ArborOne, ACA

SECOND QUARTER 2016

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2016 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 and Treasurer

James M. Ward
Chairman of the Board

August 8, 2016

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, 2016. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, 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's management concluded that as of June 30, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2016.

Kathy S. Heustess

Kathy S. Heustess
President and Chief Executive Officer

Tammy G. Smith

Tammy G. Smith
Chief Financial Officer

August 8, 2016

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, 2016. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2015 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 cash grains, cotton, tobacco, forestry, poultry, and farm services. 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-three 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 twenty-two percent of the assets carry federal guarantees as a risk management tool.

The gross loan volume of the Association as of June 30, 2016, was $431,141, an increase of $47,714 as compared to $383,427 at December 31, 2015. Net loans outstanding at June 30, 2016, were $423,534 as compared to $376,048 at December 31, 2015. The Association had investment securities classified as held-to-maturity in the amount of $21,997 at June 30, 2016 compared to $22,171 at December 31, 2015. There were no holdings of other investments as of June 30, 2016, or December 31, 2015. Net loans and investments accounted for 94.96 percent of total assets at June 30, 2016, as compared to 92.79 percent of total assets at December 31, 2015.

Net loans increased by $47,486 during the reporting period. This increase was partially due to an increase in originated loan volume of $50,676 and an increase in participations purchased loan volume of $3,817. The increase in originated loan volume is attributed to seasonal draws and the terming out of operating lines, as well as continued growth, including a couple of large originated loans, in the real estate loan portfolio. The increase in participations purchased loan volume was mainly attributed to advances on several loans as well as one new participation purchased loan.

This increase was partially offset by an increase in participations sold volume of $9,180, a decrease in notes receivable of $837, and an increase in allowance for loan loss of $228. The increase in participations sold loan volume was the result of several new participated core loans. This increase in participations sold volume was partially offset by the reduction in the Association's sold participations to the Bank through the capitalized participation pools (CPP) program. This decrease in the CPP loan volume was mainly due to loan repayments and refinances in the normal course of business. As of June 30, 2016, the Association had $42,026 of such participations outstanding, a decrease of $8,017 when compared to December 31, 2015. The decrease in notes receivable was due to expected pay downs on the Mission Related Investments (MRI) classified as loans in the portfolio. The increase in the allowance was due to an increase in originated loan volume and a decline in credit quality during the first six months of 2016.

Investment securities held-to-maturity (HTM) consist of mission related investments (Rural America Bonds). The investments were transferred in 2014 to HTM from available-for-sale (AFS) at fair value with unrealized gains and losses recognized in Other Comprehensive Income (OCI) as a net unrealized gain as discussed in Note 4, *Investments*, of the Association's 2015 Annual Report.

The HTM investment securities decreased by $174 when compared to December 31, 2015. This decrease was mainly due to normal payments in the amount of $403 and the amortization of the net unrealized gain from the transfer to HTM in the amount of $19. These decreases were offset by the partial accretion to interest income of the credit impairment on the substandard investment security in the amount of $248.

As of June 30, 2016, the majority of the Association's HTM Rural America Bonds were guaranteed; therefore the risk of credit loss to the Association was reduced. However, as of June 30, 2016, one security was rated as substandard and one security was rated as other assets especially mentioned (OAEM), which made these securities ineligible investments under Farm Credit Administration (FCA) regulation. FCA has been notified of these downgrades as required. Unrealized credit impairments on the HTM investment portfolio as of December 31, 2015 totaled $2,534. No additional credit impairments were taken during the first six months of 2016; however, a partial accretion to interest income of the credit impairment on the remaining substandard investment security was recognized in the amount of $248, reducing the total credit impairment to $2,286 as of June 30, 2016.

Other investments consisted of only a Rural Business Investment Company (RBIC) known as Meritus Ventures, L.P. (Meritus). In 2011, the Association made a final capital call for a total investment of $250 in Meritus. During 2013, 2014, and 2015, as a result of evaluations on this RBIC, the Association recognized credit impairment losses totaling $250.

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 $9,469 at December 31, 2015, to $12,707 at June 30, 2016. This was mainly due to the transfer of several core agricultural loans to nonaccrual status. This increase was partially offset by the transfer of two core agricultural loans from nonaccrual status into accruing status, nonaccrual core loan payoffs, charge offs, and a large payment on one participated nonaccrual loan.

As of June 30, 2016, the Association has three properties classed as Other Property Owned (OPO) totaling $1,448, a decrease of $105 as compared to $1,553 at December 31, 2015. The decrease was due to the write downs and the final sales on two investment security accounts in the amounts of $55 and $15 respectively, as well as the application of cash proceeds from two participation accounts in the amount of $35. 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, credit history, current conditions, and expected future conditions.

The allowance for loan losses at June 30, 2016, was $7,607, compared to $7,379 at December 31, 2015. The $7,607 allowance for loan losses consisted of $6,927 in general reserves and $680 in specific reserves for five core agricultural loans and one Rural America Bond. The charge-offs for the six months ended June 30, 2016 were $65 on several nonaccrual core agricultural loans. There were recoveries of $30 for the six months ended June 30, 2016 attributed to both core agricultural and participation loans. The allowance for loan losses for the period ending June 30, 2016 is considered by management to be adequate to cover any future possible losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2016

Net income for the three months ended June 30, 2016, totaled $2,110, a decrease of $9, as compared to $2,119 for the same period in 2015. This decrease was mainly due to a decrease in noninterest income of $442, offset by an increase in net interest income of $261, a decrease in provision of $83, and a decrease in noninterest expense of $87.

