

SECOND QUARTER 2006

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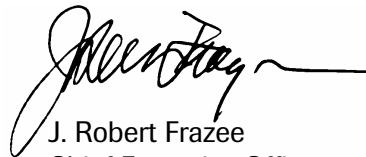
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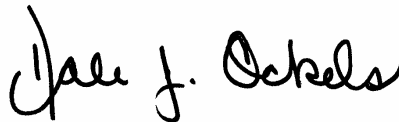
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J. Robert Frazee
Chief Executive Officer



Dale J. Ockels
Chairman of the Board

July 27, 2006

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, 2006. 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 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 the financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio encompasses 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, 2006 totaled \$1,696,472 compared to \$1,646,119 at December 31, 2005, increasing \$50,353 or 3.1 percent during the first six months. The Association's allowance for loan losses of \$10,424 remained relatively constant during the first half of 2006 resulting in net loans (gross loans less allowance for loan losses) of \$1,686,048 and \$1,635,696 at June 30, 2006 and December 31, 2005, 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 2006 that would increase the Association's allowance. The allowance for loan losses represented 0.61 percent and 0.63 percent of total loans at June 30, 2006 and December 31, 2005, respectively.

RESULTS OF OPERATIONS

For the three months ended June 30, 2006

Net income for the three months ended June 30, 2006 totaled \$9,567, an increase of \$534 or 5.9 percent compared to the three months ended June 30, 2005. Major changes in the components of net income are identified as follows:

- Net interest income increased \$1,012 for the quarter ended June 30, 2006 compared to the same period in 2005. Earnings on the Association's loanable funds credit (investable funds) increased \$957 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 net of a decrease in interest income from nonaccrual loans and a slightly reduced portfolio margin generally attributable to the increase in interest rates and a competitive marketplace.
- 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 2006 or 2005.
- At June 30, 2006 and 2005, the Association accrued an estimated patronage receipt (reported as "Equity in earnings of other Farm Credit institutions" on the Consolidated Statements of Income) of \$2,726 and \$2,492, 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 which accounts for the decrease in Other noninterest income in the second quarter of 2006.
- Noninterest Expense for the second quarter of 2006 was \$5,239 as compared to \$5,096 for the second quarter of 2005 or an increase of \$143 (2.8 percent). The \$365 decrease in Salaries and employee benefits for the second quarter of 2006 as compared to the same period in 2005 results primarily from an accrual

for incentive based compensation in 2005 while no accrual for the same program was made in 2006. The \$462 Insurance Fund premium increase is directly attributable to the insurance premium for loans as determined by the Farm Credit System Insurance Corporation (FCSIC) for 2006. The cumulative increase in Occupancy and equipment and Other operating expenses of \$46 or .3 percent is significantly less than the increase in inflation.

For the six months ended June 30, 2006

Net income for the six months ended June 30, 2006 totaled \$19,214 or \$1,292 (7.2 percent) more than the six months ended June 30, 2005. 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 of \$1,789 is attributable to the increase in the 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 steady 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. The increase was slightly offset by a decrease in portfolio yield attributable to the increase in interest rates and keen competition in the Association's marketplace.
- At the period ended June 30, 2006, the Association has accrued an estimated patronage receipt of \$5,404 as compared to \$4,919 at June 30, 2005. 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 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.
- Additional Other noninterest 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. Proceeds from the Association's property sales in both years have been redeployed in updating and modernizing Association office facilities. No additional office building sales are currently planned.
- Noninterest expense increased \$709 or 7.4 percent for the first six months of 2006 as compared to 2005. The year-to-date favorable variance for Salaries and employee benefits occurred in the second quarter and was previously discussed. The Insurance Fund premium increase of \$912 (300.0 percent) is directly attributable to an increase in the insurance premium as determined by the FCSIC. Excluding the Insurance Fund premium

increase, Noninterest Expense decreased \$206 or 2.2 percent for the first six months of 2006 compared to the same period in 2005.

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, 2006 were \$1,425,125 compared to \$1,378,625 at December 31, 2005. This increase during the period of \$46.5 million or 3.4 percent corresponds to the augmentation in the Association's loan volume offset by net cash generated from operating activities.

CAPITAL RESOURCES

Members' equity at June 30, 2006 totaled \$296,348 an increase of \$14,944 (5.3 percent) compared to total members' equity of \$281,404 at December 31, 2005. Net income of \$19,214 for the six months ending June 30, 2006 and net member stock issues of \$126, offset by an estimated cash patronage distribution for the first half of 2006 totaling \$4,035 and miscellaneous adjustments totaling \$364 account for the change.

