopted for the banking organizations they regulate. The Farm Credit Administration sought comments to facilitate the development of this regulatory capital framework, this includes new minimum risk-based and leverage ratio capital requirements that take into consideration both the System's cooperative structure of primarily wholesale banks owned by retail lender Associations that are, in turn, owned by their member borrowers, and the System's status as a GSE. The comment period for the ANPRM originally ended November 5, 2010 but it was extended through May 4, 2011.

Financial Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law on July 21, 2010. While the Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, many of the rules and regulations are not applicable to the System. It requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and

reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

The Dodd-Frank Act creates new regulators and expands the authority of the Federal Reserve Board over non-bank financial companies previously not subject to its or other bank regulators' direct jurisdiction, particularly those that are important to the U.S. financial system. Nevertheless, the Dodd-Frank Act largely preserves the authority of the Farm Credit Administration as the System's independent federal regulator by excluding System institutions from being considered a non-bank financial company and providing other exemptions and exclusions from certain of the law's provisions. Also, the rules prohibiting banking entities from engaging in proprietary trading under the Volcker Rule will not apply to the debt securities issued by the System. The provisions of the Dodd-Frank Act pertaining to the regulation of derivatives transactions will require more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges and margin or cash collateral will be required for these transactions. Also, derivative transactions that will not be subject to mandatory trading and clearing requirements may also be subject to minimum margin and capital requirements. The Dodd-Frank Act requires the Commodity Futures Trading Commission (CFTC) to consider whether to exempt System institutions from these new requirements. These requirements, whether or not System institutions are directly exempt from them, have the potential of making derivative transactions more costly and less attractive as risk management tools for System institutions. This may impact the System's funding strategies.

The Dodd-Frank Act will also require certain financial institutions to register as swap dealers or major swap participants, as applicable, with the CFTC and/or the Securities and Exchange Commission. Based on the proposed rules, it is possible that certain System institutions could be required to register with the CFTC as swap dealers based on swaps entered into between System institutions or between System institutions and their borrowers, which would subject these System institutions to considerable additional regulation and cost. In addition, the counterparties with which System institutions enter into derivative transactions for hedging and risk mitigation purposes will most likely be designated as swap dealers and, as a result, be subject to additional regulatory requirements.

As required by the Dodd-Frank Act, the U.S. Treasury and the U.S. Department of Housing and Urban Development issued in February 2011 their report to Congress entitled "Reforming America's Housing Finance Market". This report sets forth recommendations related to the future of the housing GSEs,

including Fannie Mae and Freddie Mac. While this report did not specifically include or relate to the Farm Credit System, a potential risk exists that the System, as a GSE, may directly or indirectly be impacted by the decisions made as Congress addresses Fannie Mae, Freddie Mac and federal home loan finance.

In light of the foregoing, it is difficult to predict at this time the extent of the impact which the Dodd-Frank Act or the forthcoming implementing rules and regulations will have on the System. However, it is possible they could affect funding strategies and increase funding costs.

NOTE: Shareholder investment in the Association could be 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

<i>(dollars in thousands)</i>	June 30, 2011 <i>(unaudited)</i>	December 31, 2010 <i>(audited)</i>
Assets		
Cash	\$ 2	\$ 469
Investment securities (Note 2):		
Available for sale (amortized cost of \$41,578 and \$1,291 respectively)	42,985	926
Held to maturity (fair value of \$0 and \$54,136 respectively)	—	53,048
Total investment securities	42,985	53,974
Loans	292,853	308,170
Less: allowance for loan losses	2,255	1,434
Net loans	290,598	306,736
Other investments	64,596	84,750
Accrued interest receivable	3,521	3,754
Investments in other Farm Credit institutions	17,101	13,926
Premises and equipment, net	4,212	4,376
Other property owned	2,775	1,081
Due from AgFirst Farm Credit Bank	3,277	7,212
Other assets	2,988	3,770
Total assets	\$ 432,055	\$ 480,048
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 356,050	\$ 402,448
Subordinated debt payable to other Farm Credit institutions (Note 5)	7,500	7,500
Accrued interest payable	1,127	1,235
Patronage refund payable	283	1,406
Other liabilities	5,157	9,075
Total liabilities	370,117	421,664
Commitments and contingencies		
Members' Equity		
Protected borrower stock	162	190
Capital stock and participation certificates	1,195	1,154
Retained earnings		
Allocated	33,667	33,309
Unallocated	25,471	24,053
Accumulated other comprehensive income (loss)	1,443	(322)
Total members' equity	61,938	58,384
Total liabilities and members' equity	\$ 432,055	\$ 480,048

