

---

**ArborOne, ACA**

**FIRST QUARTER 2008**

Management's Discussion and Analysis of  
Financial Condition and Results of Operations..... 2

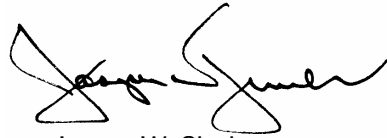
Consolidated Financial Statements

Consolidated Balance Sheets..... 4

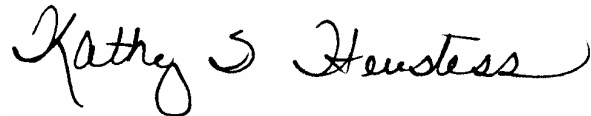
Consolidated Statements of Income..... 5

Consolidated Statements of Changes in Members' Equity..... 6

Notes to the Consolidated Financial Statements..... 7



Jasper W. Shuler  
Chief Executive Officer



Kathy S. Heustess  
Chief Operating and Financial Officer



James M. Ward  
Chairman of the Board

April 29, 2008

# 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 March 31, 2008. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2007 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-nine 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 fifteen percent of the assets carry federal guarantees as a risk management tool.

The gross loan volume of the Association as of March 31, 2008, was \$285,685, a decrease of \$59,701 as compared to \$345,386 at December 31, 2007. Net loans outstanding at March 31, 2008, were \$285,621 as compared to \$345,333 at December 31, 2007. During the three months ended March 31, 2008, the Association's sold participations to AgFirst Farm Credit Bank (AgFirst or Bank) increased by \$55,256. As of March 31, 2008, the Association had \$111,507 of such participations outstanding. The Association has investment securities that are classified as available for sale in the amount of \$34,845 at March 31, 2008 compared to \$32,500 at December 31, 2007. The Association entered into commitments to acquire Successor-in-Interest Contracts (SIIC), beginning in the fourth quarter of 2005. As of March 31, 2008, the Association had \$104,700 in other investments for SIIC, compared to \$121,693 at December 31, 2007. Net loans and investments accounted for 93.96 percent of total assets at March 31, 2008, as compared to 94.59 percent of total assets at December 31, 2007.

Net loans and investments decreased by \$74,360 during the reporting period. The decrease in loan volume is primarily due to an increase in participations sold. Investment securities available for sale grew by \$2,345, however, the other

investments for SIIC decreased by \$16,993, which was due to the annual payments on the contracts. The Association continues to review and engage in investment 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 \$2,673 at December 31, 2007, to \$2,597 at March 31, 2008.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on historical losses, current conditions, and expected future conditions. The allowance for loan losses at March 31, 2008, was \$64, compared to \$53 at December 31, 2007, and was considered by management to be adequate to cover possible losses. There were recoveries of \$11 and no charge-offs for the three months ended March 31, 2008.

## RESULTS OF OPERATIONS

### *For the three months ended March 31, 2008*

Net income for the three months ended March 31, 2008, totaled \$2,067, as compared to \$2,051 for the same period in 2007. Net interest income decreased \$31, for the three months ended March 31, 2008, as compared to the same period in 2007 due to decreased loan volume and lower interest rates. This decrease is a result of net interest income on loan volume and investment securities decreasing by \$103, while the net interest income on SIIC investments increased by \$72.

At March 31, 2008, interest income on accruing loans decreased by \$262 compared to \$5,917 at March 31, 2007. Nonaccrual income was \$27 for the three months ended March 31, 2008, as compared to \$4 for the same period in 2007. Interest income on investment securities was \$446 compared to \$159 for the same period in 2007. Interest income on other investments (SIIC) was \$1,484 for the three months ended March 31, 2008, and \$1,540 for the same period in 2007. Interest expense remained the same at \$5,643 for the three months ended March 31, 2008, as compared to the comparable period of 2007. This was a result of decreased loan volume and lower interest rates which were partially offset by the increase of investment securities volume.

