

SECOND QUARTER 2005

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Chief Executive Officer



Robert N. Stabler
Chairman of the Board

July 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 June 30, 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 June 30, 2005 totaled \$1,585,979 compared to \$1,537,010 at December 31, 2004, increasing \$48,969 or 3.2 percent during the first six months. The Association's allowance for loan losses of \$10,463 remained unchanged during the first half of 2005 resulting in net loans (gross loans less allowance for loan losses) of \$1,575,515 and \$1,526,547 at June 30, 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 half of 2005 that would increase the Association's allowance. The allowance for loan

losses represented 0.66 percent and 0.68 percent of total loans at June 30, 2005 and December 31, 2004, respectively.

RESULTS OF OPERATIONS

For the three months ended June 30, 2005

Net income for the three months ended June 30, 2005 totaled \$9,033, an increase of \$356 compared to the three months ended June 30, 2004. Major changes in the components of net income are identified as follows:

- Net interest income increased \$1,100 for the quarter ended June 30, 2005 compared to the same period in 2004. Earnings on the Association's loanable funds credit (investable funds) increased \$623 over last year due to management's strategy of investing these funds in higher yielding notes on a portion of the funds and the increase in short-term interest rates, which favorably impacts the earnings on the variable rate investments. The remaining increase in net interest income is primarily attributable to 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 second quarter of 2005 or 2004.
- At June 30, 2005 and 2004, the Association accrued an estimated patronage distribution of \$2,492 and \$2,376, respectively, which is based on second 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 forecast of annualized net income.

- The Association sold one branch office facility during the quarter ended June 30, 2005 netting a gain on the sale of \$364. During the second quarter of 2004, two properties were sold resulting in a net gain of \$912.
- Noninterest Expense for the second quarter of 2005 was \$5,096 as compared to \$4,563 for the second quarter of 2004 or an increase of \$533 (11.7 percent). The \$649 increase in salaries and employee benefits for the second quarter of 2005 as compared to the same period in 2004 results primarily from an accrual for incentive based compensation in 2005 while no accrual for the same program was made in 2004 until the third quarter. In addition, the deferral of salaries and benefits in accordance with Statement of Financial Accounting Standards No. 91 "Accounting for Non-refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Cost of Leases," decreased \$306 on a comparable quarter basis. The remaining variance relates primarily to timing variances since year-to-date 2005 Noninterest Expenses, excluding salaries and benefits, are \$420 less than during the same 2004 period.

For the six months ended June 30, 2005

Net income for the six months ended June 30, 2005 totaled \$17,922 (10.8 percent) or \$1,750 more than the six months ended June 30, 2004. Year-to-date operations for the Association simulated second quarter operations. Major changes in the components of net income are identified as follows:

- The increase in net interest income is attributable to the increase in Association's earnings on the loanable funds credit (investable funds) due to management's strategy of investing in higher yielding notes on a portion of the funds and the increase in interest rates which favorably impacts the earnings on the variable rate investments, combined with the increased interest earnings related to an increased loan portfolio.

- At the period ended June 30, 2005, the Association has accrued an estimated patronage distribution of \$4,919 as compared to \$4,729 at June 30, 2004. This accrual is based on the first half of the year's operations, and management anticipates additional income for each successive quarter throughout the year. Since the patronage income from AgFirst Farm Credit 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 forecast of annualized net income.
- Additional other income has been earned by the Association related to the sale of office buildings. These sales in both years were a result of management's study to determine the best site for all physical locations. There remains one former branch location to be sold this year. Proceeds from Association's property sales in both years have been redeployed in updating and modernizing Association office facilities.
- Noninterest expense increased \$231 or 2.5 percent for the first six months of 2005 as compared to 2004. The year-to-date variance for salaries and employee benefits occurred in the second quarter and was previously discussed. The Insurance Fund premium favorable variance is directly attributable to a decrease in the insurance premium. The remaining variances are principally timing differences of when particular expenses are incurred and are not cumulatively expected to vary significantly by the end of 2005 as compared to 2004.

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 June 30, 2005 were \$1,330,037 compared to \$1,286,589 at December 31, 2004. This increase during the period of \$43 million or 3.4 percent corresponds to the trend in the Association's loan volume offset by cash generated from operating activities.

CAPITAL RESOURCES

Members' equity at June 30, 2005 totaled \$275,031 an increase of \$14,591 compared to total members' equity of \$260,440 at December 31, 2004. Net income of \$17,922 for the six months ending June 30, 2005 and net member stock issues of \$131, offset by an estimated cash patronage distribution for the first half of 2005 totaling \$3,478 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 June 30, 2005, the Association's permanent capital, total surplus and core surplus ratios equaled 16.15 percent, 15.58 percent and 13.44 percent, respectively.

