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ArborOne, ACA

# FIRST QUARTER 2009

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## CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2009 quarterly report of **ArborOne, ACA**, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Jasper W. Shuler  
Chief Executive Officer



Tammy G. Smith  
Chief Financial Officer



James M. Ward  
Chairman of the Board

April 30, 2009

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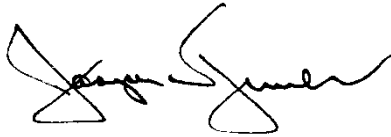
ArborOne, ACA

# 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, to provide 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 and 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 March 31, 2009. In making the assessment, management used the framework in *Internal Control—Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of March 31, 2009 the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2009.



Jasper W. Shuler  
Chief Executive Officer



Tammy G. Smith  
Chief Financial Officer

April 30, 2009

# 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, 2009. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2008 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-seven 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 sixteen percent of the assets carry federal guarantees as a risk management tool.

The gross loan volume of the Association as of March 31, 2009, was \$295,711, a decrease of \$5,282 as compared to \$300,993 at December 31, 2008. Net loans outstanding at March 31, 2009, were \$294,807 as compared to \$299,082 at December 31, 2008. During the three months ended March 31, 2009, the Association's sold participations to **AgFirst Farm Credit Bank** (the Bank) decreased by \$9,947. As of March 31, 2009, the Association had \$104,927 of such participations outstanding. The Association has investment securities that are classified as available for sale in the amount of \$25,573 at March 31, 2009 compared to \$27,770 at December 31, 2008. The Association entered into commitments to acquire Successor-in-Interest Contracts (SIIC), beginning in the fourth quarter of 2005. As of March 31, 2009, the Association had \$93,521 in other investments for SIIC, compared to \$111,934 at December 31, 2008. Net loans and investments accounted for 94.11 percent of total assets at March 31, 2009, as compared to 93.10 percent of total assets at December 31, 2008.

Net loans and investments decreased by \$24,891 during the reporting period. The decrease in loan volume is primarily due to a decrease in gross loan volume, and partially offset by a

decrease in participations sold loan volume. The Association has tightened lending policies as well as strengthened its capital position.

Investment securities available for sale decreased by \$2,197 and investments held to maturity decreased by \$6 due to normal payments. The decrease in investment securities available for sale was also attributed to a decrease in fair value. The other investments for SIIC decreased by \$18,413, which was due to the annual payments on the contracts and partially offset by purchasing additional contracts. The Association continues to review and engage in 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 increased from \$6,586 at December 31, 2008, to \$10,354 at March 31, 2009. This was due to two additional large participation loans that were moved to non-accrual plus several core agricultural loans.

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, 2009, was \$904, compared to \$1,911 at December 31, 2008. This decrease was the result of recognizing charge offs of specific reserves on three large participation accounts in the amount of \$1,051 plus charge offs on core agricultural loans of \$626. Additions were made to the allowance in the amount of \$667. There were net recoveries of \$3 for the three months ended March 31, 2009. The allowance for loan loss for the period ending March 31, 2009, is considered by management to be adequate to cover any future possible losses.

## RESULTS OF OPERATIONS

### *For the three months ended March 31, 2009*

Net income for the three months ended March 31, 2009, totaled \$798, as compared to \$2,067 for the same period in 2008. Net interest income decreased \$587, for the three months ended March 31, 2009, as compared to the same period in 2008 due to decreased loan volume and lower interest rates. This decrease in net interest income is attributed mostly to a decrease of \$2,239 in interest income from loan volume, other investments (SIIC), and investment securities. Interest expense also decreased by \$1,652. The interest expense decrease was a result of decreased loan volume and lower interest rates which were partially offset by the interest expense for the subordinated debt of \$169.

At March 31, 2009, interest income on accruing loans decreased by \$1,689 compared to \$5,628 at March 31, 2008. Nonaccrual income was \$4 for the three months ended March 31, 2009, as compared to \$27 for the same period in 2008. Interest income on investment securities was \$144 compared to \$446 for the same period in 2008. Interest income on other investments (SIIC) was \$1,258 for the three months ended March 31, 2009, and \$1,484 for the same period in 2008. Interest expense decreased \$1,652 for the three months ended March 31, 2009, as compared to the comparable period of 2008. The interest expense decrease was a result of decreased loan volume and lower interest rates as well as a decrease in investment securities volume. This decrease was partially offset by the interest expense from the subordinated debt of \$169. The Association recorded a net provision for loan loss of \$667 for the quarter compared to none for the comparable period of 2008.

Noninterest income for the three months ended March 31, 2009, totaled \$2,109 as compared to \$2,009 for the same period of 2008, an increase of \$100. The increase is primarily the result of increased loan fees and fees for financially related services. Noninterest expense for the three months ended March 31, 2009, increased \$119 compared to the same period of 2008. Increases in salaries and employee benefits, occupancy and equipment, and other operating expenses were the primary drivers of the increase. The Association recorded a provision for income taxes of \$6 for the three months ended March 31, 2009, as compared to \$10 for the three months ended March 31, 2008.

