
MidAtlantic Farm Credit, ACA

FIRST QUARTER 2008

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

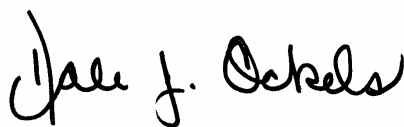
Notes to the Consolidated Financial Statements 7



J. Robert Frazee
Chief Executive Officer



John E. Wheeler, Jr.
Chief Financial Officer



Dale J. Ockels
Chairman of the Board

April 28, 2008

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, 2008. 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 2007 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 March 31, 2008 totaled \$1,841,583 compared to \$1,822,845 at December 31, 2007, increasing \$18,738 or 1.03 percent during the first three months. The Association's allowance for loan losses of \$11,534 increased \$532 or 4.84 percent during the first three months of 2008 resulting in net loans (gross loans less allowance for loan losses) of \$1,830,049 and \$1,811,843 at March 31, 2008 and December 31, 2007, respectively. Nonaccrual loans increased \$594 or 3.51 percent from \$16,973 at December 31, 2007 to \$17,567 at March 31, 2008 resulting in a slight increase in the ratio of Nonaccrual loans to total loans from .93 percent to .95 percent.

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 remained strong. A provision for loan losses of \$500 was recorded in the first quarter of 2008 that increased the Association's allowance \$532 after giving effect to the recovery of several loans previously written-off. The allowance for loan losses represented 0.63 percent and 0.60 percent of total loans at March 31, 2008 and December 31, 2007, respectively.

RESULTS OF OPERATIONS

For the three months ended March 31, 2008

Net income for the three months ended March 31, 2008 totaled \$10,027, an increase of \$179 or 1.82 percent compared to the three months ended March 31, 2007. Major changes in the components of net income are identified as follows:

Net interest income increased \$770 (6.45 percent) for the quarter ended March 31, 2008 compared to the same period in 2007. The increase in net interest income is primarily attributable to incremental earnings on an increasing loan portfolio as loan volume increased \$113 million or 6.53 percent from March 31, 2007 and net of a slightly increased portfolio margin attributable to the decrease in interest rates which occurred during the first quarter of 2008.

The risks identified in the Association's loan portfolio required a provision for loan losses of \$500 to be recorded in the first quarter of 2008 whereas no provision was recorded in the first quarter of 2007.

At March 31, 2008 and 2007, the Association accrued an estimated patronage receipt (reported as "Equity in earnings of other Farm Credit institutions" on the Consolidated Statements of Income) of \$3,020 and \$2,816, respectively, which is based on first quarter operations only; management anticipates additional income for each successive quarter in 2008. 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 Income in the first quarter of 2008 included an insurance related refund; a similar refund was recorded in the second quarter of 2007.

Noninterest Expense for the first quarter of 2008 was \$5,740 as compared to \$5,348 for the first quarter of 2007 or an increase of \$392 (7.33 percent). The \$257 increase in Salaries and employee benefits for the first quarter of 2008 as compared to the same period in 2007 results primarily from an accrual for incentive based compensation in 2008 while no accrual for the same program was made in 2007, plus the normal annual inflation impact of salary and benefit increases. The \$45 Insurance Fund premium increase is directly attributable to the insurance premium for loans as determined by the Farm Credit System Insurance Corporation (FCSIC) for 2008. Occupancy and equipment and Other operating expenses increased \$90 principally attributable to director, technology and travel related expenses.

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, 2008 were \$1,535,481 compared to \$1,520,171 at December 31, 2007. This increase during the period of \$15,310 or 1.01 percent corresponds to the augmentation in the Association's loan volume, receipt of prior year Bank patronage, offset by current year net cash generated from operating activities and patronage payments.