Noninterest income for the three months ended March 31, 2008, totaled \$2,009, as compared to \$1,638 for the same period of 2007, an increase of \$371. The increase is primarily the result of increased patronage income for loans sold to the Bank and loan fees. Noninterest expense for the three

months ended March 31, 2008, increased \$314 compared to the same period of 2007. Increases in salaries and employee benefits and other operating expenses were the primary drivers of the increase. The Association recorded a provision for income taxes of \$10 for the three months ended March 31, 2008, as compared to none for the three months ended March 31, 2007.

#### **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 March 31, 2008, was \$394,335 as compared to \$466,846 at December 31, 2007. The decrease during the period is primarily attributable to decreased loan volume and lower interest rates.

#### **CAPITAL RESOURCES**

Total members' equity at March 31, 2008, increased to \$49,865 from the December 31, 2007, total of \$48,414. The increase is primarily attributable to the increase in retained earnings in excess of the reduction of protected stock and revolved equities.

Total capital stock and participation certificates were \$1,579 on March 31, 2008, compared to \$1,608 on December 31, 2007. This decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business and the annual retirement of B stock.

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 March 31, 2008, the Association's total surplus ratio and core surplus ratio were 11.16 percent and 8.33 percent, respectively, and the permanent capital ratio was 11.57 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.

#### **ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS**

On September 29, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". Please refer to Note 3, "Employee Benefit Plans", in the Notes to the Financial Statements, and the 2007 Annual Report of ArborOne, ACA for recently issued accounting pronouncements.

**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. 378, or writing Stephen Gilbert, 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](http://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 Joan Boice, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, [www.arborone.com](http://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>	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	<i>(unaudited)</i>	<i>(audited)</i>
<b>Assets</b>		
Cash	\$ 402	\$ 2
Investment securities:		
Available for sale (amortized cost of \$35,369 and \$32,544 respectively)	34,845	32,500
Held to maturity (fair value of \$1,018 and \$1,016 respectively)	1,000	1,000
Total investment securities	35,845	33,500
Loans	285,685	345,386
Less: allowance for loan losses	64	53
Net loans	285,621	345,333
Other investments	104,700	121,693
Accrued interest receivable	4,499	6,024
Investment in other Farm Credit institutions	17,000	12,699
Premises and equipment, net	971	584
Other property owned	39	287
Due from AgFirst Farm Credit Bank	1,470	5,127
Other assets	3,001	3,914
Total assets	\$ 453,548	\$ 529,163
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 394,335	\$ 466,846
Accrued interest payable	1,677	2,246
Patronage refund payable	310	2,946
Other liabilities	7,361	8,711
Total liabilities	403,683	480,749
Commitments and contingencies		
<b>Members' Equity</b>		
Protected borrower equity	376	412
Capital stock and participation certificates	1,203	1,196
Retained earnings		
Allocated	28,936	29,195
Unallocated	20,290	18,105
Accumulated other comprehensive income (loss)	(940)	(494)
Total members' equity	49,865	48,414
Total liabilities and members' equity	\$ 453,548	\$ 529,163

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

# ArborOne, ACA

## Consolidated Statements of Income

*(unaudited)*

**For the three months  
ended March 31,**

*(dollars in thousands)*

	<b>2008</b>	<b>2007</b>
<b>Interest Income</b>		
Investment securities	\$ 446	\$ 159
Loans	5,655	5,917
Other	1,484	1,540
	7,585	7,616
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	5,643	5,643
	1,942	1,973
Net interest income	1,942	1,973
Provision for (reversal of allowance for) loan losses	—	—
	1,942	1,973
<b>Noninterest Income</b>		
Loan fees	440	358
Fees for financially related services	18	12
Equity in earnings of other Farm Credit institutions	1,481	1,112
Gains (losses) on other property owned, net	(29)	—
Gains (losses) on sale of rural home loans, net	5	21
Other noninterest income	94	135
	2,009	1,638
<b>Noninterest Expense</b>		
Salaries and employee benefits	1,064	960
Occupancy and equipment	111	98
Insurance Fund premium	89	100
Other operating expenses	610	402
	1,874	1,560
<b>Income before income taxes</b>		
	2,077	2,051
Provision (benefit) for income taxes	10	—
	2,067	2,051
Net income	\$ 2,067	\$ 2,051