## 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, 2009, was \$376,591 as compared to \$406,997 at December 31, 2008. The decrease during the period is primarily attributable to decreased loan volume and lower interest rates.

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

## CAPITAL RESOURCES

Total members' equity at March 31, 2009, increased to \$51,592 from the December 31, 2008, total of \$51,089. 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 \$1,527 on March 31, 2009, compared to \$1,576 on December 31, 2008. This decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business and the annual retirement of B stock.

The Association reports other comprehensive income (loss) (OCI) in its Consolidated Statements of Changes in Members' Equity. The Association recognized OCI loss of \$(202) as of March 31, 2009, as compared to \$(225) in 2008 for FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Association also recognized OCI loss of \$(1,741) as of March 31, 2009, as compared to \$(1,751) in 2008 for unrealized gains (losses) on investments available for sale.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2009, the Association's total surplus ratio and core surplus ratio were 15.88 percent and 12.91 percent, respectively, and the permanent capital ratio was 16.34 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 2008 Annual Report to Shareholders 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 Casey Sherman, 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, 2009</b> <i>(unaudited)</i>	<b>December 31, 2008</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 2	\$ 1
Investment securities:		
Available for sale (amortized cost of \$27,315 and \$29,521 respectively)	25,573	27,770
Held to maturity (fair value of \$3,702 and \$3,975 respectively)	4,384	4,390
Total investment securities	29,957	32,160
Loans	295,711	300,993
Less: allowance for loan losses	904	1,911
Net loans	294,807	299,082
Other investments	93,521	111,934
Accrued interest receivable	3,258	4,463
Investment in other Farm Credit institutions	16,895	17,679
Premises and equipment, net	787	848
Due from AgFirst Farm Credit Bank	1,478	6,397
Other assets	3,782	3,463
Total assets	\$ 444,487	\$ 476,027
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 376,591	\$ 406,997
Subordinated debt payable to other Farm Credit institutions (Note 4)	7,500	7,500
Accrued interest payable	1,342	1,549
Patronage refund payable	548	2,063
Other liabilities	6,914	6,829
Total liabilities	392,895	424,938
Commitments and contingencies		
<b>Members' Equity</b>		
Protected borrower equity	340	371
Capital stock and participation certificates	1,187	1,205
Retained earnings		
Allocated	31,119	30,751
Unallocated	20,889	20,738
Accumulated other comprehensive income (loss)	(1,943)	(1,976)
Total members' equity	51,592	51,089
Total liabilities and members' equity	\$ 444,487	\$ 476,027

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

# ArborOne, ACA

## Consolidated Statements of Income

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Interest Income</b>		
Investment securities	\$ 144	\$ 446
Loans	3,944	5,655
Other	1,258	1,484
Total interest income	5,346	7,585
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	3,822	5,643
Subordinated debt payable to other Farm Credit institutions (Note 4)	169	—
Total interest expense	3,991	5,643
Net interest income	1,355	1,942
Provision for (reversal of allowance for) loan losses	667	—
Net interest income after provision for (reversal of allowance for) loan losses	688	1,942
<b>Noninterest Income</b>		
Loan fees	486	440
Fees for financially related services	56	18
Equity in earnings of other Farm Credit institutions	1,477	1,481
Gains (losses) on other property owned, net	—	(29)
Gains (losses) on sale of rural home loans, net	1	5
Other noninterest income	89	94
Total noninterest income	2,109	2,009
<b>Noninterest Expense</b>		
Salaries and employee benefits	1,261	1,064
Occupancy and equipment	253	111
Insurance Fund premium	99	89
Other operating expenses	380	610
Total noninterest expense	1,993	1,874
Income before income taxes	804	2,077
Provision (benefit) for income taxes	6	10
Net income	\$ 798	\$ 2,067

*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, 2007	\$ 412	\$ 1,196	\$ 29,195	\$ 18,105	\$ (494)	\$ 48,414
Comprehensive income						
Net income				2,067		2,067
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					(480)	(480)
Employee benefit plans adjustments				(46)	34	(12)
Total comprehensive income						1,575
Protected borrower equity retired	(36)					(36)
Capital stock/participation certificates issued/(retired), net		7				7
Patronage distribution adjustment			(259)	164		(95)
Balance at March 31, 2008	\$ 376	\$ 1,203	\$ 28,936	\$ 20,290	\$ (940)	\$ 49,865
Balance at December 31, 2008	\$ 371	\$ 1,205	\$ 30,751	\$ 20,738	\$ (1,976)	\$ 51,089
Comprehensive income						
Net income				798		798
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					10	10
Employee benefit plans adjustments					23	23
Total comprehensive income						831
Protected borrower equity retired	(31)					(31)
Capital stock/participation certificates issued/(retired), net		(18)				(18)
Patronage distribution adjustment			368	(647)		(279)
Balance at March 31, 2009	\$ 340	\$ 1,187	\$ 31,119	\$ 20,889	\$ (1,943)	\$ 51,592