Interest income on accruing loans increased by $443 for the three months ended June 30, 2016 compared to $4,151 for the three months ended June 30, 2015, as a result of an increase in originated loan volume. Nonaccrual interest income increased by $85 as compared to the same period in 2015, resulting mainly from the reinstatement of a core agricultural loan. Interest income on investment securities was $443 compared to $422 for the same period in 2015. The increase in investment interest income is primarily due to the partial accretion to interest income of the credit impairment.

Interest expense increased $289 for the three months ended June 30, 2016, as compared to the comparable period of 2015. The interest expense increase was primarily due to the increase in originated loan volume and was partially offset by the reduction in the HTM investment securities.

The Association recorded a provision for loan losses of $206 as compared to $289 for the comparable period of 2015. The decrease in provision was due to fewer charge-offs and write downs in 2016 as compared to the same period in 2015. This decrease was partially offset by the increase in general reserves for 2016. The increase in the 2016 general reserves of $478 was mainly due to the increase in loan volume; however, the additional unused reserves for the flood and drought of 2015 helped to offset this increase by $270. See the 2015 Annual Report for further information.

Noninterest income for the three months ended June 30, 2016, totaled $1,718 as compared to $2,160 for the same period of 2015, a decrease of $442. This decrease was mainly due to a decrease in patronage refunds from other Farm Credit institutions of $723, as a result of the decrease in CPP loan volume, and a decrease in gains on sale of premises and equipment of $2. These decreases were partially offset by an increase in loan fees of $201, an increase in fees from financially related services of $16, an increase in gains on other transactions of $26, and a decrease in impairment losses on investments of $40.

Noninterest expense for the three months ended June 30, 2016, decreased $87 compared to the same period of 2015. This decrease was due to a decrease in salaries and employee benefits of $18, a decrease in losses on other property owned of $110, and a decrease in other operating expenses of $6. These decreases were partially offset by an increase in occupancy and equipment of $14 and an increase in insurance fund premiums of $33.

The Association recorded no provision for income taxes for the three months ended June 30, 2016, as compared to a provision of $2 for the same period in 2015.

For the six months ended June 30, 2016

Net income for the six months ended June 30, 2016, totaled $3,827, as compared to $2,931 for the same period in 2015. The increase was mainly due to a decrease in the provision of $629 and an increase in net interest income of $558, which was partially offset by an increase in noninterest expense of $217.

Interest income on loans increased by $968 primarily due to increased loan volume. Interest income on investment securities increased by $43 primarily due to the partial accretion to interest income of the credit impairment. Interest expense increased by $453 compared to the same period of 2015, primarily due to the increase in loan volume, partially offset by the decrease in the HTM investment securities, and the decrease in association prepayment penalties as a result of paying off the note for the Association's administration building during the first quarter of 2015.

The Association recorded a provision for loan losses of $263 for the six months ended June 30, 2016, as compared to a provision for loan losses of $892 for the same period in 2015. The decrease is mainly due to several charge-offs on core loan volume in 2015 and a large increase in general reserves resulting from the increase in volume during the first six months of 2015. Even though loan volume continued to increase in 2016, the unused reserves from the flood and drought at the end of 2015 were able to offset the additional provisions from loan volume. See the 2015 Annual Report for further information.

Noninterest income for the six months ended June 30, 2016, totaled $3,281 as compared to $3,358 for the same period of 2015, a decrease of $77. The decrease is mainly due to a decrease in fees for financially related services of $18, a decrease in patronage refunds from other Farm Credit institutions of $319, a decrease in gains on other transactions of $2, and a decrease in other noninterest income of $2. These decreases were partially offset by an increase in loan fees of $206, an increase in gains on sales of premises and equipment of $18, and a decrease in impairment losses on investments of $40.

Noninterest expense for the six months ended June 30, 2016, increased $217 compared to the same period of 2015. This increase is due to an increase in occupancy and equipment of $5, an increase in insurance fund premiums of $63, and an increase in losses on other property owned of $215. These increases were partially offset by a decrease in salaries and employee benefits of $53 and a decrease in other operating expenses of $13.

The Association did not record a provision for income taxes for the six months ended June 30, 2016 as compared to a provision for income taxes of $3 during the same period in 2015.

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, 2016, was $377,454 as compared to $335,894 at December 31, 2015. The increase during the period is a result of overall increases in loan volume.

CAPITAL RESOURCES

Total members' equity increased by $3,863 from $80,620 at December 31, 2015 to $84,483 at June 30, 2016, primarily due to an increase in retained earnings.

Total capital stock and participation certificates were $1,382 on June 30, 2016, compared to $1,352 on December 31, 2015. This increase is attributed to the purchases of capital stock and participation certificates on loans in the normal course of business.

The Association reports other comprehensive income (loss) (OCI) in its Consolidated Statements of Changes in Members' Equity. The Association has an unrealized loss of $221 as of June 30, 2016, as compared to an unrealized loss of $224 as of December 31, 2015 for FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Association also has an unrealized net gain of $903 as of June 30, 2016 as compared to an unrealized net gain of $922 as of December 31, 2015 on the HTM investment securities. The resulting effect was a net loss of $16 to Accumulated Other Comprehensive Income for the six months ending June 30, 2016.