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 Jay Wise, 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 1-800-333-7950, or writing John E. Wheeler, Jr., Chief Financial Officer, MidAtlantic Farm Credit, ACA, P.O. Box 770, Westminster, MD 21158-0770, or accessing the website, www.mafc.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.

MidAtlantic Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2005 <i>(unaudited)</i>	December 31, 2004 <i>(audited)</i>
Assets		
Cash	\$ 3,378	\$ 4,130
Loans	1,585,978	1,537,010
Less: allowance for loan losses	10,463	10,463
Net loans	1,575,515	1,526,547
Accrued interest receivable	13,743	8,854
Investment in other Farm Credit institutions	18,055	18,055
Premises and equipment, net	5,822	4,795
Deferred tax asset, net	314	314
Other assets	13,747	25,380
Total assets	<u>\$ 1,630,574</u>	<u>\$ 1,588,075</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,330,037	\$ 1,286,589
Accrued interest payable	4,949	4,284
Patronage refund payable	3,537	7,977
Allocated surplus payable	66	12,687
Postretirement benefits other than pensions	7,466	7,206
Other liabilities	9,488	8,892
Total liabilities	<u>1,355,543</u>	<u>1,327,635</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	8,978	8,847
Retained earnings		
Allocated	93,672	93,752
Unallocated	172,381	157,841
Total members' equity	<u>275,031</u>	<u>260,440</u>
Total liabilities and members' equity	<u>\$ 1,630,574</u>	<u>\$ 1,588,075</u>

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 June 30,		For the six months ended June 30,	
	2005	2004	2005	2004
Interest Income				
Loans	\$ 24,981	\$ 20,458	\$ 48,859	\$ 40,349
Other	3	—	3	3
Total Interest Income	<u>24,984</u>	<u>20,458</u>	<u>48,862</u>	<u>40,352</u>
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	14,460	11,034	27,801	21,988
Net interest income	10,524	9,424	21,061	18,364
Provision for (reversal of) loan losses	—	—	—	—
Net interest income after provision for (reversal of) loan losses	<u>10,524</u>	<u>9,424</u>	<u>21,061</u>	<u>18,364</u>
Noninterest Income				
Loan fees	441	429	759	768
Fees for financially related services	141	33	154	76
Equity in earnings of other Farm Credit institutions	2,492	2,376	4,919	4,729
Other noninterest income	531	949	630	1,546
Total noninterest income	<u>3,605</u>	<u>3,787</u>	<u>6,462</u>	<u>7,119</u>
Noninterest Expense				
Salaries and employee benefits	3,524	2,873	6,661	6,012
Occupancy and equipment	447	393	783	853
Insurance Fund premium	154	355	300	712
Other operating expenses	971	941	1,857	1,792
Losses on other property owned, net	—	1	—	1
Total noninterest expense	<u>5,096</u>	<u>4,563</u>	<u>9,601</u>	<u>9,370</u>
Income before income taxes	9,033	8,648	17,922	16,113
Provision (benefit) for income taxes	—	(29)	—	(59)
Net income	<u>\$ 9,033</u>	<u>\$ 8,677</u>	<u>\$ 17,922</u>	<u>\$ 16,172</u>

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			16,172		16,172
Capital stock/participation certificates issued	394				394
Capital stock/participation certificates retired	(216)				(216)
Patronage distribution					
Cash			(2,650)		(2,650)
Retained earnings retired		(37)			(37)
Distribution adjustment		(135)	181		46
Balance at June 30, 2004	\$ 8,712	\$ 79,357	\$ 152,511	\$ (7,873)	\$ 232,707
Balance at December 31, 2004	\$ 8,847	\$ 93,752	\$ 157,841	\$ —	\$ 260,440
Net income			17,922		17,922
Capital stock/participation certificates issued	349				349
Capital stock/participation certificates retired	(218)				(218)
Patronage distribution					
Cash			(3,478)		(3,478)
Retained earnings retired		(6)			(6)
Distribution adjustment		(74)	96		22
Balance at June 30, 2005	\$ 8,978	\$ 93,672	\$ 172,381	\$ —	\$ 275,031

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 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 Shareholders. These unaudited second quarter 2005 consolidated financial statements should be read in conjunction with the 2004 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. The results for the six months ended June 30, 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 June 30, 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	35
Balance at 6-30-04	<u>\$ 30,418</u>
Balance at 12-31-04	\$ 10,463
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	—
Balance at 6-30-05	<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

Actions are pending against the Association in which money damages are sought. However, on the basis of information now at hand, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom, would not be material in relation to the overall financial position of the Association.

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 six months ended June 30, 2005:

	For the six months ended June 30,	
	2005	2004
Pension	\$ 774	\$ 922
Thrift/deferred compensation	143	141
Other postretirement benefits	454	597
Total	<u>\$1,371</u>	<u>\$1,660</u>

As of June 30, 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.