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

ArborOne, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Interest Income				
Investment securities	\$ 891	\$ 599	\$ 1,772	\$ 1,248
Loans	3,690	3,620	7,234	7,140
Other investments	774	1,032	1,564	2,094
Total interest income	5,355	5,251	10,570	10,482
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	3,215	3,404	6,438	6,796
Subordinated debt payable to other Farm Credit institutions (Note 5)	169	169	338	338
Total interest expense	3,384	3,573	6,776	7,134
Net interest income	1,971	1,678	3,794	3,348
Provision for loan losses	1,172	544	3,108	36
Net interest income after provision for loan losses	799	1,134	686	3,312
Noninterest Income				
Loan fees	353	323	769	667
Fees for financially related services	10	219	190	235
Equity in earnings of other Farm Credit institutions	2,117	1,978	3,589	3,601
Gains (losses) on other property owned, net	(6)	(7)	45	(92)
Gains (losses) on sales of investment securities, net	532	—	532	(85)
Insurance Fund refunds	—	—	—	380
Other noninterest income	18	38	29	102
Total noninterest income	3,024	2,551	5,154	4,808
Noninterest Expense				
Salaries and employee benefits	1,454	1,357	2,943	2,680
Occupancy and equipment	152	228	307	466
Insurance Fund premium	37	4	75	58
Other operating expenses	348	371	745	767
Total noninterest expense	1,991	1,960	4,070	3,971
Income before income taxes	1,832	1,725	1,770	4,149
Provision for income taxes	—	3	—	3
Net income	\$ 1,832	\$ 1,722	\$ 1,770	\$ 4,146

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

ArborOne, ACA
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

<i>(dollars in thousands)</i>	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2009	\$ 324	\$ 1,146	\$ 32,406	\$ 20,844	\$ (783)	\$ 53,937
Comprehensive income						
Net income				4,146		4,146
Unrealized gains (losses) on investments available for sale						
Other-than-temporarily impaired (Note 2)					42	
Not other-than-temporarily impaired (Note 2)					307	
Total unrealized gains (losses) on investments available for sale						349
Employee benefit plans adjustments					32	32
Total comprehensive income						4,527
Protected borrower equity retired	(36)					(36)
Capital stock/participation certificates issued/(retired), net		1				1
Patronage distribution adjustment			(65)	93		28
Balance at June 30, 2010	\$ 288	\$ 1,147	\$ 32,341	\$ 25,083	\$ (402)	\$ 58,457
Balance at December 31, 2010	\$ 190	\$ 1,154	\$ 33,309	\$ 24,053	\$ (322)	\$ 58,384
Comprehensive income						
Net income				1,770		1,770
Unrealized gains (losses) on investments available for sale						
Other-than-temporarily impaired (Note 2)					24	
Not other-than-temporarily impaired (Note 2)					1,749	
Total unrealized gains (losses) on investments available for sale						1,773
Employee benefit plans adjustments					(8)	(8)
Total comprehensive income						3,535
Protected borrower equity retired	(28)					(28)
Capital stock/participation certificates issued/(retired), net		41				41
Patronage distribution adjustment			358	(352)		6
Balance at June 30, 2011	\$ 162	\$ 1,195	\$ 33,667	\$ 25,471	\$ 1,443	\$ 61,938

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, 2010, are contained in the 2010 Annual Report to Shareholders. These unaudited second quarter 2011 consolidated financial statements should be read in conjunction with the 2010 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, 2011, are not necessarily indicative of the results to be expected for the year ending December 31, 2011.

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, 2011 the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

In April 2011, the FASB issued guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for the first interim or annual period beginning on or after December 15, 2012, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment of those receivables, an entity should apply the guidance prospectively for the first interim or annual period beginning on or after December 15, 2012. The impact of adoption of this guidance, if any, is expected to be immaterial to the Association's financial condition and results of operations, but it will result in additional disclosures.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures were amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This includes a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disclosed on the basis of the method of impairment (individually or collectively evaluated).