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, 2016, the Association's total surplus ratio and core surplus ratio were 19.82 percent and 19.23 percent, respectively, and the permanent capital ratio was 20.18 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 2015 Annual Report to Shareholders for recently issued accounting pronouncements.

REGULATORY MATTERS

On March 10, 2016, the FCA adopted a final regulation to modify the regulatory capital requirements for System banks and associations. The stated objectives of the rule are as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System,
- To make System regulatory capital requirements more transparent, and
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

The final rule will replace existing core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 and Total Capital risk-based capital ratio requirements. The final rule will also replace the existing net collateral ratio with a Tier 1 Leverage ratio and is applicable to all banks and associations. The Permanent Capital Ratio will remain in effect with the final rule. The following sets forth the new regulatory capital ratios:

Ratio	Primary Components of Numerator	Denominator	Minimum Requirement	Minimum Requirement with Conservation Buffer
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings/surplus (URE), Common Stock (subject to certain conditions)	Risk-weighted assets	4.5%	7.0%
Tier 1 Capital	CET1 Capital, Non-cumulative perpetual preferred stock	Risk-weighted assets	6.0%	8.5%
Total Capital	Tier 1 Capital, Allowance for Loan Losses, other equity securities not included in Tier 1 Capital	Risk-weighted assets	8.0%	10.5%
Tier 1 Leverage	Tier 1 Capital (1.5% must be URE or URE equivalents)	Total assets	4.0%	5.0%

On July 28, 2016, the FCA published the final regulation in the Federal Register, and it is anticipated that the effective date of the new capital requirements will be January 1, 2017, with a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. District institutions are well-positioned to be in compliance with the new requirements at adoption.

On November 30, 2015, the FCA, along with four other federal agencies, published in the Federal Register a final rule to establish capital and margin requirements for covered swap entities as required by the Dodd-Frank Act. See below for further information regarding the Dodd-Frank Act.

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2016. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks, and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

FINANCIAL REGULATORY REFORM

See discussion of the Dodd-Frank Act in the Financial Regulatory Reform section of the Association's 2015 Annual Report.

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 Sarah Jackson, 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, 2016	December 31, 2015
	(unaudited)	*(audited)*
Assets		
Cash	**$ 3**	$ 2
Investment securities:		
Held to maturity (fair value of $24,219 and $22,466, respectively)	**21,997**	22,171
Loans	**431,141**	383,427
Allowance for loan losses	**(7,607)**	(7,379)
Net loans	**423,534**	376,048
Accrued interest receivable	**4,822**	5,313
Investments in other Farm Credit institutions	**8,662**	9,316
Premises and equipment, net	**3,906**	3,972
Other property owned	**1,448**	1,553
Accounts receivable	**2,160**	7,428
Other assets	**2,633**	3,367
Total assets	**$ 469,165**	$ 429,170
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 377,454**	$ 335,894
Accrued interest payable	**779**	714
Patronage refunds payable	**721**	2,345
Accounts payable	**401**	466
Other liabilities	**5,327**	9,131
Total liabilities	**384,682**	348,550
Commitments and contingencies (Note 8)		
Members' Equity		
Protected borrower stock	**62**	62
Capital stock and participation certificates	**1,320**	1,290
Retained earnings		
Allocated	**52,531**	52,625
Unallocated	**29,888**	25,945
Accumulated other comprehensive income	**682**	698
Total members' equity	**84,483**	80,620
Total liabilities and members' equity	**$ 469,165**	$ 429,170

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

ArborOne, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Interest Income				
Loans	**$ 4,688**	$ 4,159	**$ 9,063**	$ 8,095
Investments	**443**	422	**887**	844
Total interest income	**5,131**	4,581	**9,950**	8,939
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**2,268**	1,979	**4,375**	3,922
Net interest income	**2,863**	2,602	**5,575**	5,017
Provision for loan losses	**206**	289	**263**	892
Net interest income after provision for loan losses	**2,657**	2,313	**5,312**	4,125
Noninterest Income				
Loan fees	**598**	397	**1,059**	853
Fees for financially related services	**33**	17	**33**	51
Patronage refunds from other Farm Credit institutions	**1,044**	1,767	**2,144**	2,463
Gains (losses) on sales of premises and equipment, net	**12**	14	**32**	14
Gains (losses) on other transactions	**30**	4	**11**	13
Net other-than-temporary impairment losses on investments	**—**	(40)	**—**	(40)
Other noninterest income	**1**	1	**2**	4
Total noninterest income	**1,718**	2,160	**3,281**	3,358
Noninterest Expense				
Salaries and employee benefits	**1,593**	1,611	**3,177**	3,230
Occupancy and equipment	**104**	90	**203**	198
Insurance Fund premiums	**110**	77	**212**	149
(Gains) losses on other property owned, net	**(5)**	105	**81**	(134)
Other operating expenses	**463**	469	**1,093**	1,106
Total noninterest expense	**2,265**	2,352	**4,766**	4,549
Income before income taxes	**2,110**	2,121	**3,827**	2,934
Provision for income taxes	**—**	2	**—**	3
Net income	**$ 2,110**	$ 2,119	**$ 3,827**	$ 2,931

