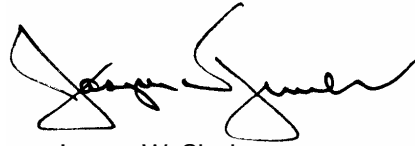


THIRD QUARTER 2006

Management's Discussion and Analysis of Financial Condition and Results of Operations.....	2
Consolidated Financial Statements	
Consolidated Balance Sheets.....	5
Consolidated Statements of Income.....	6
Consolidated Statements of Changes in Members' Equity.....	7
Notes to the Consolidated Financial Statements.....	8



Jasper W. Shuler
Chief Executive Officer



James M. Ward
Chairman of the Board

October 27, 2006

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

(dollars in thousands)

On May 1, 2006, the Board of Directors of the Association unanimously approved a resolution to change the name of Pee Dee Farm Credit, ACA, to **ArborOne, ACA** through charter amendment. On July 6, 2006, the Farm Credit Administration gave its approval for the name change. Effective September 1, 2006, through charter amendment, Pee Dee Farm Credit, ACA changed its name to **ArborOne, ACA**.

The following commentary reviews the financial condition and results of operations of **ArborOne, ACA**, (Association) for the period ended September 30, 2006. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2005 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. This factor, along with the numerous opportunities for non-farm income in the area, somewhat impacts the level of dependency on a given commodity. Approximately one third of the portfolio has significant outside income to diversify dependence on agriculture, consisting of lifestyle loans and loans to less than full-time farmers with retirement income, salaried income and non-agricultural business income. Further, approximately nineteen percent of the assets carry federal guarantees as a risk management tool.

The gross loan volume of the Association as of September 30, 2006, was \$336,384, an increase of \$49,010 as compared to \$287,374 at December 31, 2005. Net loans outstanding at September 30, 2006, were \$335,654 as compared to \$286,363 at December 31, 2005. The Association has investment securities that are classified as held to maturity in the amount of \$10,409 at September 30, 2006 compared to \$12,538 at December 31, 2005. The Association has entered into commitments to acquire Successor-in-Interest Contracts (SIIC), beginning in the fourth quarter of 2005. As of September 30, 2006, the Association had \$126,215 in other investments for SIIC, compared to \$73,189 at December 31, 2005. Net loans and investments accounted for

96.60 percent of total assets at September 30, 2006, as compared to 96.23 percent of total assets at December 31, 2005.

The increase in gross and net loan volume during the reporting period is attributed primarily to the seasonal lending upswing, participation loans, along with SIIC investments. The Association continues to review and engage in participation opportunities, as well as customer opportunities within the territory.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans increased from \$263 at December 31, 2005, to \$556 at September 30, 2006. Several loans including both farm and home loans became more than ninety days delinquent and were moved to nonaccrual status during the nine months ending September 30, 2006.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2006, was \$730, compared to \$1,011 at December 31, 2005, and was considered by management to be adequate to cover possible losses. There were recoveries of \$40 and charge-offs of \$111 at September 30, 2006. The Association recognized a reversal of loan losses of \$211 during the nine month period.

Geographic Distribution of Loans by State at September 30, 2006:

	<u>Percentage</u>
South Carolina	65.39%
Arizona	.24
Arkansas	.05
California	1.40
Colorado	.20
Delaware	.02
Florida	12.60
Georgia	9.45
Kansas	.09
Louisiana	.07
Maine	.02
Maryland	.05
Mississippi	.18
New Jersey	.13
New York	.55
North Carolina	4.90
Pennsylvania	.02
Texas	3.30
Virginia	.28
Washington	.61
West Virginia	.01
Wisconsin	.44
	<u>100.00%</u>

Distribution of Loans by Loan Type at September 30, 2006:

	<u>Percentage</u>	
Agricultural Production:		
Cash grains	1.95%	
Tobacco	10.10	
Livestock	5.22	
Cotton	5.52	
Poultry	9.82	
General row crops	1.17	
Forestry	9.01	
Other commodities	<u>2.82</u>	
		45.61%
Agricultural real estate mortgage	20.96	
Aquatics	.08	
Rural home	2.94	
Notes receivable sales contracts/PMMs	2.16	
Basic processing	12.03	
Farm-related business	2.83	
Nonaccruals	.16	
Participations purchased	58.76	
Participations sold	<u>(45.53)</u>	
		<u>100.00%</u>

RESULTS OF OPERATIONS

For the three months ended September 30, 2006

Net income for the three months ended September 30, 2006, totaled \$2,410, as compared to \$1,783 for the same period in 2005. Net interest income increased \$338, for the three months ended September 30, 2006, as compared to the same period in 2005. Increased loan and investment volume along with rising interest rates, are the primary reasons for the increase in net interest income.

