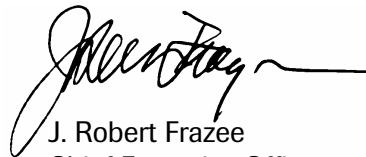
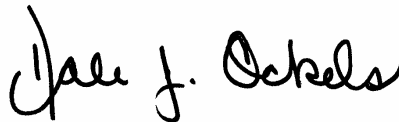


THIRD QUARTER 2006

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J. Robert Frazee
Chief Executive Officer



Dale J. Ockels
Chairman of the Board

October 26, 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 (the Association) for the period ended September 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 September 30, 2006 totaled \$1,707,480 compared to \$1,646,119 at December 31, 2005, increasing \$61,361 or 3.7 percent during the first nine months. The Association's allowance for loan losses of \$10,924 increased \$501 during the first nine months of 2006 resulting in net loans (gross loans less allowance for loan losses) of \$1,696,556 and \$1,635,696 at September 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 be strong. A provision for loan losses of \$500 was recorded in the third quarter of 2006 that increased the Association's allowance. The allowance for loan losses represented 0.62 percent and 0.63 percent of total loans at September 30, 2006 and December 31, 2005, respectively.

RESULTS OF OPERATIONS

For the three months ended September 30, 2006

Net income for the three months ended September 30, 2006 totaled \$9,746, an increase of \$565 or 6.2 percent compared to the three months ended September 30, 2005. Major changes in the components of net income are identified as follows:

- Net interest income increased \$656 for the quarter ended September 30, 2006 compared to the same period in 2005. Earnings on the Association's loanable funds credit (investable funds) increased \$875 over last year due to management's strategy of investing these funds in higher yielding notes on a portion of the funds, the increase in short-term interest rates which favorably impacts the earnings on the variable rate investments, and an increase in the amount of funds available to invest. 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 required a provision for loan losses of \$500 to be recorded in the third quarter of 2006; no provision was warranted in the third quarter of 2005.
- At September 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 \$2,774 and \$2,618, respectively, which is based on third quarter operations only; management anticipates additional income for the fourth quarter. 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.

- Noninterest Expense for the third quarter of 2006 was \$5,331 as compared to \$5,089 for the third quarter of 2005 or an increase of \$242 (4.8 percent). The \$95 decrease in Salaries and employee benefits for the third 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 \$354 (129.2 percent) 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. Occupancy and equipment and Other operating expenses decreased \$17 or 1.1 percent.

For the nine months ended September 30, 2006

Net income for the nine months ended September 30, 2006 totaled \$28,960 or \$1,857 (6.8 percent) more than the nine months ended September 30, 2005. Year-to-date operations for the Association simulated third quarter operations. Major changes in the components of net income are identified as follows:

- The increase in Net interest income of \$2,445 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, an increase in the amount of funds available to invest, 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. Also, in 2005, a loan which had been in nonaccrual status was successfully resolved resulting in a favorable impact on Net interest income. The increase was slightly offset by a decrease in portfolio yield attributable primarily to the increase in interest rates as well as keen competition in the Association's marketplace.
- At the period ended September 30, 2006, the Association has accrued an estimated patronage receipt of \$8,178 as compared to \$7,537 at September 30, 2005. This accrual is based on the first nine months of the year's operations, and management anticipates additional income for the fourth quarter. 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 \$951 or 6.5 percent for the first nine months of 2006 as compared to 2005. The year-to-date favorable variance for Salaries and employee benefits was previously discussed in the quarterly analysis. The Insurance Fund premium increase of \$1,266 (220.6 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 \$315 or 2.1 percent for the first nine 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 September 30, 2006 were \$1,429,050 compared to \$1,378,625 at December 31, 2005. This increase during the period of \$50.4 million or 3.7 percent corresponds to the augmentation in the Association's loan volume offset by net cash generated from operating activities.

CAPITAL RESOURCES

Members' equity at September 30, 2006 totaled \$303,995 an increase of \$22,591 (8.0 percent) compared to total members' equity of \$281,404 at December 31, 2005. Net income of \$28,960 for the nine months ending September 30, 2006 and net member stock issues of \$165, offset by an estimated cash patronage distribution accrual for the first nine months of 2006 totaling \$6,155 and miscellaneous adjustments totaling \$379 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 September 30, 2006, the Association's permanent capital, total surplus and core surplus ratios equaled 15.95 percent, 15.43 percent and 13.49 percent, respectively.

