

# FIRST QUARTER 2007

Management's Discussion and Analysis of  
Financial Condition and Results of Operations..... 2

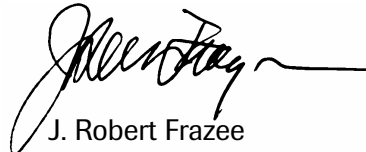
Consolidated Financial Statements

Consolidated Balance Sheets..... 4

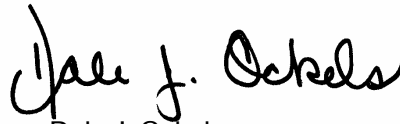
Consolidated Statements of Income..... 5

Consolidated Statements of Changes in Members' Equity..... 6

Notes to the Consolidated Financial Statements..... 7



J. Robert Frazee  
Chief Executive Officer



Dale J. Ockels  
Chairman of the Board

April 27, 2007

# 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, 2007. 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 2006 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, 2007 totaled \$1,728,705 compared to \$1,720,107 at December 31, 2006, increasing \$8,598 or .5 percent during the first quarter. The Association's allowance for loan losses of \$8,884 remained relatively constant during the first quarter of 2007 resulting in net loans (gross loans less allowance for loan losses) of \$1,719,821 and \$1,711,229 at March 31, 2007 and December 31, 2006, 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 2007 that would increase the Association's allowance. The allowance for loan losses represented 0.51 percent and 0.52 percent of total loans at March 31, 2007 and December 31, 2006, respectively.

## RESULTS OF OPERATIONS

### *For the three months ended March 31, 2007*

Net income for the three months ended March 31, 2007 totaled \$9,848, an increase of \$201 compared to the three months ended March 31, 2006. Major changes in the components of net income are identified as follows:

- Net interest income increased \$623 for the quarter ended March 31, 2007 compared to the same period in 2006. Earnings on the Association's loanable funds credit (investable funds) increased \$488 over last year due to higher interest rates and the increase in the Association's funds available for investment, and an increase of \$120 in interest income recognized from nonaccrual loans resulted in the favorable variance.
- 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 2007 or 2006.
- At March 31, 2007 and 2006, the Association accrued an estimated patronage distribution of \$2,816 and \$2,678, 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 which was the major factor for the decrease in Other noninterest income.
- Noninterest Expense for the first quarter of 2007 was \$5,348 as compared to \$5,071 for the first three months of 2006 or an increase of \$277 (5.5 percent). The increase is comprised of (a) a \$144 (4.5 percent) increase in Salaries and employee benefits, (b) an \$81 (22.8 percent) increase in Occupancy and equipment, due primarily to a temporary office rental during a branch renovation and one additional branch location, (c) a \$29 (4.9 percent) increase in the Insurance Fund premium due to higher loan volume outstanding and (d) a \$23 (2.4 percent) increase in Other operating expenses which reasonably reflects an 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, 2007 were \$1,442,906 compared to \$1,444,186 at December 31, 2006. The \$1,280 decrease is directly related to the \$8,598 increase in loans outstanding and cash distribution of the 2000 Allocated Surplus offset by cash flow from operations during the quarter and receipt of the 2006 patronage from the Bank.

## CAPITAL RESOURCES

Members' equity at March 31, 2007 totaled \$307,086, or an increase of \$6,692 compared to total members' equity of \$300,394 at December 31, 2006. Net income of \$9,848 for the quarter ended March 31, 2007 and net member stock issues of \$31, offset by an estimated cash patronage distribution and distribution adjustments for the quarter totaling \$3,187, 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, 2007, the Association's permanent capital, total surplus and core surplus ratios equaled 15.62 percent, 15.11 percent and 12.97 percent, respectively.

## ACCOUNTING AND DISCLOSURE CHANGES

On September 29, 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (FAS 158). FAS 158 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 through comprehensive income changes in that funded status in the year in which the changes occur. The Bank and related associations will be required to implement FAS 158 for the year ended December 31, 2007. In addition, FAS 158 requires that the funded status of a plan be measured as of the date of

the year-end financial statements. Currently, the Bank and related associations use 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 Bank and related associations are currently evaluating the impact of implementing FAS 158.

