

FIRST QUARTER 2005

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



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Chief Executive Officer



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Chairman of the Board

April 29, 2005

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 MidAtlantic Farm Credit, ACA (Association) for the period ended March 31, 2005. The comments contained in this report should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2004 Annual Report of the Association.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for the financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio covers a well diversified range of agricultural commodities, with cash grains, poultry and dairy representing the largest segments. In addition, the Association provides a significant amount of loans to lessors of agricultural real estate. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income, impacts the level of dependency on any particular commodity.

Gross loans at March 31, 2005 totaled \$1,523,161 compared to \$1,537,010 at December 31, 2004, decreasing \$13,849 or 0.9 percent during the first quarter. The Association's allowance for loan losses of \$10,463 remained unchanged during the first quarter of 2005 resulting in net loans (gross loans less allowance for loan losses) of \$1,512,698 and \$1,526,547 at March 31, 2005 and December 31, 2004, respectively.

There is an inherent risk in the extension of any type of credit and, accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio. Credit administration remains satisfactory and the credit quality of the Association's loan portfolio has continued to improve.

Consequently, no provision for loan losses was recorded in the first quarter of 2005 that would increase the Association's allowance. The allowance for loan losses represented 0.69 percent and 0.68 percent of total loans at March 31, 2005 and December 31, 2004, respectively.

RESULTS OF OPERATIONS

For the three months ended March 31, 2005

Net income for the three months ended March 31, 2005 totaled \$8,889, an increase of \$1,394 compared to the three months ended March 31, 2004. Major changes in the components of net income are identified as follows:

- Net interest income increased \$1,597 for the quarter ended March 31, 2005 compared to the same period in 2004. Earnings on the Association's loanable funds credit (investable funds) increased \$689 over last year due to management's strategy of investing these funds in higher yielding notes. The remaining increase in net interest income is primarily attributable to a \$695 recovery of a nonaccrual loan and incremental earnings on an increasing loan portfolio.
- The risks identified in the Association's loan portfolio did not warrant a provision for loan losses to be recorded in either the first quarter of 2005 or 2004.
- At March 31, 2005 and 2004, the Association accrued an estimated patronage distribution of \$2,427 and \$2,353, respectively, which is based on first quarter operations only; management anticipates additional income for each successive quarter throughout the year. Since this income from AgFirst Farm Credit Bank (the Bank) is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate picture of annualized net income.

- The Association sold one branch office facility during the quarter ended March 31, 2004 netting a gain on the sale of \$449.
- Noninterest Expense for the first quarter of 2005 was \$4,505 as compared to \$4,807 for the first three months of 2004 or a decrease of \$302 (6.3 percent). \$211 of the decrease resulted from the decrease in the Insurance Fund premium and the remaining variance is attributable to the timing of incurring certain still anticipated expenditures.

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 Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sectors. The Association utilizes the variable rate note 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, 2005 were \$1,262,966 compared to \$1,286,589 at December 31, 2004.

CAPITAL RESOURCES

Members' equity at March 31, 2005 totaled \$267,680, or an increase of \$7,240 compared to total members' equity of \$260,440 at December 31, 2004. Net income of \$8,889 for the quarter ending March 31, 2005 and net member stock issues of \$69, offset by an estimated cash patronage distribution for the quarter totaling \$1,718, account for the change.

FCA regulations require all Farm Credit institutions to maintain a minimum permanent capital ratio of 7.0 percent and total surplus and core surplus ratios equal to 3.5 percent. 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, 2005, the Association's permanent capital, total surplus and core surplus ratios equaled 16.28 percent, 15.70 percent and 13.50 percent, respectively.

MidAtlantic Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2005	December 31, 2004
	<i>(unaudited)</i>	
Assets		
Cash	\$ 2,818	\$ 4,130
Loans	1,523,161	1,537,010
Less: allowance for loan losses	10,463	10,463
Net loans	1,512,698	1,526,547
Accrued interest receivable	11,640	8,854
Investment in other Farm Credit institutions	18,055	18,055
Premises and equipment, net	5,032	4,795
Deferred tax asset, net	314	314
Other assets	12,617	25,380
Total assets	\$ 1,563,174	\$ 1,588,075
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,262,966	\$ 1,286,589
Accrued interest payable	4,547	4,284
Patronage refund payable	1,892	7,977
Allocated surplus payable	109	12,687
Postretirement benefits other than pensions	7,335	7,206
Other liabilities	18,645	8,892
Total liabilities	1,295,494	1,327,635
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	8,916	8,847
Retained earnings		
Allocated	93,678	93,752
Unallocated	165,086	157,841
Total members' equity	267,680	260,440
Total liabilities and members' equity	\$ 1,563,174	\$ 1,588,075

