

THIRD QUARTER 2007

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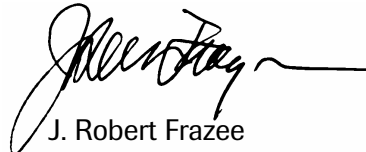
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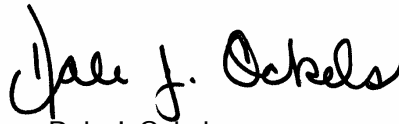
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J. Robert Frazee
Chief Executive Officer



Dale J. Ockels
Chairman of the Board

October 26, 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 September 30, 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. 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, 2007 totaled \$1,794,887 compared to \$1,720,107 at December 31, 2006, increasing \$74,780 or 4.3 percent during the first nine months. The Association's allowance for loan losses of \$8,977 increased \$99 or 1.1 percent during the first nine months of 2007 resulting in net loans (gross loans less allowance for loan losses) of \$1,785,910 and \$1,711,229 at September 30, 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 remained strong. A provision for loan losses of \$250 was recorded in the third quarter of 2007 that increased the Association's allowance \$99 after giving effect to the write-off of several loans. The allowance for loan losses represented 0.50 percent and 0.52 percent of total loans at September 30, 2007 and December 31, 2006, respectively.

RESULTS OF OPERATIONS

For the three months ended September 30, 2007

Net income for the three months ended September 30, 2007 totaled \$11,400, an increase of \$1,654 or 17.0 percent compared to the three months ended September 30, 2006.

Major changes in the components of net income are identified as follows:

- Net interest income increased \$1,315 (11.3 percent) for the quarter ended September 30, 2007 compared to the same period in 2006. Earnings on the Association's loanable funds credit (investable funds) increased \$248 over last year due primarily to management's strategy of investing these funds in longer term notes on a portion of the funds, the increase in short-term interest rates which favorably impacts the earnings on the variable rate investments, as well as an increase in investable funds. The remaining increase in net interest income is primarily attributable to a \$696 increase in the recognition of interest income from nonaccrual loans and incremental earnings on an increasing loan portfolio net of a slightly reduced portfolio margin 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 \$250 and \$500 to be recorded in the third quarter of 2007 and 2006, respectively.
- At September 30, 2007 and 2006, the Association accrued an estimated patronage receipt (reported as "Equity in earnings of other Farm Credit institutions" on the Consolidated Statements of Income) of \$2,921 and \$2,774, 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 Income in the third quarter 2007 also included an increase in crop insurance fees.
- Noninterest Expense for the third quarter of 2007 was \$5,784 as compared to \$5,331 for the third quarter of 2006 or an increase of \$453 (8.5 percent). The \$403 increase in Salaries and employee benefits for the third quarter of 2007 as compared to the same period in 2006 results primarily from an accrual for incentive based compensation in 2007 while no accrual for the same program was made in 2006, plus the normal annual inflation impact of salary and benefit increases. The \$31 (4.9 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 2007. Occupancy and equipment and Other operating expenses increased \$18 or 1.2 percent which is significantly less than an inflationary increase.

For the nine months ended September 30, 2007

Net income for the nine months ended September 30, 2007 totaled \$31,609 or \$2,649 (9.1 percent) more than the nine months ended September 30, 2006. 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 \$2,513 (7.3 percent) is attributable to the \$1.1 million increase in the Association's earnings on the loanable funds credit (investable funds) due to management's strategy of investing in longer term 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 2007, recognition of interest income on nonaccrual loans has increased \$.9 million. The impact of the increase in the loan volume 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.
- The Provision for loan losses was discussed in the third quarter analysis.
- At the period ended September 30, 2007, the Association has accrued an estimated patronage receipt of \$8,663 as compared to \$8,178 at September 30, 2006. This accrual is based on the first nine months 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 was earned by the Association in 2006 related to the sale of an office building. Proceeds from the Association's property sales have been redeployed in updating and modernizing Association office facilities. No additional office building sales or major renovations are currently planned.
- Noninterest expense increased \$1,264 or 8.1 percent for the first nine months of 2007 as compared to 2006. The year-to-date variance for Salaries and employee benefits was previously discussed. The Occupancy and equipment increase of \$233 is due to increased maintenance costs, utilities, depreciation and rental of a temporary branch office during renovation. The Insurance Fund premium increase is directly related to the portfolio volume increase as premium percentage costs have remained unchanged.

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, 2007 were \$1,504,297 compared to \$1,444,186 at December 31, 2006. This increase during the period of \$60.1 million or 4.2 percent corresponds to the augmentation in the Association's loan volume, receipt of prior year Bank patronage, offset by net cash generated from operating activities, patronage payments and expenditures for fixed assets.