The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period were effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in significant additional disclosures (see Note 3).

Effective January 1, 2010, the Association adopted FASB guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 6).

Other recently issued accounting pronouncements are discussed in the 2010 Annual Report to Shareholders.

NOTE 2 – INVESTMENT SECURITIES

A summary of the amortized cost and fair value of investment securities held as available-for-sale at June 30, 2011 and December 31, 2010 follows:

	June 30, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission Related Investments	40,790	2,019	(360)	42,449	6.26
Commercial MBS (a)	\$ 788	\$ -	\$ (252)	\$ 536	4.87%
Total	\$ 41,578	\$ 2,019	\$ (612)	\$ 42,985	6.23%

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Commercial MBS (b)	\$ 1,291	\$ -	\$ (365)	\$ 926	6.96%

(a) Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of \$252 for Commercial MBS

(b) Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of \$275 for Commercial MBS.

At June 30, 2011 the Association had no investment securities held-to-maturity. A summary of the amortized cost and fair value of investment securities held-to-maturity at December 31, 2010 follows:

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission Related Investments	\$ 53,048	\$ 1,652	\$ (564)	\$ 54,136	6.23%

During the month of June, 2011, the Association sold certain securities from its Held to Maturity portfolio. The remaining securities in this portfolio were transferred to an Available for Sale classification pursuant to ASC Topic 320. The following table summarizes these transactions:

HTM Investments Sold or Reclassified to AFS	Net Carrying Amount	Realized Gains/(Losses)	Unrealized Gains/(Losses) Recognized in OCI
Sold	18,369	607	-
Reclassified to AFS	40,790	-	1,659

The investments previously classified as held-to-maturity are mission related investments, which consist of private placement securities purchased under the Rural America Bond Program approved by the Farm Credit Administration (FCA). The sale of a portion of these securities allowed the Association to better manage liquidity and long term objectives and goals.

A summary of the expected maturity, amortized cost and estimated fair value of investment securities at June 30, 2011 follows:

	June 30, 2011		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-%
After one year through five years	2,035	2,041	4.00
After five years through ten years	1,506	1,612	6.95
After ten years	38,037	39,332	6.32
Total	\$ 41,578	\$ 42,985	6.23%

Expected maturities for collateralized mortgage obligations will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

During March 2010, the Association sold six mortgage-backed securities (MBSs) and six asset backed securities (ABSs) in the amount of \$18,866 with a realized loss of \$85. During April of 2011, the Association sold one of the remaining two Non-Agency MBSs in the amount of \$438 with a realized loss of \$74. Based on market conditions and on the advice of the Association's market traders, this investment was deemed to have reached a minimum loss. As of June 30, 2011, the Association's available-for-sale portfolio consists of the one remaining Non-Agency MBS and the previously held-to-maturity mission related investments.

MBSs are held for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. These securities must meet the applicable FCA regulatory guidelines, which require these securities to be high quality, senior class, and rated AAA at the time of purchase. To

achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through over collateralization and the priority of payments of senior classes over junior classes. The FCA considers an MBS investment ineligible if it falls below the AAA credit rating criteria and requires System institutions to divest of such an investment unless approval is granted by the FCA to continue to hold. The one remaining Non-Agency MBS in the Association's portfolio at June 30, 2011 is rated below AAA (total fair value of \$537 and amortized cost of \$788). The Association has received approval, with conditions, from the FCA to hold the security until maturity.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The following tables show the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at June 30, 2011 and December 31, 2010:

	June 30, 2011			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission Related Investments	10,263	(360)	-	-
Commercial MBS	\$ -	\$ -	\$ 536	\$ (252)
Total	\$ 10,263	\$ (360)	\$ 536	\$ (252)

	December 31, 2010			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission Related Investments	\$ 22,120	\$ (564)	\$ -	\$ -
Commercial MBS	-	-	926	(365)
Total	\$ 22,120	\$ (564)	\$ 926	\$ (365)