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

MidAtlantic Farm Credit, ACA
Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2005	2004
Interest Income		
Loans	\$ 23,878	\$ 19,891
Other	—	3
Total Interest Income	23,878	19,894
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	13,341	10,954
Net interest income	10,537	8,940
Provision for (reversal of) loan losses	—	—
Net interest income after provision for (reversal of) loan losses	10,537	8,940
Noninterest Income		
Loan fees	318	339
Fees for financially related services	13	43
Equity in earnings of other Farm Credit institutions	2,427	2,353
Other noninterest income	99	597
Total noninterest income	2,857	3,332
Noninterest Expense		
Salaries and employee benefits	3,137	3,139
Occupancy and equipment	336	460
Insurance Fund premium	146	357
Other operating expenses	886	851
Total noninterest expense	4,505	4,807
Income before income taxes	8,889	7,465
Provision (benefit) for income taxes	—	(30)
Net income	\$ 8,889	\$ 7,495

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

MidAtlantic Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
		Allocated	Unallocated		
<i>(dollars in thousands)</i>					
Balance at December 31, 2003	\$ 8,534	\$ 79,529	\$ 138,808	\$ (7,873)	\$ 218,998
Net income			7,495		7,495
Capital stock/participation certificates issued	187				187
Capital stock/participation certificates retired	(102)				(102)
Patronage distribution					
Cash			(1,217)		(1,217)
Distribution adjustment		(136)	182		46
Balance at March 31, 2004	\$ 8,619	\$ 79,393	\$ 145,268	\$ (7,873)	\$ 225,407
Balance at December 31, 2004	\$ 8,847	\$ 93,752	\$ 157,841	\$ —	\$ 260,440
Net income			8,889		8,889
Capital stock/participation certificates issued	168				168
Capital stock/participation certificates retired	(99)				(99)
Patronage distribution					
Cash			(1,739)		(1,739)
Distribution adjustment		(74)	95		21
Balance at March 31, 2005	\$ 8,916	\$ 93,678	\$ 165,086	\$ —	\$ 267,680

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

MidAtlantic Farm Credit, ACA

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 MidAtlantic Farm Credit, 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, 2004, are contained in the 2004 Annual Report to Stockholders. These unaudited first quarter 2005 consolidated financial statements should be read in conjunction with the 2004 Annual Report to Stockholders.

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 three months ended March 31, 2005, are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

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 March 31, 2005, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

Balance at 12-31-03	\$ 30,383
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	<u>10</u>
Balance at 3-31-04	<u>\$ 30,393</u>
Balance at 12-31-04	\$ 10,463
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	—
Balance at 3-31-05	<u>\$ 10,463</u>

As discussed in the 2004 Annual Report, the Association recorded a loan loss reversal of \$20,054 in the fourth quarter of 2004 that resulted in a decrease in the allowance for loan losses.

NOTE 3 – COMMITMENTS AND CONTINGENT LIABILITIES

JWM Partnership, et al., filed an action against MidAtlantic Farm Credit, ACA, and Doug Burdette on September 1, 2000, in the Circuit Court for Cecil County, Maryland, Case No. 07-C-00-262OT. JWM obtained a loan from MidAtlantic to purchase an aquatic system developed by Doug Burdette for the purpose of commercially raising fish and growing hydroponic vegetables. MidAtlantic also had a loan with Burdette. JWM claims the system was defective and that MidAtlantic concealed knowledge of defects in the system. JWM also alleges breach of contract, intentional misrepresentation, constructive fraud, breach of express and implied warranty, civil conspiracy and breach of fiduciary duty. JWM requests \$10 million in compensatory damages and \$50 million in punitive damages. On the basis of information now at hand, management and legal counsel consider the claims to be without merit, but at this stage of the litigation, the ultimate liability and financial impact on the Association, if any, cannot now be determined.

NOTE 4 – 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 three months ended March 31, 2005:

	For the three months ended March 31,	
	2005	2004
Pension	\$ 387	\$ 461
Thrift/deferred compensation	67	85
Other postretirement benefits	<u>227</u>	<u>298</u>
Total	<u>\$ 681</u>	<u>\$ 844</u>

As of March 31, 2005, no contributions have been made to the pension plan for 2005. Actuarial projections as of the last plan measurement date (September 30, 2004) did not anticipate any contributions for 2005; however, market conditions could impact discount rates and return on plan assets which could change this expectation, making contributions necessary before the next plan measurement date.