CAPITAL RESOURCES

Members' equity at September 30, 2007 totaled \$322,195 an increase of \$21,801 (7.2 percent) compared to total members' equity of \$300,394 at December 31, 2006. Net income of \$31,609 for the nine months ending September 30, 2007 offset by net member capital stock/participation certificates retired of \$1,462, an estimated cash patronage distribution accrual for the first nine months of 2006 totaling \$7,044 and miscellaneous adjustments totaling \$1,302 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, 2007, the Association's permanent capital, total surplus and core surplus ratios equaled 15.71 percent, 15.21 percent and 13.14 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>	September 30, 2007 <i>(unaudited)</i>	December 31, 2006 <i>(audited)</i>
Assets		
Cash	\$ 3,518	\$ 8,077
Loans	1,794,887	1,720,107
Less: allowance for loan losses	8,977	8,878
Net loans	1,785,910	1,711,229
Accrued interest receivable	18,555	13,888
Investment in other Farm Credit institutions	24,439	24,424
Premises and equipment, net	7,629	6,993
Other property owned	150	769
Prepaid retirement expense	7,133	8,102
Due from AgFirst Farm Credit Bank	8,596	13,198
Other assets	3,155	1,007
Total assets	<u>\$ 1,859,085</u>	<u>\$ 1,787,687</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,504,297	\$ 1,444,186
Accrued interest payable	7,242	6,669
Patronage refund payable	7,059	7,947
Allocated surplus payable	—	8,748
Postretirement benefits other than pensions	8,207	8,082
Other liabilities	10,085	11,661
Total liabilities	<u>1,536,890</u>	<u>1,487,293</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	7,828	9,290
Retained earnings		
Allocated	129,612	130,402
Unallocated	184,755	160,702
Total members' equity	<u>322,195</u>	<u>300,394</u>
Total liabilities and members' equity	<u>\$ 1,859,085</u>	<u>\$ 1,787,687</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,	
	2007	2006	2007	2006
Interest Income				
Loans	\$ 34,619	\$ 31,461	\$ 100,205	\$ 90,988
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	21,644	19,801	63,182	56,478
Net interest income	12,975	11,660	37,023	34,510
Provision for (reversal of allowance for) loan losses	250	500	250	500
Net interest income after provision for (reversal of allowance for) loan losses	12,725	11,160	36,773	34,010
Noninterest Income				
Loan fees	566	544	1,493	1,396
Fees for financially related services	882	606	1,095	732
Equity in earnings of other Farm Credit institutions	2,921	2,774	8,663	8,178
Other noninterest income	(5)	45	267	444
Total noninterest income	4,364	3,969	11,518	10,750
Noninterest Expense				
Salaries and employee benefits	3,585	3,182	10,444	9,511
Occupancy and equipment	423	392	1,374	1,141
Insurance Fund premium	659	628	1,928	1,840
Other operating expenses	1,116	1,129	3,085	3,149
Losses on other property owned, net	1	-	74	-
Total noninterest expense	5,784	5,331	16,905	15,641
Income before income taxes	11,305	9,798	31,386	29,119
Provision (benefit) for income taxes	(95)	52	(223)	159
Net income	\$ 11,400	\$ 9,746	\$ 31,609	\$ 28,960

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, 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	\$ 9,258	\$ 110,339	\$ 184,398	\$ 303,995
Balance at December 31, 2006	\$ 9,290	\$ 130,402	\$ 160,702	\$ 300,394
Net income			31,609	31,609
Capital stock/participation certificates issued	490			490
Capital stock/participation certificates retired	(1,952)			(1,952)
Patronage distribution				
Cash			(7,044)	(7,044)
Retained earnings retired		(633)	26	(607)
Distribution adjustment		(157)	(538)	(695)
Balance at September 30, 2007	\$ 7,828	\$ 129,612	\$ 184,755	\$ 322,195

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, 2006, are contained in the 2006 Annual Report to Shareholders. These unaudited third quarter 2007 consolidated financial statements should be read in conjunction with the 2006 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" (SFAS 158). SFAS 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 SFAS 158 for the year ended December 31, 2007. In addition, SFAS 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 SFAS 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 accounting principles generally accepted in the United States of America (GAAP). The results for the nine months ended September 30, 2007, are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

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 September 30, 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:

	For the nine months ended September 30,	
	2007	2006
Balance at beginning of period	\$ 8,878	\$10,423
Provision for (reversal of) loan losses	250	500
Loans (charged off), net of recoveries	(151)	1
Balance at end of period	<u>\$ 8,977</u>	<u>\$10,924</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 postretirement benefit expense:

	For the nine months ended September 30,	
	2007	2006
Pension	\$ 975	\$ 1,182
Thrift/deferred compensation	241	205
Other postretirement benefits	372	445
Total	<u>\$ 1,588</u>	<u>\$ 1,832</u>

As of September 30, 2007, no contributions have been made to the pension plan for 2007. The Association does not anticipate making additional contributions for the remainder of 2007.

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 2007. The Association anticipates making additional contributions of \$3 to these supplemental retirement and deferred compensation plans during the remainder of 2007.