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 not recognized any other-than-temporary impairment during 2011 or 2010 as the unrealized losses resulted from non-credit related factors. The Association has the ability and intent to hold all 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 Association does not intend to sell these investments and it is not more likely than not that the Association would be required to sell these investments before recovering its costs. All securities continue to perform.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings as of June 30, 2011 and 2010. The Association initially recognized other-than-temporary impairment and related credit loss during the fourth quarter of 2009. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

	For the six months ended June 30,	
	2011	2010
Beginning balance at January 1	\$ 286	\$ 286
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	-	-
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	-	-
Ending balance at June 30	\$ 286	\$ 286

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans outstanding as of June 30, 2011 and December 31, 2010, follows:

	June 30, 2011	December 31, 2010
Real estate mortgage	\$ 113,461	\$ 122,955
Production and intermediate-term Agribusiness	148,796	140,336
Loans to cooperatives	5,152	6,021
Processing and marketing	15,704	24,861
Farm-related business	6,316	10,222
Total agribusiness	27,172	41,104
Energy	-	-
Water and waste disposal	754	755
Rural residential real estate	2,670	3,020
Total Loans	\$ 292,853	\$ 308,170

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. The following tables present participations purchased and sold balances at June 30, 2011 and December 31, 2010:

June 30, 2011

	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	\$ 22,881	\$ 68,158	\$ 15,673	\$ 3,658	\$ 2,832	\$ -	\$ 41,386	\$ 71,816
Production and intermediate-term Agribusiness	47,312	82,023	12,744	5,605	9,204	-	69,260	87,628
Loans to cooperatives	5,152	-	-	-	-	-	5,152	-
Processing and marketing	8,780	6,302	1,377	-	8,012	-	18,169	6,302
Farm-related business	478	864	-	-	203	-	681	864
Total agribusiness	14,410	7,166	1,377	-	8,215	-	24,002	7,166
Total	\$ 84,603	\$ 157,347	\$ 29,794	\$ 9,263	\$ 20,251	\$ -	\$ 134,648	\$ 166,610

December 31, 2010

	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	\$ 29,141	\$ 50,921	\$ 15,975	\$ 3,746	\$ 3,290	\$ -	\$ 48,406	\$ 54,667
Production and intermediate-term Agribusiness	45,270	66,803	12,771	6,121	15,041	-	73,082	72,924
Loans to cooperatives	6,011	-	-	-	-	-	6,011	-
Processing and marketing	15,554	6,989	1,492	-	8,889	-	25,935	6,989
Farm-related business	2,141	1,087	-	-	203	-	2,344	1,087
Total agribusiness	23,706	8,076	1,492	-	9,092	-	34,290	8,076
Total	\$ 98,117	\$ 125,800	\$ 30,238	\$ 9,867	\$ 27,423	\$ -	\$ 155,778	\$ 135,667

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, 2011 and indicates that approximately 36.25 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	\$ 22,993	\$ 27,627	\$ 62,841	\$ 113,461
Production and intermediate-term Agribusiness	67,390	51,455	29,951	148,796
Loans to cooperatives	943	4,209	-	5,152
Processing and marketing	9,855	1,749	4,100	15,704
Farm-related business	4,196	999	1,121	6,316
Total agribusiness	14,994	6,957	5,221	27,172
Water and waste disposal	754	-	-	754
Rural residential real estate	16	390	2,264	2,670
Total Loans	\$ 106,147	\$ 86,429	\$ 100,277	\$ 292,853

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 as of June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010		June 30, 2011	December 31, 2010
Real estate mortgage:			Total agribusiness:		
Acceptable	88.68%	85.17%	Acceptable	86.77%	76.85%
OAEM	3.89	4.41	OAEM	3.83	12.39
Substandard/doubtful/loss	7.43	10.42	Substandard/doubtful/loss	9.40	10.76
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Energy and water/waste disposal:		
Acceptable	90.69%	91.66%	Acceptable	100.00%	100.00%
OAEM	3.17	5.33	OAEM	-	-
Substandard/doubtful/loss	6.14	3.01	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Agribusiness:			Rural residential real estate:		
Loans to cooperatives:			Acceptable	99.00%	92.48%
Acceptable	100.00%	100.00%	OAEM	0.09	6.58
OAEM	-	-	Substandard/doubtful/loss	0.91	0.94
Substandard/doubtful/loss	-	-		<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>	Total Loans:		
Processing and marketing:			Acceptable	89.65%	87.14%
Acceptable	77.76%	71.95%	OAEM	3.47	5.90
OAEM	6.64	20.51	Substandard/doubtful/loss	6.88	6.96
Substandard/doubtful/loss	15.60	7.54		<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>			
Farm-related business:					
Acceptable	98.31%	75.12%			
OAEM	-	-			
Substandard/doubtful/loss	1.69	24.88			
	<u>100.00%</u>	<u>100.00%</u>			