ACCOUNTING AND DISCLOSURE CHANGES

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, but there can be no guarantee, that the Statement will 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 1-800-333-7950, 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>	September 30, 2006 <i>(unaudited)</i>	December 31, 2005 <i>(audited)</i>
Assets		
Cash	\$ 4,452	\$ 5,546
Loans	1,707,480	1,646,119
Less: allowance for loan losses	10,924	10,423
Net loans	1,696,556	1,635,696
Accrued interest receivable	17,900	11,443
Investment in other Farm Credit institutions	17,958	17,957
Premises and equipment, net	6,756	6,801
Deferred tax asset, net	314	314
Prepaid retirement expense	8,494	9,669
Due from AgFirst Farm Credit Bank	8,173	14,710
Other assets	1,718	1,205
Total assets	<u>\$ 1,762,321</u>	<u>\$ 1,703,341</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,429,050	\$ 1,378,625
Accrued interest payable	6,603	5,726
Patronage refund payable	6,173	8,723
Allocated surplus payable	44	11,882
Postretirement benefits other than pensions	7,993	7,790
Other liabilities	8,463	9,191
Total liabilities	<u>1,458,326</u>	<u>1,421,937</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	9,258	9,093
Retained earnings		
Allocated	110,339	110,441
Unallocated	184,398	161,870
Total members' equity	<u>303,995</u>	<u>281,404</u>
Total liabilities and members' equity	<u>\$ 1,762,321</u>	<u>\$ 1,703,341</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 September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Interest Income				
Loans	\$ 31,461	\$ 26,917	\$ 90,988	\$ 75,779
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	19,801	15,913	56,478	43,714
Net interest income	11,660	11,004	34,510	32,065
Provision for (reversal of) loan losses	500	—	500	—
Net interest income after provision for (reversal of) loan losses	11,160	11,004	34,010	32,065
Noninterest Income				
Loan fees	544	437	1,396	1,196
Fees for financially related services	606	475	732	629
Equity in earnings of other Farm Credit institutions	2,774	2,618	8,178	7,537
Other noninterest income	45	(53)	444	577
Total noninterest income	3,969	3,477	10,750	9,939
Noninterest Expense				
Salaries and employee benefits	3,182	3,277	9,511	9,938
Occupancy and equipment	392	449	1,141	1,232
Insurance Fund premium	628	274	1,840	574
Other operating expenses	1,129	1,089	3,149	2,946
Total noninterest expense	5,331	5,089	15,641	14,690
Income before income taxes	9,798	9,392	29,119	27,314
Provision (benefit) for income taxes	52	211	159	211
Net income	\$ 9,746	\$ 9,181	\$ 28,960	\$ 27,103

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			27,103	27,103
Capital stock/participation certificates issued	518			518
Capital stock/participation certificates retired	(320)			(320)
Patronage distribution				
Cash			(6,379)	(6,379)
Retained earnings retired		(10)		(10)
Distribution adjustment		(74)	95	21
Balance at September 30, 2005	<u>\$ 9,045</u>	<u>\$ 93,668</u>	<u>\$ 178,660</u>	<u>\$ 281,373</u>
Balance at December 31, 2005	\$ 9,093	\$ 110,441	\$ 161,870	\$ 281,404
Net income			28,960	28,960
Capital stock/participation certificates issued	476			476
Capital stock/participation certificates retired	(311)			(311)
Patronage distribution				
Cash			(6,155)	(6,155)
Retained earnings retired		(32)		(32)
Distribution adjustment		(70)	(277)	(347)
Balance at September 30, 2006	<u>\$ 9,258</u>	<u>\$ 110,339</u>	<u>\$ 184,398</u>	<u>\$ 303,995</u>

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, 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, but there is no guarantee, that the statement will 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.

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	\$10,423	\$10,463
Provision for (reversal of) loan losses	500	–
Loans (charged off), net of recoveries	1	(42)
Balance at end of period	<u>\$10,924</u>	<u>\$10,421</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,	
	2006	2005
Pension	\$ 1,182	\$1,161
Thrift/deferred compensation	205	216
Other postretirement benefits	445	681
Total	<u>\$ 1,832</u>	<u>\$2,058</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.

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 \$9 to these plans during the first nine months of 2006. The Association anticipates making additional contributions of \$3 to these supplemental retirement and deferred compensation plans during the remainder of 2006.