FCA regulations require that all Farm Credit institutions 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. At June 30, 2006, the Association's permanent capital, total surplus and core surplus ratios equaled 15.81 percent, 15.28 percent and 13.13 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. 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 1-800-333-7950, 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, 2006 <i>(unaudited)</i>	December 31, 2005 <i>(audited)</i>
Assets		
Cash	\$ 5,548	\$ 5,546
Loans	1,696,472	1,646,119
Less: allowance for loan losses	10,424	10,423
Net loans	1,686,048	1,635,696
Accrued interest receivable	16,132	11,443
Investment in other Farm Credit institutions	17,957	17,957
Premises and equipment, net	6,381	6,801
Deferred tax asset, net	314	314
Prepaid retirement expense	8,886	9,669
Due from AgFirst Farm Credit Bank	5,398	14,710
Other assets	2,630	1,205
Total assets	\$ 1,749,294	\$ 1,703,341
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,425,125	\$ 1,378,625
Accrued interest payable	6,406	5,726
Patronage refund payable	4,117	8,723
Allocated surplus payable	47	11,882
Postretirement benefits other than pensions	7,923	7,790
Other liabilities	9,328	9,191
Total liabilities	1,452,946	1,421,937
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	9,219	9,093
Retained earnings		
Allocated	110,358	110,441
Unallocated	176,771	161,870
Total members' equity	296,348	281,404
Total liabilities and members' equity	\$ 1,749,294	\$ 1,703,341

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,	
	2006	2005	2006	2005
Interest Income				
Loans	\$ 30,483	\$ 24,984	\$ 59,527	\$ 48,862
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	18,947	14,460	36,677	27,801
Net interest income	11,536	10,524	22,850	21,061
Provision for (reversal of allowance for) loan losses	—	—	—	—
Net interest income after provision for (reversal of allowance for) loan losses	11,536	10,524	22,850	21,061
Noninterest Income				
Loan fees	406	441	852	759
Fees for financially related services	110	141	126	154
Equity in earnings of other Farm Credit institutions	2,726	2,492	5,404	4,919
Other noninterest income	28	531	399	630
Total noninterest income	3,270	3,605	6,781	6,462
Noninterest Expense				
Salaries and employee benefits	3,159	3,524	6,329	6,661
Occupancy and equipment	393	447	749	783
Insurance Fund premium	616	154	1,212	300
Other operating expenses	1,071	971	2,020	1,857
Total noninterest expense	5,239	5,096	10,310	9,601
Income before income taxes	9,567	9,033	19,321	17,922
Provision for income taxes	—	—	107	—
Net income	\$ 9,567	\$ 9,033	\$ 19,214	\$ 17,922

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

MidAtlantic Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
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	<u>\$ 8,978</u>	<u>\$ 93,672</u>	<u>\$ 172,381</u>	<u>\$ 275,031</u>
Balance at December 31, 2005	\$ 9,093	\$ 110,441	\$ 161,870	\$ 281,404
Net income			19,214	19,214
Capital stock/participation certificates issued	329			329
Capital stock/participation certificates retired	(203)			(203)
Patronage distribution				
Cash			(4,035)	(4,035)
Retained earnings retired		(13)		(13)
Distribution adjustment		(70)	(278)	(348)
Balance at June 30, 2006	<u>\$ 9,219</u>	<u>\$ 110,358</u>	<u>\$ 176,771</u>	<u>\$ 296,348</u>

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, 2005, are contained in the 2005 Annual Report to Shareholders. These unaudited second quarter 2006 consolidated financial statements should be read in conjunction with the 2005 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, 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 June 30, 2006, 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 12-31-04	\$ 10,463
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	—
Balance at 6-30-05	<u>\$ 10,463</u>
Balance at 12-31-05	\$ 10,423
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	1
Balance at 6-30-06	<u>\$ 10,424</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 six months ended June 30, 2006:

	For the six months ended June 30,	
	2006	2005
Pension	\$ 788	\$ 774
Thrift/deferred compensation	136	143
Other postretirement benefits	296	454
Total	<u>\$1,220</u>	<u>\$1,371</u>

As of June 30, 2006, no contributions have been made to the pension plan for 2006. Actuarial projections as of the last plan measurement date (September 30, 2005) did not anticipate any contributions for 2006; 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.

The Association also sponsors supplemental retirement and deferred compensation plans for certain key employees. The expenses of these plans are included in the pension and deferred compensation costs above. The Association contributed \$6 to these plans during the first six months of 2006. The Association anticipates making additional contributions of \$6 to these supplemental retirement and deferred compensation plans during the remainder of 2006.