At September 30, 2006, interest income on accruing loans increased \$1,866 compared to \$4,987 at September 30, 2005. Nonaccrual income was \$10 for the three months ended September 30, 2006, as compared to \$12 for the same period in 2005. Interest income on investment securities was \$112 compared to none at the same period in 2005. Interest income was \$1,836 on other investments (SIIC) for the three months ended September 30, 2006, and \$217 for the same period in 2005. Interest expense increased \$3,257 for the three months ended September 30, 2006, as compared to the comparable period of 2005. This was a result of increased volume and rising interest rates.

Noninterest income for the three months ended September 30, 2006, totaled \$1,700, as compared to \$1,168 for the same period of 2005, an increase of \$532. The increase is primarily the result of increased patronage income, loan fees, and fees for financially related services. Noninterest expense for the three months ended September 30, 2006, increased \$231 compared to the same period of 2005. Increases in salaries and employee benefits and insurance fund premiums were the main causes for the increase.

For the nine months ended September 30, 2006

Net income for the nine months ended September 30, 2006, totaled \$6,499, as compared to \$5,074 for the same period in 2005. At September 30, 2006, net interest income increased by \$1,023 or 17.75 percent compared to September 30, 2005. Interest income on loans and investments increased by \$9,873 and interest expense increased by \$9,061. This change in net interest income is the result of both increased volume and interest rates.

Nonaccrual income was \$80 for the nine months ended September 30, 2006, as compared to \$177 for the same period in 2005. The Association recorded a provision for loan loss of \$211 for the nine months ended September 30, 2006, but did not record any for the same period in 2005. Growth in the portfolio has been coupled with continued geographic diversification and expanded scale with the capital markets portfolio while keeping the average individual size of those relationships relatively constant. As discussed in the 2005 Annual Report, the Association recorded a loan loss reversal of \$4,413 in the fourth quarter of 2005 that resulted in a significant decrease in the allowance for loan losses. Please refer to the 2005 Annual Report of the Association for a more detailed explanation of this change in accounting estimate.

Noninterest income for the nine months ended September 30, 2006, totaled \$4,393, as compared to \$3,293 for the same period of 2005, an increase of \$1,100. The increase is primarily the result of increases in patronage income by \$963, FRS income by \$57, and fees by \$401. However, the increases were offset by a decrease in other income of \$324. Noninterest expense for the nine months ended September 30, 2006, increased \$706 compared to the same period of 2005. This increase is attributed to a rise in salaries and employee benefits of \$243, insurance fund premium of \$228 and other operating expenses of \$235. The Association recorded a provision for income taxes of \$3 for the nine months ended September 30, 2006, a decrease of \$8 as compared to the same period in 2005.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (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 September 30, 2006, was \$434,462 as compared to \$334,915 at December 31, 2005. The increase during the period is primarily attributed to increased loan and investment volume and interest rates.

CAPITAL RESOURCES

Total members' equity at September 30, 2006, increased to \$48,080 from the December 31, 2005, total of \$41,666. The increase is primarily attributed to the increase in retained earnings in excess of the reduction of capital stock, participation certificates and revolved equities.

Total capital stock and participation certificates were \$1,617 on September 30, 2006, compared to \$1,693 on December 31, 2005. This decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business, new loans being capitalized at new lower regulatory levels, 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 September 30, 2006, the Association's total surplus ratio and core surplus ratio were 12.99 percent and 10.57 percent, respectively, and the permanent capital ratio was 13.37 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. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Association will be required to implement the Standard for the year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Association uses a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Association is currently evaluating the impact of implementing this Standard. It is anticipated that the impact from the implementation of this Standard will have no impact on the income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the balance sheet.

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. 316, or writing Wanda Martin, 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 Joan Boice, Corporate Secretary, **ArborOne, ACA**, P.O. Box 13209, Florence, SC 29504, or accessing the website, www.arboroneaca.com. The Association prepares a quarterly report within 45 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>	September 30, 2006 <i>(unaudited)</i>	December 31, 2005 <i>(audited)</i>
Assets		
Cash	\$ 39	\$ —
Investment securities, held to maturity	10,409	12,538
Loans	336,384	287,374
Less: allowance for loan losses	730	1,011
Net loans	335,654	286,363
Other investments	126,215	73,189
Accrued interest receivable	6,366	3,687
Investment in other Farm Credit institutions	4,214	4,080
Premises and equipment, net	446	444
Other property owned	—	49
Prepaid retirement expense	2,787	3,082
Due from AgFirst Farm Credit Bank	2,318	2,859
Other assets	469	390
Total assets	<u>\$ 488,917</u>	<u>\$ 386,681</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 434,462	\$ 334,915
Accrued interest payable	2,142	1,383
Patronage refund payable	148	1,975
Other liabilities	4,085	6,742
Total liabilities	<u>440,837</u>	<u>345,015</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	458	522
Capital stock and participation certificates	1,159	1,171
Retained earnings		
Allocated	23,535	23,977
Unallocated	22,928	15,996
Total members' equity	<u>48,080</u>	<u>41,666</u>
Total liabilities and members' equity	<u>\$ 488,917</u>	<u>\$ 386,681</u>