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

ArborOne, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Net income	**$ 2,110**	$ 2,119	**$ 3,827**	$ 2,931
Other comprehensive income net of tax				
Unrealized gains (losses) on investments:				
Other-than-temporarily impaired	**1**	1	**3**	3
Not other-than-temporarily impaired	**(11)**	(16)	**(22)**	(33)
Employee benefit plans adjustments	**2**	2	**3**	4
Other comprehensive income (Note 5)	**(8)**	(13)	**(16)**	(26)
Comprehensive income	**$ 2,102**	$ 2,106	**$ 3,811**	$ 2,905

The accompanying notes are an integral part of these consolidated 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 Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2014	$ 78	$ 1,229	$ 51,516	$ 24,578	$ 985	$ 78,386
Comprehensive income (loss)				2,931	(26)	2,905
Protected borrower stock issued/(retired), net	(9)					(9)
Capital stock/participation certificates issued/(retired), net		28				28
Patronage distribution adjustment			1,144	(780)		364
Balance at June 30, 2015	$ 69	$ 1,257	$ 52,660	$ 26,729	$ 959	$ 81,674
Balance at December 31, 2015	$ 62	$ 1,290	$ 52,625	$ 25,945	$ 698	$ 80,620
Comprehensive income (loss)				**3,827**	**(16)**	**3,811**
Capital stock/participation certificates issued/(retired), net		**30**				**30**
Retained earnings retired			**(12)**			**(12)**
Patronage distribution adjustment			**(82)**	**116**		**34**
Balance at June 30, 2016	**$ 62**	**$ 1,320**	**$ 52,531**	**$ 29,888**	**$ 682**	**$ 84,483**

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

Notes to the Consolidated Financial Statements

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

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization
The accompanying financial statements include the accounts of **ArborOne**, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2015, are contained in the 2015 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation
In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

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

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies
The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period
The following ASUs were issued by the Financial Accounting Standards Board (FASB) since the most recent Annual Report:

- In June, 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The Update improves financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Update will take effect for U.S. Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other organizations, the ASU will take effect for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

- In May, 2016, the FASB issued ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-

Scope Improvements and Practical Expedients. The guidance addresses certain issues identified by the Transition Resource Group (TRG) in the guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).

- In April, 2016, the FASB issued ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The Update clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).

- In March, 2016, the FASB issued ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments clarify the implementation guidance on principal versus agent considerations. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).

- In March, 2016, the FASB issued ASU 2016-07 Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. To simplify the accounting for equity method investments, the amendments in the Update eliminate the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method.

ASUs Pending Effective Date
For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued an update that requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued an update that is intended to improve the recognition and measurement of financial instruments. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2015-14 Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date: In August, 2015, the FASB issued an update that defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers. The new ASU reflects decisions reached by the FASB at its meeting on July 9, 2015. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

Accounting Standards Effective During the Period
There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting. See the most recent Annual Report for a detailed description of each of the standards below:

- 2015-07 Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) – The amendment was adopted prospectively. There were no changes to the Association's statements of financial condition or results of operations as a result of this guidance. See Note 6, *Fair Value Measurement*, for the disclosures required by this guidance.

- 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items – The amendment was adopted retrospectively. There were no changes to the

Association's statements of financial condition or results of operations as a result of this guidance.

- 2014-15 Income Statement – Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern: This amendment is effective for the annual reporting period ended December 31, 2016 and interim and annual periods thereafter. It may require additional disclosures but will not have a material impact on the Association's financial condition or results of operations.

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

A summary of loans outstanding at period end follows:

	June 30, 2016	December 31, 2015
Real estate mortgage	$ 207,236	$ 187,971
Production and intermediate-term	189,008	162,608
Loans to cooperatives	2,472	436
Processing and marketing	19,758	21,591
Farm-related business	4,998	3,929
Energy and water/waste disposal	2,353	2,391
Rural residential real estate	4,340	4,371
International	856	–
Lease receivables	120	130
Total Loans	$ 431,141	$ 383,427

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

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 (FCA) regulations. The following tables present the principal balance of participation loans at periods ended:

June 30, 2016

	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	$ 7,139	$ 47,285	$ –	$ –	$ –	$ –	$ 7,139	$ 47,285
Production and intermediate-term	23,104	12,726	–	–	–	–	23,104	12,726
Loans to cooperatives	2,050	–	–	–	–	–	2,050	–
Processing and marketing	11,570	10,694	–	–	–	–	11,570	10,694
Farm-related business	3,175	79	–	–	–	–	3,175	79
Energy and water/waste disposal	1,608	–	–	–	–	–	1,608	–
Rural residential real estate	–	–	–	–	1,831	–	1,831	–
International	857	–	–	–	–	–	857	–
Total	$ 49,503	$ 70,784	$ –	$ –	$ 1,831	$ –	$ 51,334	$ 70,784

December 31, 2015

	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	$ 5,805	$ 44,839	$ –	$ –	$ –	$ –	$ 5,805	$ 44,839
Production and intermediate-term	21,613	15,357	–	–	–	–	21,613	15,357
Processing and marketing	14,836	1,529	–	–	–	–	14,836	1,529
Farm-related business	2,689	83	–	–	–	–	2,689	83
Energy and water/waste disposal	1,647	–	–	–	–	–	1,647	–
Rural residential real estate	–	–	–	–	2,102	–	2,102	–
Total	$ 46,590	$ 61,808	$ –	$ –	$ 2,102	$ –	$ 48,692	$ 61,808