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

# ArborOne, ACA

## Consolidated Statements of Changes in Members' Equity

*(unaudited)*

*(dollars in thousands)*

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2006	\$ 453	\$ 1,151	\$ 26,826	\$ 17,349	\$ —	\$ 45,779
Net income				2,051		2,051
Protected borrower equity retired	(30)					(30)
Capital stock/participation certificates issued/(retired), net		19				19
Patronage distribution adjustment			(565)	472		(93)
<b>Balance at March 31, 2007</b>	<b>\$ 423</b>	<b>\$ 1,170</b>	<b>\$ 26,261</b>	<b>\$ 19,872</b>	<b>\$ —</b>	<b>\$ 47,726</b>
Balance at December 31, 2007	\$ 412	\$ 1,196	\$ 29,195	\$ 18,105	\$ (494)	\$ 48,414
Net income				2,067		2,067
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					(480)	(480)
Total comprehensive income						1,587
Protected borrower equity retired	(36)					(36)
Capital stock/participation certificates issued/(retired), net		7				7
Patronage distribution adjustment			(259)	164		(95)
Employee benefit plans adjustments				(46)	34	(12)
<b>Balance at March 31, 2008</b>	<b>\$ 376</b>	<b>\$ 1,203</b>	<b>\$ 28,936</b>	<b>\$ 20,290</b>	<b>\$ (940)</b>	<b>\$ 49,865</b>

*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 AND SIGNIFICANT ACCOUNTING POLICIES

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, 2007, are contained in the 2007 Annual Report to Shareholders. These unaudited first quarter 2008 consolidated financial statements should be read in conjunction with the 2007 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 three months ended March 31, 2008, are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

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 March 31, 2008, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In December 2007, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141R, "Business Combinations." SFAS No. 141R requires business combinations to be accounted for under the acquisition method of accounting (previously called the purchase method). The acquisition method requires (a) identifying the acquirer, (b) determining the acquisition date, (c) recognizing and measuring the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, at their acquisition date fair values, and (d) recognizing and measuring goodwill or a gain from a bargain purchase. SFAS No. 141R should be applied prospectively to business combinations for which the

acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Association is still evaluating the provisions of the Standard, but believes that its adoption will significantly impact its accounting for acquisitions that may occur in 2009 and beyond.

### NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the three months ended March 31,	
	2008	2007
Balance at beginning of period	\$ 53	\$ 243
Provision for (reversal of) loan losses	–	–
Loans (charged off), net of recoveries	11	9
Balance at end of period	<u>\$ 64</u>	<u>\$ 252</u>

### NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31,	
	2008	2007
Pension	\$ 101	\$ 94
401(k)	28	27
Other postretirement benefits	57	64
Total	<u>\$ 186</u>	<u>\$ 185</u>

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

	Actual YTD Through 3/31/08	Projected Contributions For Remainder of 2008	Projected Total Contributions 2008
Pension	\$ –	\$ –	\$ –
Other postretirement benefits	51	152	203
Total	<u>\$ 51</u>	<u>\$ 152</u>	<u>\$ 203</u>

Market conditions could impact discount rates and return on plan assets which could change the above contribution projections by making additional contributions necessary before the next plan measurement date.

---

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, *“Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans”* (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007 for the Association.

SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Association allows for the use of the measurements determined for the prior year end. Under this alternative, pension and other postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was debited to beginning 2008 unallocated retained earnings. As a result, the Association decreased unallocated retained earnings and increased the pension or other postretirement benefit liability by \$45.

SFAS 158 further required the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income. These amounts are subsequently recognized as components of net periodic benefit costs. \$34 has been recognized for the first three months of 2008 as a credit to accumulated other comprehensive income and a debit to pension or other postretirement benefit expense.

Further details regarding employee benefit plans and application of SFAS 158 are contained in the 2007 Annual Report to Shareholders.