The following table provides an age analysis of past due loans and related accrued interest as of June 30, 2011 and December 31, 2010:

	June 30, 2011					
	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	\$ 997	\$ 5,493	\$ 6,490	\$ 108,226	\$ 114,716	\$ -
Production and intermediate-term	1,326	6,176	7,502	142,959	150,461	-
Agribusiness						
Loans to cooperatives	-	-	-	5,178	5,178	-
Processing and marketing	-	764	764	14,983	15,747	-
Farm-related business	-	-	-	6,351	6,351	-
Total agribusiness	-	764	764	26,512	27,276	-
Energy and water/waste disposal	-	-	-	770	770	-
Rural residential real estate	74	-	74	2,613	2,687	-
Total	\$ 2,397	\$ 12,433	\$ 14,830	\$ 281,080	\$ 295,910	\$ -

December 31, 2010

	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	\$ 2,317	\$ 8,879	\$ 11,196	\$ 112,963	\$ 124,159	\$ -
Production and intermediate-term Agribusiness	2,364	3,908	6,272	135,793	142,065	-
Loans to cooperatives	-	-	-	6,047	6,047	-
Processing and marketing	-	-	-	24,925	24,925	-
Farm-related business	-	17	17	10,266	10,283	-
Total agribusiness	-	17	17	41,238	41,255	-
Energy and water/waste disposal	-	-	-	759	759	-
Rural residential real estate	-	-	-	3,034	3,034	-
Total	<u>\$ 4,681</u>	<u>\$ 12,804</u>	<u>\$ 17,485</u>	<u>\$ 293,787</u>	<u>\$ 311,272</u>	<u>\$ -</u>

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 June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011	December 31 2010
Nonaccrual loans:		
Real estate mortgage	\$ 7,100	\$ 11,232
Production and intermediate-term Agribusiness	7,441	4,189
Processing and marketing	764	1,620
Farm-related business	107	17
Total agribusiness	871	1,637
Rural residential real estate	25	29
Total nonaccrual loans	<u>\$ 15,437</u>	<u>\$ 17,087</u>
Accruing restructured loans:		
Real estate mortgage	\$ 1,942	\$ 1,003
Production and intermediate-term Agribusiness	951	981
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	-	-
Rural residential real estate	-	-
Total accruing restructured loans	<u>\$ 2,893</u>	<u>\$ 1,984</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ -	\$ -
Production and intermediate-term Agribusiness	-	-
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	-	-
Rural residential real estate	-	-
Total accruing loans 90 days or more past due	<u>\$ -</u>	<u>\$ -</u>
Total nonperforming loans	\$ 18,330	\$ 19,071
Other property owned	2,775	1,081
Total nonperforming assets	<u>\$ 21,105</u>	<u>\$ 20,152</u>
Nonaccrual loans as a percentage of total loans	5.27%	5.54%
Nonperforming assets as a percentage of total loans and other property owned	7.14%	6.52%
Nonperforming assets as a percentage of capital	<u>34.07%</u>	<u>34.52%</u>

The following table presents information relating to impaired loans (including accrued interest) at June 30, 2011 and December 31, 2010. 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, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 2,009	\$ 2,222
Past due	13,428	14,865
Total impaired nonaccrual loans	<u>15,437</u>	<u>17,087</u>
Impaired accrual loans:		
Restructured	2,893	1,984
90 days or more past due	-	-
Total impaired accrual loans	<u>2,893</u>	<u>1,984</u>
Total impaired loans	<u>\$ 18,330</u>	<u>\$ 19,071</u>

Additional impaired loan information as of June 30, 2011 and December 31, 2010 is as follows:

	June 30, 2011			Quarter Ended June 30, 2011		Six Months Ended June 30, 2011	
	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	\$ 1,391	\$ 2,573	\$ 97	\$ 1,819	\$ 10	\$ 1,697	\$ 12
Production and intermediate-term Agribusiness	3,589	3,374	850	4,692	25	4,378	31
Processing and marketing	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-
Total agribusiness	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-
Total	<u>\$ 4,980</u>	<u>\$ 5,947</u>	<u>\$ 947</u>	<u>\$ 6,511</u>	<u>\$ 35</u>	<u>\$ 6,075</u>	<u>\$ 43</u>
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 7,651	\$ 8,653	-	\$ 10,003	\$ 53	\$ 9,333	\$ 65
Production and intermediate-term Agribusiness	4,803	5,389	-	6,281	34	5,861	41
Processing and marketing	764	1,383	-	999	5	932	7
Farm-related business	107	154	-	140	1	131	1
Total agribusiness	871	1,537	-	1,139	6	1,063	8
Rural residential real estate	25	61	-	32	-	30	-
Total	<u>\$ 13,350</u>	<u>\$ 15,640</u>	<u>\$ -</u>	<u>\$ 17,455</u>	<u>\$ 93</u>	<u>\$ 16,287</u>	<u>\$ 114</u>
Total impaired loans:							
Real estate mortgage	\$ 9,042	\$ 11,226	\$ 97	\$ 11,822	\$ 63	\$ 11,030	\$ 77
Production and intermediate-term Agribusiness	8,392	8,763	850	10,973	59	10,239	72
Processing and marketing	764	1,383	-	999	5	932	7
Farm-related business	107	154	-	140	1	131	1
Total agribusiness	871	1,537	-	1,139	6	1,063	8
Rural residential real estate	25	61	-	32	-	30	-
Total	<u>\$ 18,330</u>	<u>\$ 21,587</u>	<u>\$ 947</u>	<u>\$ 23,966</u>	<u>\$ 128</u>	<u>\$ 22,362</u>	<u>\$ 157</u>

	December 31, 2010			Year Ended December 31, 2010	
	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	\$ 2,154	\$ 3,335	\$ 122	\$ 1,969	\$ 21
Production and intermediate-term Agribusiness	1,337	1,178	8	1,223	13
Processing and marketing Farm-related business	1,620	1,736	33	1,481	16
Total agribusiness	1,620	1,736	33	1,481	16
Rural residential real estate	-	-	-	-	-
Total	\$ 5,111	\$ 6,249	\$ 163	\$ 4,673	\$ 50
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 10,081	\$ 10,571	\$ -	\$ 9,216	\$ 96
Production and intermediate-term Agribusiness	3,833	4,695	-	3,504	36
Processing and marketing Farm-related business	-	-	-	-	-
Total agribusiness	17	41	-	16	-
Rural residential real estate	29	67	-	26	-
Total	\$ 13,960	\$ 15,374	\$ -	\$ 12,762	\$ 132
Total impaired loans:					
Real estate mortgage	\$ 12,235	\$ 13,906	\$ 122	\$ 11,185	\$ 117
Production and intermediate-term Agribusiness	5,170	5,873	8	4,727	49
Processing and marketing Farm-related business	1,620	1,736	33	1,481	16
Total agribusiness	1,637	1,777	33	1,497	16
Rural residential real estate	29	67	-	26	-
Total	\$ 19,071	\$ 21,623	\$ 163	\$ 17,435	\$ 182

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 June 30, 2011 and December 31, 2010.

A summary of changes in the allowance for loan losses and period end recorded investment in loans as of June 30, 2011 and December 31, 2010 is as follows:

June 30, 2011						
	Real Estate Mortgage	Production and Intermediate-term Agribusiness	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total	
Allowance for credit losses:						
Balance at December 31, 2010	\$ 522	\$ 574	\$ 278	\$ 40	\$ 20	\$ 1,434
Charge-offs	(715)	(421)	(1,169)	-	-	(2,305)
Recoveries	10	8	-	-	-	18
Provision for loan losses	606	1,461	1,045	-	(4)	3,108
Balance at June 30, 2011	\$ 423	\$ 1,622	\$ 154	\$ 40	\$ 16	\$ 2,255
June 30, 2011 allowance ending balance:						
Loans individually evaluated for impairment	\$ 97	\$ 850	\$ -	\$ -	\$ -	\$ 947
Loans collectively evaluated for impairment	\$ 326	\$ 772	\$ 154	\$ 40	\$ 16	\$ 1,308
Recorded investment in loans outstanding:						
Ending Balance at June 30,	\$ 114,716	\$ 150,461	\$ 27,276	\$ 770	\$ 2,687	\$ 295,910
June 30, 2011 recorded investment ending balance:						
Loans individually evaluated for impairment	\$ 9,042	\$ 8,392	\$ 871	\$ -	\$ 25	\$ 18,330
Loans collectively evaluated for impairment	\$ 105,674	\$ 142,069	\$ 26,405	\$ 770	\$ 2,662	\$ 277,580