CAPITAL RESOURCES

Members' equity at March 31, 2008 totaled \$321,840 an increase of \$6,402 (2.03 percent) compared to total members' equity of \$315,438 at December 31, 2007. Net income of \$10,027 for the three months ended March 31, 2008 offset by net member capital stock/participation certificates retired of \$80, an estimated cash patronage distribution accrual for the first three months of 2008 totaling \$3,000, patronage distribution adjustment of \$524 and miscellaneous adjustments totaling \$21 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 March 31, 2008, the Association's permanent capital, total surplus and core surplus ratios equaled 15.53 percent, 15.13 percent and 12.66 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 Stephen Gilbert, 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 40 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>	March 31, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
Assets		
Cash	\$ 4,892	\$ 4,402
Loans	1,841,583	1,822,845
Less: allowance for loan losses	11,534	11,002
Net loans	1,830,049	1,811,843
Accrued interest receivable	14,578	13,313
Investment in other Farm Credit institutions	25,400	25,400
Premises and equipment, net	7,417	7,589
Other property owned	—	100
Due from AgFirst Farm Credit Bank	3,036	13,668
Other assets	8,769	8,853
Total assets	<u>\$ 1,894,141</u>	<u>\$ 1,885,168</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,535,481	\$ 1,520,171
Accrued interest payable	6,377	7,163
Patronage refund payable	3,300	11,726
Allocated surplus payable	91	11,975
Other liabilities	27,052	18,695
Total liabilities	<u>1,572,301</u>	<u>1,569,730</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	7,576	7,656
Retained earnings		
Allocated	143,631	143,316
Unallocated	171,065	164,909
Accumulated other comprehensive income (loss)	(432)	(443)
Total members' equity	<u>321,840</u>	<u>315,438</u>
Total liabilities and members' equity	<u>\$ 1,894,141</u>	<u>\$ 1,885,168</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 March 31,	
	2008	2007
Interest Income		
Loans	\$ 32,857	\$ 32,338
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	20,150	20,401
Net interest income	12,707	11,937
Provision for loan losses	500	—
Net interest income after provision for loan losses	12,207	11,937
Noninterest Income		
Loan fees	360	474
Fees for financially related services	49	22
Equity in earnings of other Farm Credit institutions	3,020	2,816
Gains on other property owned, net	4	—
Gains on sale of rural home loans, net	37	11
Other noninterest income	131	17
Total noninterest income	3,601	3,340
Noninterest Expense		
Salaries and employee benefits	3,571	3,314
Occupancy and equipment	427	437
Insurance Fund premium	670	625
Other operating expenses	1,072	972
Total noninterest expense	5,740	5,348
Income before income taxes	10,068	9,929
Provision for income taxes	41	81
Net income	\$ 10,027	\$ 9,848

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		Accumulated Other Comprehensive Income	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2006	\$ 9,290	\$ 130,402	\$ 160,702	\$ —	\$ 300,394
Net income			9,848		9,848
Capital stock/participation certificates issued/retired, net	31				31
Patronage distribution					
Cash			(1,990)		(1,990)
Retained earnings retired		(503)			(503)
Patronage distribution adjustment		(157)	(537)		(694)
Balance at March 31, 2007	\$ 9,321	\$ 129,742	\$ 168,023	\$ —	\$ 307,086
Balance at December 31, 2007	\$ 7,656	\$ 143,316	\$ 164,909	\$ (443)	\$ 315,438
Net income			10,027		10,027
Capital stock/participation certificates issued/retired, net	(80)				(80)
Patronage distribution					
Cash			(3,000)		(3,000)
Retained earnings retired		(6)			(6)
Patronage distribution adjustment		321	(845)		(524)
Employee benefit plans adjustments			(26)	11	(15)
Balance at March 31, 2008	\$ 7,576	\$ 143,631	\$ 171,065	\$ (432)	\$ 321,840

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

The accompanying financial statements include the accounts of MidAtlantic Farm Credit, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2007, are contained in the 2007 Annual Report to Shareholders. These unaudited first quarter 2008 consolidated financial statements should be read in conjunction with the 2007 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 accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The results for the three months ended March 31, 2008, are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's 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 GAAP. The Association's allowance methodology requires that the loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2008, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141R, "Business Combinations" (SFAS 141R). SFAS 141R requires business combinations to be accounted for under the acquisition method of accounting (previously called the purchase method). The acquisition method requires (a) identifying the acquirer, (b) determining the acquisition date, (c) recognizing and measuring the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, at their acquisition

date fair values, and (d) recognizing and measuring goodwill or a gain from a bargain purchase. SFAS 141R should be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Association is still evaluating the provisions of the Standard, but believes that its adoption could significantly impact its accounting for acquisitions that may occur in 2009 and beyond.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the three months ended March 31,	
	2008	2007
Balance at beginning of period	\$11,002	\$ 8,878
Provision for loan losses	500	–
Loans charged off, net of recoveries	32	6
Balance at end of period	<u>\$11,534</u>	<u>\$ 8,884</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 defined contribution thrift and other postretirement benefit plans.

The following is a table of retirement and other postretirement benefit expenses for the Association:

	For the three months ended March 31,	
	2008	2007
Pension	\$ 223	\$ 325
Thrift/deferred compensation	89	73
Other postretirement benefits	147	124
Total	<u>\$ 459</u>	<u>\$ 522</u>

As of March 31, 2008, no contributions have been made to the pension plan for 2008. The Association projects making additional contributions for the remainder of 2008 of approximately \$1.4 million.

Market conditions could impact discount rates and return on plan assets which could change the above contribution projections by making additional contributions necessary before the next plan measurement date.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*" (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007 for the Association.

SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Association allows for the use of the measurements determined for the prior year end. Under this alternative, pension and other postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was debited to beginning 2008 unallocated retained earnings. As a result, the Association decreased unallocated retained earnings and increased the pension or other postretirement benefit liability by \$443.

SFAS 158 further required the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income. These amounts are subsequently recognized as components of net periodic benefit costs over time. \$11 has been recognized for the first three months of 2008 as a credit to accumulated other comprehensive income and a debit to pension or other postretirement benefit expense.

Further details regarding employee benefit plans and application of SFAS 158 are contained in the 2007 Annual Report to Shareholders.