A significant source of liquidity for the Association is the repayments of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

	June 30, 2016			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 9,138	$ 32,902	$ 165,196	$ 207,236
Production and intermediate-term	87,080	64,661	37,267	189,008
Loans to cooperatives	–	177	2,295	2,472
Processing and marketing	3	11,949	7,806	19,758
Farm-related business	1,740	1,803	1,455	4,998
Energy and water/waste disposal	754	1,599	–	2,353
Rural residential real estate	25	166	4,149	4,340
International	–	–	856	856
Lease receivables	–	120	–	120
Total Loans	$ 98,740	$ 113,377	$ 219,024	$ 431,141
Percentage	22.90%	26.30%	50.80%	100.00%

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

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	June 30, 2016	December 31, 2015
Real estate mortgage:		
Acceptable	91.74%	92.65%
OAEM	3.83	2.70
Substandard/doubtful/loss	4.43	4.65
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	87.51%	93.09%
OAEM	10.40	4.91
Substandard/doubtful/loss	2.09	2.00
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
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, 2016	December 31, 2015
Energy and water/waste disposal:		
Acceptable	67.58%	68.49%
OAEM	–	–
Substandard/doubtful/loss	32.42	31.51
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.14%	98.07%
OAEM	–	–
Substandard/doubtful/loss	0.86	1.93
	100.00%	100.00%
International:		
Acceptable	100.00%	–%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	–%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	90.37%	93.24%
OAEM	6.40	3.41
Substandard/doubtful/loss	3.23	3.35
	100.00%	100.00%

The following tables provide an age analysis of the recorded investment of past due loans as of:

	June 30, 2016					
	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	$ 2,591	$ 4,179	$ 6,770	$ 202,752	$ 209,522	$ –
Production and intermediate-term	1,435	3,657	5,092	186,029	191,121	–
Loans to cooperatives	–	–	–	2,487	2,487	–
Processing and marketing	–	–	–	19,895	19,895	–
Farm-related business	–	–	–	5,019	5,019	–
Energy and water/waste disposal	–	–	–	2,367	2,367	–
Rural residential real estate	118	–	118	4,258	4,376	–
International	–	–	–	856	856	–
Lease receivables	–	–	–	121	121	–
Total	$ 4,144	$ 7,836	$ 11,980	$ 423,784	$ 435,764	$ –

	December 31, 2015					
	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	$ 2,013	$ 3,187	$ 5,200	$ 185,223	$ 190,423	$ –
Production and intermediate-term	132	2,103	2,235	162,866	165,101	–
Loans to cooperatives	–	–	–	436	436	–
Processing and marketing	–	–	–	21,701	21,701	–
Farm-related business	–	–	–	3,953	3,953	–
Energy and water/waste disposal	–	–	–	2,390	2,390	–
Rural residential real estate	–	–	–	4,405	4,405	–
Lease receivables	–	–	–	131	131	–
Total	$ 2,145	$ 5,290	$ 7,435	$ 381,105	$ 388,540	$ –

Nonperforming assets (including the recorded investment for loans) and related credit quality statistics at period end were as follows:

	June 30, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	$ 7,007	$ 6,003
Production and intermediate-term	5,700	3,420
Rural residential real estate	–	46
Total	$ 12,707	$ 9,469
Accruing restructured loans:		
Real estate mortgage	$ 7,268	$ 6,612
Production and intermediate-term	770	634
Lease receivables	121	131
Total	$ 8,159	$ 7,377
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 20,866	$ 16,846
Other property owned	1,448	1,553
Total nonperforming assets	$ 22,314	$ 18,399
Nonaccrual loans as a percentage of total loans	2.95%	2.47%
Nonperforming assets as a percentage of total loans and other property owned	5.16%	4.78%
Nonperforming assets as a percentage of capital	26.41%	22.82%

The following table presents information related to the recorded investment of impaired loans 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, 2016	December 31, 2015
Impaired nonaccrual loans:		
Current as to principal and interest	$ 3,597	$ 3,206
Past due	9,110	6,263
Total	12,707	9,469
Impaired accrual loans:		
Restructured	8,159	7,377
90 days or more past due	–	–
Total	8,159	7,377
Total impaired loans	$ 20,866	$ 16,846
Additional commitments to lend	$ 1	$ 7

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	June 30, 2016			Quarter Ended June 30, 2016		Six Months Ended June 30, 2016	
Impaired loans:	**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**
With a related allowance for credit losses:							
Real estate mortgage	$ 3,860	$ 3,861	$ 423	$ 3,397	$ 41	$ 3,302	$ 65
Production and intermediate-term	1,899	1,914	143	1,671	20	1,624	32
Lease receivables	121	121	114	107	1	104	2
Total	$ 5,880	$ 5,896	$ 680	$ 5,175	$ 62	$ 5,030	$ 99
With no related allowance for credit losses:							
Real estate mortgage	$ 10,415	$ 10,820	$ –	$ 9,167	$ 108	$ 8,909	$ 174
Production and intermediate-term	4,571	5,549	–	4,023	48	3,910	77
Rural residential real estate	–	34	–	–	–	–	–
Total	$ 14,986	$ 16,403	$ –	$ 13,190	$ 156	$ 12,819	$ 251
Total:							
Real estate mortgage	$ 14,275	$ 14,681	$ 423	$ 12,564	$ 149	$ 12,211	$ 239
Production and intermediate-term	6,470	7,463	143	5,694	68	5,534	109
Rural residential real estate	–	34	–	–	–	–	–
Lease receivables	121	121	114	107	1	104	2
Total	$ 20,866	$ 22,299	$ 680	$ 18,365	$ 218	$ 17,849	$ 350