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

# ArborOne, ACA

## Notes to the Consolidated Financial Statements

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

### NOTE 1 – ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The accompanying financial statements include the accounts of **ArborOne, ACA** (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2008, are contained in the 2008 Annual Report to Shareholders. These unaudited first quarter 2009 consolidated financial statements should be read in conjunction with the 2008 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, 2009, are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

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, 2009 the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In addition to the recently issued accounting pronouncements discussed in the 2008 Annual Report to Shareholders, effective January 1, 2009, the Association adopted Financial Accounting Standards Board (FASB) Statement of Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. The impact of adoption requires additional fair value disclosures, if applicable, but does not have an impact on the Association's financial condition or results of operations.

### NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the three months ended March 31,	
	2009	2008
Balance at beginning of period	\$ 1,911	\$ 53
Provision for (reversal of) loan losses	667	-
Charge-offs	(1,677)	-
Recoveries	3	11
Balance at end of period	<u>\$ 904</u>	<u>\$ 64</u>

The following table presents information concerning impaired loans as of March 31,

	2009	2008
Impaired loans with related allowance	\$ -	\$ -
Impaired loans with no related allowance	10,603	2,629
Total impaired loans	<u>\$ 10,603</u>	<u>\$ 2,629</u>
Allowance on impaired loans	<u>\$ -</u>	<u>\$ -</u>

The following table summarizes impaired loan information for the three months ended March 31,

	2009	2008
Average impaired loans	\$ 8,026	\$ 2,659
Interest income recognized on impaired loans	6	28

### 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,	
	2009	2008
Pension	\$ 292	\$ 101
401(k)	28	28
Other postretirement benefits	60	57
Total	<u>\$ 380</u>	<u>\$ 186</u>

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

	Actual YTD Through 3/31/09	Projected Contributions For Remainder of 2009	Projected Total Contributions 2009
Pension	\$ -	\$ -	\$ -
Other postretirement benefits	43	179	222
Total	\$ 43	\$ 179	\$ 222

Actuarial calculations as of the last plan measurement date (December 31, 2008) projected no contributions to the pension plan for 2009. However, market conditions could impact discount rates and return on plan assets which could make additional contributions necessary before the next plan measurement date of December 31, 2009.

Further details regarding employee benefit plans are contained in the 2008 Annual Report to Shareholders.

#### NOTE 4 – SUBORDINATED DEBT

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

The subordinated debt bears interest at an annual fixed rate of 9%, payable on the fifteenth day of each month, beginning on October 15, 2008. Interest will be deferred if, as of the fifth business day prior to an interest payment date of the debt, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than five consecutive years or beyond the maturity date of the subordinated debt. During such a period, the Association may not declare or pay any dividends or patronage refunds, among other certain restrictions, until interest payments are resumed and all deferred interest has been paid. The subordinated debt may be redeemed, at the Association's option, on October 15, 2013, or upon the occurrence of certain defined regulatory events, at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided the Association has made payment in full of all amount then due in respect of its senior indebtedness.

#### NOTE 5 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities primarily consist of investments available-for-sale, assets held in trust funds, standby letters of credit, and impaired loans.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

SFAS No. 157 establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the Association's financial instruments within the fair value hierarchy are as follows:

##### Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at March 31, 2009 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

##### Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has Level 2 assets and no liabilities measured at fair value on a recurring basis. Level 2 assets include available-for-sale investment securities that are traded in active, non-exchange markets. These securities are U.S. government and agency mortgage-backed

securities, non-agency mortgage-backed securities, and U.S. agency debt securities, all of which have unadjusted values from third-party or internal pricing models. The fair value of substantially all of the Association's available-for-sale investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

### Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing. Level 3 assets at December 31, 2008 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under SFAS No. 114. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Level 3 liabilities at December 31, 2008 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at March 31, 2009 for each of the fair value hierarchy levels:

	March 31, 2009			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Investments available-for-sale	\$ -	\$ -	\$ -	\$ -
Assets held in Trust funds	\$ 3	\$ -	\$ -	\$ 3
<b>Total Assets</b>	<b>\$ 3</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3</b>
<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 34	\$ 34
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 34</b>	<b>\$ 34</b>

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 22
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	12
Transfers in and/or out of level 3	-
Balance at March 31, 2009	<u>\$ 34</u>

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

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2008 for each of the fair value hierarchy values are summarized below:

	December 31, 2008			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ -	\$ -	\$ -