December 31, 2010

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:						
Balance at December 31, 2009	\$ 416	\$ 353	\$ 341	\$ 39	\$ 21	\$ 1,170
Charge-offs	(1,283)	(259)	-	-	-	(1,542)
Recoveries	14	60	515	-	-	589
Provision for loan losses	1,375	420	(578)	1	(1)	1,217
Balance at December 31, 2010	<u>\$ 522</u>	<u>\$ 574</u>	<u>\$ 278</u>	<u>\$ 40</u>	<u>\$ 20</u>	<u>\$ 1,434</u>

December 31, 2010 allowance ending balance:

Loans individually evaluated for impairment	\$ 122	\$ 8	\$ 33	\$ -	\$ -	\$ 163
Loans collectively evaluated for impairment	<u>\$ 400</u>	<u>\$ 566</u>	<u>\$ 245</u>	<u>\$ 40</u>	<u>\$ 20</u>	<u>\$ 1,271</u>

Recorded investment in loans outstanding:

Ending Balance at December 31, 2010	<u>\$ 124,159</u>	<u>\$ 142,065</u>	<u>\$ 41,255</u>	<u>\$ 759</u>	<u>\$ 3,034</u>	<u>\$ 311,272</u>
December 31, 2010 recorded investment ending balance:						
Loans individually evaluated for impairment	<u>\$ 13,709</u>	<u>\$ 5,188</u>	<u>\$ 4,437</u>	<u>\$ -</u>	<u>\$ 29</u>	<u>\$ 23,363</u>
Loans collectively evaluated for impairment	<u>\$ 110,450</u>	<u>\$ 136,877</u>	<u>\$ 36,818</u>	<u>\$ 759</u>	<u>\$ 3,005</u>	<u>\$ 287,909</u>

NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	2011	2010
Pension	\$ 639	\$ 652
401(k)	73	62
Other postretirement benefits	115	94
Total	<u>\$ 827</u>	<u>\$ 808</u>

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

	Actual YTD Through 6/30/11	Projected Contributions For Remainder of 2011	Projected Total Contributions 2011
Pension	\$ -	\$ 1,014	\$ 1,014
Other postretirement benefits	95	124	219
Total	<u>\$ 95</u>	<u>\$ 1,138</u>	<u>\$ 1,233</u>

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, 2011.

Further details regarding employee benefit plans are contained in the 2010 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 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of investments available-for-sale, assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

This guidance defines fair value 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.

This 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.

The three levels of inputs and the classification 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, 2011 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.

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 Level 2 assets, but no Level 2 liabilities, measured at fair value on a recurring basis. Level 2 assets include available-for-sale investment securities that are traded in active, non-exchange markets and in markets that are not active. These securities are Non-Agency mortgage-backed securities and private placement corporate bonds, which have unadjusted values from third-party or internal pricing models. The fair value of the Association's MBS investments is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying mortgage-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. The fair value of the Association's private placement bonds is determined by an internal pricing model which incorporates inputs that are typically observable in the marketplace. The model generates cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. All such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

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.