	December 31, 2015			Year Ended December 31, 2015	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 4,240	$ 4,213	$ 435	$ 3,719	$ 138
Production and intermediate-term	1,707	1,692	143	1,496	56
Lease receivables	131	131	117	115	4
Total	$ 6,078	$ 6,036	$ 695	5,330	$ 198
With no related allowance for credit losses:					
Real estate mortgage	$ 8,375	$ 8,738	$ –	$ 7,342	$ 273
Production and intermediate-term	2,347	3,441	–	2,059	76
Rural residential real estate	46	107	–	40	2
Total	$ 10,768	$ 12,286	$ –	$ 9,441	$ 351
Total:					
Real estate mortgage	$ 12,615	$ 12,951	$ 435	$ 11,061	$ 411
Production and intermediate-term	4,054	5,133	143	3,555	132
Rural residential real estate	46	107	–	40	2
Lease receivables	131	131	117	115	4
Total	$ 16,846	$ 18,322	$ 695	$ 14,771	$ 549

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows. Prior to issuance of the Association's 2015 Annual Report, management identified errors in classification of the loan portfolio among the various FCA loan type categories that are used to report disaggregated loan information in footnote disclosures. As discussed in Note 3, *Loans and Allowance for Loan Losses*, of the Association's 2015 Annual Report, FCA loan type classifications prior to December 31, 2015 have been revised as necessary to reflect these loan type classifications, as adjusted. In the table below, activity for the quarter and six months ended June 30, 2015 is presented as revised.

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit losses:								
Balance at March 31, 2016	$ 1,871	$ 4,835	$ 303	$ 274	$ 9	$ –	$ 114	$ 7,406
Charge-offs	–	(8)	–	–	–	–	–	(8)
Recoveries	2	1	–	–	–	–	–	3
Provision for loan losses	(79)	242	31	2	3	7	–	206
Balance at June 30, 2016	$ 1,794	$ 5,070	$ 334	$ 276	$ 12	$ 7	$ 114	$ 7,607
Balance at December 31, 2015	$ 1,811	$ 4,872	$ 293	$ 277	$ 9	$ –	$ 117	$ 7,379
Charge-offs	–	(65)	–	–	–	–	–	(65)
Recoveries	4	26	–	–	–	–	–	30
Provision for loan losses	(21)	237	41	(1)	3	7	(3)	263
Balance at June 30, 2016	$ 1,794	$ 5,070	$ 334	$ 276	$ 12	$ 7	$ 114	$ 7,607
Balance at March 31, 2015	$ 1,536	$ 2,565	$ 760	$ 292	$ 6	$ –	$ 106	$ 5,265
Charge-offs	–	(180)	–	–	–	–	–	(180)
Recoveries	1	2	–	–	–	–	–	3
Provision for loan losses	134	263	(87)	(32)	3	–	8	289
Balance at June 30, 2015	$ 1,671	$ 2,650	$ 673	$ 260	$ 9	$ –	$ 114	$ 5,377
Balance at December 31, 2014	$ 1,360	$ 2,314	$ 809	$ 301	$ 7	$ –	$ 113	$ 4,904
Charge-offs	(269)	(180)	–	–	–	–	–	(449)
Recoveries	18	12	–	–	–	–	–	30
Provision for loan losses	562	504	(136)	(41)	2	–	1	892
Balance at June 30, 2015	$ 1,671	$ 2,650	$ 673	$ 260	$ 9	$ –	$ 114	$ 5,377
Allowance on loans evaluated for impairment:								
Individually	$ 423	$ 143	$ –	$ –	$ –	$ –	$ 114	$ 680
Collectively	1,371	4,927	334	276	12	7	–	6,927
Balance at June 30, 2016	$ 1,794	$ 5,070	$ 334	$ 276	$ 12	$ 7	$ 114	$ 7,607
Individually	$ 435	$ 143	$ –	$ –	$ –	$ –	$ 117	$ 695
Collectively	1,376	4,729	293	277	9	–	–	6,684
Balance at December 31, 2015	$ 1,811	$ 4,872	$ 293	$ 277	$ 9	$ –	$ 117	$ 7,379
Recorded investment in loans evaluated for impairment:								
Individually	$ 14,342	$ 6,598	$ –	$ –	$ –	$ –	$ 121	$ 21,061
Collectively	195,180	184,523	27,401	2,367	4,376	856	–	414,703
Balance at June 30, 2016	$ 209,522	$ 191,121	$ 27,401	$ 2,367	$ 4,376	$ 856	$ 121	$ 435,764
Individually	$ 12,615	$ 4,348	$ –	$ –	$ 46	$ –	$ 131	$ 17,140
Collectively	177,808	160,753	26,090	2,390	4,359	–	–	371,400
Balance at December 31, 2015	$ 190,423	$ 165,101	$ 26,090	$ 2,390	$ 4,405	$ –	$ 131	$ 388,540

**Includes the loan types; Loans to cooperatives, Processing and marketing, and Farm-related business.*

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 about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. In the tables below, activity for the quarter and six months ended June 30, 2015 is presented as revised for FCA loan type reclassifications discussed above.