**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](http://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](http://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>	<b>March 31, 2007</b> <i>(unaudited)</i>	<b>December 31, 2006</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 2,439	\$ 8,077
Loans	1,728,705	1,720,107
Less: allowance for loan losses	8,884	8,878
Net loans	1,719,821	1,711,229
Accrued interest receivable	15,486	13,888
Investment in other Farm Credit institutions	24,424	24,424
Premises and equipment, net	7,300	6,993
Other property owned	769	769
Prepaid retirement expense	7,779	8,102
Due from AgFirst Farm Credit Bank	2,812	13,198
Other assets	1,201	1,007
Total assets	\$ 1,782,031	\$ 1,787,687
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,442,906	\$ 1,444,186
Accrued interest payable	6,917	6,669
Patronage refund payable	2,175	7,947
Allocated surplus payable	90	8,748
Postretirement benefits other than pensions	8,124	8,082
Other liabilities	14,733	11,661
Total liabilities	1,474,945	1,487,293
Commitments and contingencies		
<b>Members' Equity</b>		
Capital stock and participation certificates	9,321	9,290
Retained earnings		
Allocated	129,742	130,402
Unallocated	168,023	160,702
Total members' equity	307,086	300,394
Total liabilities and members' equity	\$ 1,782,031	\$ 1,787,687

*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>	<b>For the three months ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Interest Income</b>		
Loans	\$ 32,338	\$ 29,044
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	20,401	17,730
Net interest income	11,937	11,314
Provision for (reversal of allowance for) loan losses	—	—
Net interest income after provision for (reversal of allowance for) loan losses	11,937	11,314
<b>Noninterest Income</b>		
Loan fees	474	446
Fees for financially related services	22	16
Equity in earnings of other Farm Credit institutions	2,816	2,678
Other noninterest income	28	371
Total noninterest income	3,340	3,511
<b>Noninterest Expense</b>		
Salaries and employee benefits	3,314	3,170
Occupancy and equipment	437	356
Insurance Fund premium	625	596
Other operating expenses	972	949
Total noninterest expense	5,348	5,071
Income before income taxes	9,929	9,754
Provision (benefit) for income taxes	81	107
Net income	\$ 9,848	\$ 9,647

*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)*

	<b>Capital Stock and Participation Certificates</b>	<b>Retained Earnings</b>		<b>Total Members' Equity</b>
		<b>Allocated</b>	<b>Unallocated</b>	
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>
Balance at December 31, 2006	\$ 9,290	\$ 130,402	\$ 160,702	\$ 300,394
Net income			9,848	9,848
Capital stock/participation certificates issued	172			172
Capital stock/participation certificates retired	(141)			(141)
Patronage distribution				
Cash			(1,990)	(1,990)
Retained earnings retired		(503)		(503)
Distribution adjustment		(157)	(537)	(694)
Balance at March 31, 2007	<u>\$ 9,321</u>	<u>\$ 129,742</u>	<u>\$ 168,023</u>	<u>\$ 307,086</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, 2006, are contained in the 2006 Annual Report to Shareholders. These unaudited first quarter 2007 consolidated financial statements should be read in conjunction with the 2006 Annual Report to Shareholders.

On September 29, 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (FAS 158). FAS 158 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 through comprehensive income changes in that funded status in the year in which the changes occur. The Bank and related associations will be required to implement FAS 158 for the year ended December 31, 2007. In addition, FAS 158 requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Bank and related associations use 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 Bank and related associations are currently evaluating the impact of implementing FAS 158.

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, 2007, are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

Certain amounts in prior period consolidated financial statements may 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, 2007, 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:

	<b>For the three months ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Balance at beginning of period	\$ 8,878	\$10,423
Provision for (reversal of) loan losses	–	–
Recoveries, net of loans charged off	6	1
Balance at end of period	<u>\$ 8,884</u>	<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:

	<b>For the three months ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Pension	\$ 325	\$ 397
Thrift/deferred compensation	73	67
Other postretirement benefits	124	148
Total	<u>\$ 522</u>	<u>\$ 612</u>

As of March 31, 2007, no contributions have been made to the pension plan for 2007. Actuarial projections as of the last plan measurement date (September 30, 2006) did not anticipate any contributions for 2007; 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 \$3 to these plans during the first three months of 2007. The Association anticipates making additional contributions of \$9 to these supplemental retirement and deferred compensation plans during the remainder of 2007.