


FIRST QUARTER 2006

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



Robert N. Stabler
Chairman of the Board

April 28, 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 March 31, 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.

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, 2006 totaled \$1,669,556 compared to \$1,646,119 at December 31, 2005, increasing \$23,437 or 1.4 percent during the first quarter. The Association's allowance for loan losses of \$10,423 remained relatively constant during the first quarter of 2006 resulting in net loans (gross loans less allowance for loan losses) of \$1,659,132 and \$1,635,696 at March 31, 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 quarter of 2006 that would increase the Association's allowance. The allowance for loan losses represented 0.62 percent and 0.63 percent of total loans at March 31, 2006 and December 31, 2005, respectively.

RESULTS OF OPERATIONS

For the three months ended March 31, 2006

Net income for the three months ended March 31, 2006 totaled \$9,647, an increase of \$758 compared to the three months ended March 31, 2005. Major changes in the components of net income are identified as follows:

- Net interest income increased \$777 for the quarter ended March 31, 2006 compared to the same period in 2005. Earnings on the Association's loanable funds credit (investable funds) increased \$1,010 over last year due to higher interest rates and the increase in the Association's funds available for investment, which was slightly offset by reduced net interest margin on the portfolio. The first quarter of 2005 net interest income included a \$695 recovery of a nonaccrual loan.
- 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 2006 or 2005.
- At March 31, 2006 and 2005, the Association accrued an estimated patronage distribution of \$2,678 and \$2,427, 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, 2006 netting a gain on the sale of \$233.
- Noninterest Expense for the first quarter of 2006 was \$5,071 as compared to \$4,505 for the first three months of 2005 or an increase of \$566 (12.6 percent). \$450 of the increase resulted from the increase in the Insurance Fund premium required by the Farm Credit Services Insurance Corporation. The remaining variance of \$126 (2.9 percent) includes \$28 of non-cash depreciation expense increase resulting in the remaining increase of \$98 (2.3 percent) being less than the inflation increase.

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, 2006 were \$1,393,568 compared to \$1,378,625 at December 31, 2005; the \$14,943 increase is directly related to the \$23,437 increase in loans outstanding offset by cash flow from operations during the quarter and receipt of the 2005 patronage from the Bank.

CAPITAL RESOURCES

Members' equity at March 31, 2006 totaled \$288,636, or an increase of \$7,232 compared to total members' equity of \$281,404 at December 31, 2005. Net income of \$9,647 for the quarter ended March 31, 2006 and net member stock issues of \$81, offset by an estimated cash patronage distribution and distribution adjustments for the quarter totaling \$2,496, 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. As of March 31, 2006, the Association's permanent capital, total surplus and core surplus ratios equaled 15.90 percent, 15.36 percent and 13.41 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>	March 31, 2006 <i>(unaudited)</i>	December 31, 2005 <i>(audited)</i>
Assets		
Cash	\$ 4,276	\$ 5,546
Loans	1,669,556	1,646,119
Less: allowance for loan losses	10,424	10,423
Net loans	1,659,132	1,635,696
Accrued interest receivable	14,210	11,443
Investment in other Farm Credit institutions	17,957	17,957
Premises and equipment, net	6,461	6,801
Deferred tax asset, net	314	314
Prepaid retirement expense	9,274	9,669
Due from AgFirst Farm Credit Bank	—	14,710
Other assets	3,572	1,205
Total assets	\$ 1,715,196	\$ 1,703,341
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,393,568	\$ 1,378,625
Accrued interest payable	6,108	5,726
Patronage refund payable	2,263	8,723
Allocated surplus payable	113	11,882
Postretirement benefits other than pensions	7,857	7,790
Other liabilities	16,651	9,191
Total liabilities	1,426,560	1,421,937
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	9,174	9,093
Retained earnings		
Allocated	110,369	110,441
Unallocated	169,093	161,870
Total members' equity	288,636	281,404
Total liabilities and members' equity	\$ 1,715,196	\$ 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 March 31,	
	2006	2005
Interest Income		
Loans	\$ 29,044	\$ 23,878
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	17,730	13,341
Net interest income	11,314	10,537
Provision for (reversal of allowance for) loan losses	—	—
Net interest income after provision for (reversal of allowance for) loan losses	11,314	10,537
Noninterest Income		
Loan fees	446	318
Fees for financially related services	16	13
Equity in earnings of other Farm Credit institutions	2,678	2,427
Other noninterest income	371	99
Total noninterest income	3,511	2,857
Noninterest Expense		
Salaries and employee benefits	3,170	3,137
Occupancy and equipment	356	336
Insurance Fund premium	596	146
Other operating expenses	949	886
Total noninterest expense	5,071	4,505
Income before income taxes	9,754	8,889
Provision (benefit) for income taxes	107	—
Net income	\$ 9,647	\$ 8,889

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			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	<u>\$ 8,916</u>	<u>\$ 93,678</u>	<u>\$ 165,086</u>	<u>\$ 267,680</u>
Balance at December 31, 2005	\$ 9,093	\$ 110,441	\$ 161,870	\$ 281,404
Net income			9,647	9,647
Capital stock/participation certificates issued	171			171
Capital stock/participation certificates retired	(90)			(90)
Patronage distribution				
Cash			(2,125)	(2,125)
Retained earnings retired		(3)		(3)
Distribution adjustment		(69)	(299)	(368)
Balance at March 31, 2006	<u>\$ 9,174</u>	<u>\$ 110,369</u>	<u>\$ 169,093</u>	<u>\$ 288,636</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 first 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 three months ended March 31, 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 March 31, 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 3-31-05	<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 3-31-06	<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 three months ended March 31, 2006:

	For the three months ended March 31,	
	2006	2005
Pension	\$ 397	\$ 387
Thrift/deferred compensation	67	67
Other postretirement benefits	148	227
Total	<u>\$ 612</u>	<u>\$ 681</u>

As of March 31, 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 former employees. The expenses of these plans are included in the pension and deferred compensation costs above. The Association contributed \$3 to these plans during the first three months of 2006. The Association anticipates making additional contributions of \$9 to these supplemental retirement and deferred compensation plans during the remainder of 2006.