	Three Months Ended June 30, 2016				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	$ –	$ 409	$ –	$ 409	
Total	$ –	$ 409	$ –	$ 409	
Post-modification:					
Production and intermediate-term	$ –	$ 423	$ –	$ 423	$ –
Total	$ –	$ 423	$ –	$ 423	$ –

Outstanding Recorded Investment	Six Months Ended June 30, 2016 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 697	$ –	$ 697	
Production and intermediate-term	–	506	–	506	
Total	$ –	$ 1,203	$ –	$ 1,203	
Post-modification:					
Real estate mortgage	$ –	$ 697	$ –	$ 697	$ –
Production and intermediate-term	–	520	–	520	–
Total	$ –	$ 1,217	$ –	$ 1,217	$ –

Outstanding Recorded Investment	Three Months Ended June 30, 2015 (as revised) Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	843	$ –	$ 843	
Production and intermediate-term	–	842	–	842	
Total	$ –	$ 1,685	$ –	$ 1,685	
Post-modification:					
Real estate mortgage	$ –	$ 1,392	$ –	$ 1,392	$ –
Production and intermediate-term	–	856	–	856	(52)
Total	$ –	$ 2,248	$ –	$ 2,248	$ (52)

Outstanding Recorded Investment	Six Months Ended June 30, 2015 (as revised) Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	843	$ –	$ 843	
Production and intermediate-term	–	842	–	842	
Total	$ –	$ 1,685	$ –	$ 1,685	
Post-modification:					
Real estate mortgage	$ –	$ 1,392	$ –	$ 1,392	$ –
Production and intermediate-term	–	856	–	856	(52)
Total	$ –	$ 2,248	$ –	$ 2,248	$ (52)

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.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Production and intermediate-term	$ 53	$ –	$ 53	$ –
Total	$ 53	$ –	$ 53	$ –

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 June 30, 2016	December 31, 2015	Nonaccrual TDRs June 30, 2016	December 31, 2015
Real estate mortgage	$ 7,268	$ 6,612	$ –	$ –
Production and intermediate-term	1,948	2,249	1,178	1,615
Lease receivables	121	131	–	–
Total Loans	$ 9,337	$ 8,992	$ 1,178	$ 1,615
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

	June 30, 2016	December 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ –	$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ –	$ –

Note 3 — Investments

Investment Securities

The Association's investments consist primarily of Rural America Bonds (RABs), 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 RAB 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. As of June 30, 2016, the Association held two ineligible RABs whose credit quality had deteriorated beyond the program limits. A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	June 30, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs (a)	$ 21,997	$ 2,283	$ (61)	$ 24,219	6.10%

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs (b)	$ 22,171	$ 569	$ (274)	$ 22,466	6.09%

(a) Gross unrealized losses included non-credit related other-than-temporary impairment recognized in AOCI of $98.
(b) Gross unrealized losses included non-credit related other-than-temporary impairment recognized in AOCI of $101.

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

	June 30, 2016		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	895	903	5.00
After five years through ten years	–	–	–
After ten years	21,102	23,316	6.14
Total	$ 21,997	$ 24,219	6.10%

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can 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, 2016			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 3,443	$ (61)

	December 31, 2015			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 10,831	$ (237)	$ 348	$ (37)

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. 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.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (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.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount 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 to estimate the amount of 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 assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

Based on the results of all analyses, the Association has recognized no credit-related other-than-temporary impairment related to investment securities in the Statements of Income for the six months ended June 30, 2016 or 2015. Accretion to interest income of previously recognized credit impairment of $248 was recognized for the six months ended June 30, 2016 compared to none for the six months ended June 30, 2015. Since the Association does not intend to sell this other-than-temporarily impaired debt security and is not more likely than not to be required to sell before recovery, the total other-than-temporary impairment is 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.

For all other impaired investments, the Association has not recognized any credit losses as the impairments were deemed temporary and resulted from non-credit related factors. 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Amount related to credit loss-beginning balance	$ 2,410	$ 2,757	$ 2,534	$ 2,757
Additions for initial credit impairments	–	–	–	–
Additions for subsequent credit impairments	–	–	–	–
Reductions for increases in expected cash flows	(124)	–	(248)	–
Reductions for securities sold, settled, or matured	–	–	–	–
Amount related to credit loss-ending balance	2,286	2,757	2,286	2,757
Life to date incurred credit losses	–	–	–	–
Remaining unrealized credit losses	$ 2,286	$ 2,757	$ 2,286	$ 2,757

Investments in other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 3.06 percent of the issued stock of the Bank as of June 30, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled $31.6 billion and shareholders' equity totaled $2.4 billion. The Bank's earnings were $144 million for the first six months of 2016. In addition, the Association held investments of $864 related to other Farm Credit institutions.

Other Investments

In 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). This investment was made under the USDA's Rural Business Investment Program, which is authorized by the Farm Security and Rural Investment Act (FSRIA). It permits USDA to license RBICs and provide guarantees and grants to promote rural economic development and job opportunities and meet equity capital investment needs of small rural enterprises. FSRIA authorizes FCS institutions to establish and invest in RBICs, provided that such investments are not greater than 5 percent of the capital and surplus of the FCS institution.