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 loans. 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. As a result, these fair value measurements

fall within Level 3 of the hierarchy. 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 is classified as a Level 3 asset at June 30, 2011. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at June 30, 2011 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at June 30, 2011 and December 31, 2010 for each of the fair value hierarchy levels:

	June 30, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale	\$ -	\$ 42,985	\$ -	\$ 42,985
Assets held in trust funds	4	-	-	4
Total Assets	\$ 4	\$ 42,985	\$ -	\$ 42,989
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 32	\$ 32
Total Liabilities	\$ -	\$ -	\$ 32	\$ 32

	December 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale	\$ -	\$ 926	\$ -	\$ 926
Assets held in trust funds	4	-	-	4
Total Assets	\$ 4	\$ 926	\$ -	\$ 930
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 27	\$ 27
Total Liabilities	\$ -	\$ -	\$ 27	\$ 27

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2011 and 2010. The Association had no transfers of assets or liabilities into or out of Level 1 during the first six months of 2011 and 2010. However, the Association did transfer \$40,790 in corporate bonds from nonrecurring into Level 2 recurring (see Note 2).

	Standby Letters Of Credit
Balance at January 1, 2011	\$ 27
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases	-
Sales	-
Issuances	5
Settlements	-
Transfers in and/or out of level 3	-
Balance at June 30, 2011	\$ 32

	Standby Letters Of Credit
Balance at January 1, 2010	\$ 50
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(19)
Transfers in and/or out of level 3	-
Balance at June 30, 2010	\$ 31

Assets and Liabilities Measured at Fair-Value on a Non-recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis during the period at June 30, 2011 and December 31, 2010 for each of the fair value hierarchy values are summarized below.

	June 30, 2011				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 2,415	\$ 2,415	\$ (3,071)
Other property owned	\$ -	\$ -	\$ 2,256	\$ 2,256	\$ 55
December 31, 2010					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 4,948	\$ 4,948	\$ (1,116)
Other property owned	\$ -	\$ -	\$ 1,150	\$ 1,150	\$ (520)

NOTE 7 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at June 30, 2011 and December 31, 2010.

Quoted market prices are generally not available for certain System financial instruments, as described below. 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.

The estimated fair values of the Association's financial instruments are as follows:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	\$ 2	\$ 2	\$ 469	\$ 469
Loans, net of allowance	\$ 290,598	\$ 293,395	\$ 306,736	\$ 306,189
Accrued interest receivable	\$ 3,521	\$ 3,521	\$ 3,754	\$ 3,754
Investment securities	\$ 42,985	\$ 42,985	\$ 53,974	\$ 55,062
Tobacco Buyout SIIC	\$ 64,596	\$ 67,642	\$ 84,750	\$ 88,279
Assets held in trust funds	\$ 4	\$ 4	\$ 4	\$ 4
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 357,131	\$ 362,339	\$ 403,640	\$ 410,951
Subordinated debt payable to other Farm Credit institutions	\$ 7,546	\$ 8,209	\$ 7,543	\$ 8,204

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate that value follows:

- A. **Cash:** The carrying value is primarily a reasonable estimate of fair value.
- B. **Loans:** Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Discount rates are based on the Bank's loan rates as well as management estimates.

For purposes of determining fair value of accruing loans, 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 value of loans in a nonaccrual status is estimated to be the carrying amount of the loan less specific reserves.

- C. **Accrued interest Receivable:** The book value of accrued interest receivable approximates its fair value.
- D. **Investment Securities:** For MBSs, fair value is primarily based upon prices obtained from a third party valuation service. See Note 6 for additional information. For mission related investments, fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.
- E. **Tobacco Buyout SIIC:** Fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.
- F. **Assets Held in Trust Funds:** See Note 6 for discussion of estimation of fair value for this instrument.
- G. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** 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 4.57 percent of the issued stock of the Bank as of June 30, 2011 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.1 billion and shareholders' equity totaled \$2.1 billion. The Bank's earnings were \$208 million during the first six months of 2011.
- Of the \$17,101 reported as investments in other Farm Credit institutions, \$16,378 is related to the Bank and \$723 is related to other Farm Credit institutions.
- H. **Notes Payable to AgFirst Farm Credit Bank:** 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 plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

The book value of accrued interest, which has been included in the carrying amount of notes payable, approximates its fair value.

- I. **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.

- J. **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 and since the related credit risk is not significant.

NOTE 8 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and except for the below event, has determined there are no other subsequent events requiring disclosure through August 8, 2011, which is the date the financial statements were issued.

Subsequent to quarter end, the Association was informed of a failure to perform by a proposed purchaser in proceedings involving a borrower in bankruptcy. Based on the latest estimates, the Association, as a result of this action, could possibly incur loss of between \$290 and \$360.