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

ArborOne, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Interest Income				
Loans	\$ 6,863	\$ 4,999	\$ 18,148	\$ 13,413
Investment securities	112	—	474	—
Other	1,836	217	5,259	595
Total interest income	8,811	5,216	23,881	14,008
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,456	3,199	17,307	8,246
Net interest income	2,355	2,017	6,574	5,762
Provision for (reversal of) loan losses	—	—	(211)	—
Net interest income after provision for (reversal of) loan losses	2,355	2,017	6,785	5,762
Noninterest Income				
Loan fees	466	251	1,231	830
Fees for financially related services	235	203	290	233
Equity in earnings of other Farm Credit institutions	907	568	2,540	1,577
Gains (losses) on other property owned, net	—	(2)	1	(2)
Other noninterest income	92	148	331	655
Total noninterest income	1,700	1,168	4,393	3,293
Noninterest Expense				
Salaries and employee benefits	956	862	2,748	2,505
Occupancy and equipment	82	88	261	261
Insurance Fund premium	118	47	325	97
Other operating expenses	489	417	1,342	1,107
Total noninterest expense	1,645	1,414	4,676	3,970
Income before income taxes	2,410	1,771	6,502	5,085
Provision (benefit) for income taxes	—	(12)	3	11
Net income	\$ 2,410	\$ 1,783	\$ 6,499	\$ 5,074

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		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2004	\$ 584	\$ 1,172	\$ 22,225	\$ 15,133	\$ 39,114
Net income				5,074	5,074
Protected borrower equity retired	(61)				(61)
Capital stock/participation certificates issued		149			149
Capital stock/participation certificates retired		(172)			(172)
Retained earnings retired			(11)		(11)
Distribution adjustment			234	(254)	(20)
Balance at September 30, 2005	\$ 523	\$ 1,149	\$ 22,448	\$ 19,953	\$ 44,073
Balance at December 31, 2005	\$ 522	\$ 1,171	\$ 23,977	\$ 15,996	\$ 41,666
Net income				6,499	6,499
Protected borrower equity retired	(64)				(64)
Capital stock/participation certificates issued		91			91
Capital stock/participation certificates retired		(103)			(103)
Retained earnings retired			(8)		(8)
Distribution adjustment			(434)	433	(1)
Balance at September 30, 2006	\$ 458	\$ 1,159	\$ 23,535	\$ 22,928	\$ 48,080

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

Notes to the Consolidated Financial Statements

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of **ArborOne, ACA** (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2005, are contained in the 2005 Annual Report to Shareholders. These unaudited third quarter 2006 consolidated financial statements should be read in conjunction with the 2005 Annual Report to Shareholders.

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. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Association will be required to implement the Standard for the year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Association uses a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Association is currently evaluating the impact of implementing this Standard. It is anticipated that the impact from the implementation of this Standard will have no impact on the consolidated income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the consolidated balance sheet.

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. The results for the nine months ended September 30, 2006, are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

Certain amounts in prior period consolidated financial statements have been reclassified to conform to current 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 generally accepted accounting principles. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of September 30, 2006, the allowance for losses is adequate in management’s opinion to provide for possible losses on existing loans.

Investment Securities: The Association, as permitted under the FCA regulations, holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. The Association’s investments are classified as held to maturity and accordingly have been reported at amortized cost. Purchased premiums and discounts are amortized or accreted using the effective interest method over the term of the respective security.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or permanent. In the event of permanent impairment, the cost basis of the investment would be written down to its fair value, and the realized loss would be included in current earnings.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30,	
	2006	2005
Balance at beginning of period	\$ 1,011	\$ 1,000
Provision for (reversal of) loan losses	(211)	–
Loans (charged off), net of recoveries	(70)	9
Balance at end of period	<u>\$ 730</u>	<u>\$ 1,009</u>

NOTE 3 – EMPLOYEE BENEFIT PLANS

The Association participates in a Districtwide defined benefit retirement plan. The costs of the plan are not segregated by participating entities but are allocated among the participating entities. Pension costs are allocated by multiplying the District's net pension expense times each institution's salary expense as a percentage of the District's salary expense. The Association also participates in Districtwide Thrift and other postretirement benefit plans.

The following is a table of retirement and postretirement benefit expense for the nine months ended September 30, 2006:

	For the nine months ended September 30,	
	<u>2006</u>	<u>2005</u>
Pension	\$ 295	\$ 290
Thrift/deferred compensation	61	43
Other postretirement benefits	210	357
Total	<u>\$ 566</u>	<u>\$ 690</u>

As of September 30, 2006, no contributions have been made to the pension plan for 2006. The Association does not anticipate making additional contributions for the remainder of 2006.