Over the years, the Association purchased total equity investments in the RBIC of $250. There are no outstanding commitments to make additional equity purchases beyond this amount. Beginning in 2013, analyses indicated that decreases in value of the investment had occurred that were other than temporary, due to a series of losses and other factors. As a result, the Association recognized other-than-temporary impairment of $0 and $40 for the six months ended June 30, 2016 and 2015, respectively, which is included in Impairment Losses on Investments in the Statements of Income. As of both June 30, 2016 and December 31, 2015, RBIC investments had been written down to $0.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Unrealized gains (losses) on Investments				
Balance at beginning of period	$ 913	$ 1,225	$ 922	$ 1,240
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	(10)	(15)	(19)	(30)
Net current period other comprehensive income	(10)	(15)	(19)	(30)
Balance at end of period	$ 903	$ 1,210	$ 903	$ 1,210
Employee Benefit Plans:				
Balance at beginning of period	$ (223)	$ (253)	$ (224)	$ (255)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	2	2	3	4
Net current period other comprehensive income	2	2	3	4
Balance at end of period	$ (221)	$ (251)	$ (221)	$ (251)
Accumulated Other Comprehensive Income				
Balance at beginning of period	$ 690	$ 972	$ 698	$ 985
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	(8)	(13)	(16)	(26)
Net current period other comprehensive income	(8)	(13)	(16)	(26)
Balance at end of period	$ 682	$ 959	$ 682	$ 959

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	Income Statement Line Item
Investment Securities:					
Sales gains & losses	$ –	$ –	$ –	$ –	Gains (losses) on investments, net
Holding gains & losses	–	–	–	–	Net other-than-temporary impairment
Amortization	10	15	19	30	Interest income on investments
Net amounts reclassified	10	15	19	30	
Defined Benefit Pension Plans:					
Periodic pension costs	(2)	(2)	(3)	(4)	See Note 7.
Net amounts reclassified	(2)	(2)	(3)	(4)	
Total reclassifications for period	$ 8	$ 13	$ 16	$ 26	

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

Note 6 — 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 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 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 hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs 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.

Level 3 inputs 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.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Fair values are estimated at least annually, or when information suggests a significant change in value, for assets measured at fair value on a nonrecurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

	At or For the Six Months Ended June 30, 2016					
	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	$ 510	$ 510	$ –	$ –	$ 510	
Recurring Assets	$ 510	$ 510	$ –	$ –	$ 510	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 20,186	$ –	$ –	$ 20,186	$ 20,186	$ (21)
Other property owned	1,448	–	–	1,580	1,580	(55)
Nonrecurring Assets	$ 21,634	$ –	$ –	$ 21,766	$ 21,766	$ (76)
Other Financial Instruments						
Assets:						
Cash	$ 3	$ 3	$ –	$ –	$ 3	
Investment securities, held-to-maturity	21,997	–	–	24,219	24,219	
Loans	403,348	–	–	402,981	402,981	
Other Financial Assets	$ 425,348	$ 3	$ –	$ 427,200	$ 427,203	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 377,454	$ –	$ –	$ 382,109	$ 382,109	
Other Financial Liabilities	$ 377,454	$ –	$ –	$ 382,109	$ 382,109	

	At or For the Year Ended December 31, 2015					
	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	$ 506	$ 506	$ –	$ –	$ 506	
Recurring Assets	$ 506	$ 506	$ –	$ –	$ 506	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 16,151	$ –	$ –	$ 16,151	$ 16,151	$ (184)
Other property owned	1,553	–	–	1,700	1,700	(77)
Other investments	–	–	–	–	–	(40)
Nonrecurring Assets	$ 17,704	$ –	$ –	$ 17,851	$ 17,851	$ (301)
Other Financial Instruments						
Assets:						
Cash	$ 2	$ 2	$ –	$ –	$ 2	
Investment securities, held-to-maturity	22,171	–	–	22,466	22,466	
Loans	359,897	–	–	360,853	360,853	
Other investments	–	–	–	–	–	
Other Financial Assets	$ 382,070	$ 2	$ –	$ 383,319	$ 383,321	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 335,894	$ –	$ –	$ 336,063	$ 336,063	
Other Financial Liabilities	$ 335,894	$ –	$ –	$ 336,063	$ 336,063	

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.

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 the instruments presented 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.

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	$ 21,766	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*
Other Investments-RBIC	$ –	Third party evaluation	Income, expense, capital	Not applicable

** 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 forecasts
		Probability of default
		Loss severity
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 7 — Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Pension	$ 351	$ 344	$ 701	$ 687
401(k)	58	55	125	114
Other postretirement benefits	61	79	123	159
Total	$ 470	$ 478	$ 949	$ 960

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

	Actual YTD Through 6/30/16	Projected Contributions For Remainder of 2016	Projected Total Contributions 2016
Pension	$ 26	$ 763	$ 789
Other postretirement benefits	94	96	190
Total	$ 120	$ 859	$ 979

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, 2016.

Further details regarding employee benefit plans are contained in the 2015 Annual Report to Shareholders, including a discussion of benefit plan changes related to the termination of the AgFirst Farm Credit Cash Balance Retirement Plan.

Note 8 — Commitments and Contingent Liabilities

From time to time, 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. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through August 8, 2016, which was the date the financial statements were issued.