

---

*MidAtlantic Farm Credit, ACA*

# THIRD QUARTER 2008

## TABLE OF CONTENTS


|   |   |
|---|---|
| Management's Discussion and Analysis of<br>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 |

## CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2008 quarterly report of MidAtlantic Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

  
J. Robert Frazee  
Chief Executive Officer

  
John E. Wheeler, Jr.  
Chief Financial Officer

  
Fred Moore, Jr.  
Chairman of the Board

October 30, 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 September 30, 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 September 30, 2008 totaled \$1,994,205 compared to \$1,822,845 at December 31, 2007, increasing \$171,360 or 9.40 percent during the first nine months. The Association's allowance for loan losses of \$11,570 increased \$568 or 5.16 percent during the first nine months of 2008 resulting in net loans (gross loans less allowance for loan losses) of \$1,982,635 and \$1,811,843 at September 30, 2008 and December 31, 2007, respectively. Nonaccrual loans increased \$1,402 or 8.26 percent from \$16,973 at December 31, 2007 to \$18,375 at September 30, 2008 resulting in a slight decrease in the ratio of Nonaccrual loans to total loans from .93 percent to .92 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, \$700, and \$500 was recorded in the first, second and third quarters of 2008, respectively, that increased the Association's allowance \$568 as of September 30, 2008, after giving effect to loans written-off net of the recovery of several loans previously written-off. The allowance for loan losses represented .58 percent and .60 percent of total loans at September 30, 2008 and December 31, 2007, respectively. See also Note 5 of "Notes to the Consolidated Financial Statements".

## RESULTS OF OPERATIONS

### For the three months ended September 30, 2008

Net income for the three months ended September 30, 2008 totaled \$11,414, an increase of \$14 or .12 percent compared to the three months ended September 30, 2007. Major changes in the components of net income are identified as follows:

- Net interest income decreased \$179 (1.38 percent) for the quarter ended September 30, 2008 compared to the same period in 2007. The decrease in net interest income is primarily attributable to incremental earnings on an increasing loan portfolio as loan volume increased \$199 million or 11.10 percent from September 30, 2007 and net of a slightly increased portfolio margin attributable to the decrease in interest rates which occurred over the past year. This was offset by a \$660 decrease in the Association's earnings credit on its equity due to the sharp decrease in short-term interest rates. In addition, \$725 of interest income from nonaccrued loans was recognized in the third quarter of 2007 as compared to \$65 in the third quarter of 2008, a decrease of \$660.
- 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 2008 whereas a provision of \$250 was recorded in the third quarter of 2007. See also Note 5 of "Notes to the Consolidated Financial Statements".
- At September 30, 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 \$3,295 and \$2,921, 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 2008 included a net increase in fee related income of \$41, and increases on net property and home loan sales of \$155.
- Noninterest Expense for the third quarter of 2008 was \$5,845 as compared to \$5,783 for the third quarter of 2007 or an increase of \$62 (1.07 percent).

---

**For the nine months ended September 30, 2008**

Net income for the nine months ended September 30, 2008 totaled \$31,086 or \$523 (1.65 percent) less than the nine months ended September 30, 2007. Major changes in the components of net income are identified as follows:

- The increase in Net interest income of \$1,173 (3.17 percent) is primarily attributable to a favorable increase in volume and a favorable increase in Net margin, which was partially offset by a \$.9 million decrease in interest income from nonaccrual loans and a \$1.0 million decrease in earnings credit on the Association's equity due to lower short-term interest rates.
- The risks identified in the Association's loan portfolio required a provision for loan losses of \$1,700 to be recorded in the first nine months of 2008 whereas a provision of \$250 was recorded in the first nine months of 2007. See also Note 5 of "Notes to the Consolidated Financial Statements".
- At the period ended September 30, 2008, the Association has accrued an estimated patronage receipt of \$9,452 as compared to \$8,663 at September 30, 2007. This accrual is based on the first nine month'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.
- Noninterest Expense increased \$830 or 4.93 percent for the first nine months of 2008 as compared to 2007. The year-to-date increase for Salaries and employee benefits of \$368 (3.52 percent) principally reflects normal inflationary increases. The Occupancy and equipment and Other operating expenses net increase of \$404 is due to increased directors, training, travel, technology, office supplies and advertising expenses. 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 (GFA). The GFA 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, 2008 was \$1,683,809 compared to \$1,520,171 at December 31, 2007. This increase during the

period of \$163,638 or 10.76 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 September 30, 2008 totaled \$336,807 an increase of \$21,369 (6.77 percent) compared to total members' equity of \$315,438 at December 31, 2007. Net income of \$31,086 for the nine months ended September 30, 2008 offset by net member capital stock/participation certificates retired of \$3, an estimated cash patronage distribution accrual for the first nine months of 2008 totaling \$9,156, patronage distribution adjustment of \$539 and miscellaneous adjustments totaling \$25 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, 2008, the Association's permanent capital, total surplus and core surplus ratios equaled 15.06 percent, 14.68 percent and 12.47 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](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 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>                 | <b>September 30,<br/>2008</b><br><i>(unaudited)</i> | <b>December 31,<br/>2007</b><br><i>(audited)</i> |
|---|---|--|
| <b>Assets</b>                                 |   |  |
| Cash  | \$ 2,661  | \$ 4,402   |
| Loans   | 1,994,205   | 1,822,845  |
| Less: allowance for loan losses               | 11,570  | 11,002   |
| Net loans                                     | 1,982,635   | 1,811,843  |
| Accrued interest receivable                   | 17,123  | 13,313   |
| Investment in other Farm Credit institutions  | 25,483  | 25,400   |
| Premises and equipment, net                   | 7,365   | 7,589  |
| Other property owned                          | 223   | 100  |
| Due from AgFirst Farm Credit Bank             | 9,443   | 13,668   |
| Other assets                                  | 8,750   | 8,853  |
| Total assets                                  | \$ 2,053,683  | \$ 1,885,168                                     |
| <b>Liabilities</b>                            |   |  |
| Notes payable to AgFirst Farm Credit Bank     | \$ 1,683,809  | \$ 1,520,171                                     |
| Accrued interest payable                      | 6,613   | 7,163  |
| Patronage refund payable                      | 9,167   | 11,726   |
| Allocated surplus payable                     | —   | 11,975   |
| Other liabilities                             | 17,287  | 18,695   |
| Total liabilities                             | 1,716,876   | 1,569,730  |
| Commitments and contingencies                 |   |  |
| <b>Members' Equity</b>                        |   |  |
| Capital stock and participation certificates  | 7,659   | 7,656  |
| Retained earnings                             |   |  |
| Allocated                                     | 143,605   | 143,316  |
| Unallocated                                   | 185,953   | 164,909  |
| Accumulated other comprehensive income (loss) | (410)   | (443)  |
| Total members' equity                         | 336,807   | 315,438  |
| Total liabilities and members' equity         | \$ 2,053,683  | \$ 1,885,168                                     |

*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<br>ended September 30, |           | For the nine months<br>ended September 30, |            |
|--|---|-----------|--|------------|
|  | 2008  | 2007      | 2008                                       | 2007       |
| <b>Interest Income</b>   |   |           |  |            |
| Loans  | \$ 32,509                                   | \$ 34,619 | \$ 96,883                                  | \$ 100,205 |
| <b>Interest Expense</b>  |   |           |  |            |
| Notes payable to AgFirst Farm Credit Bank  | 19,713                                      | 21,644    | 58,687                                     | 63,182     |
| Net interest income  | 12,796                                      | 12,975    | 38,196                                     | 37,023     |
| Provision for (reversal of allowance for) loan losses                              | 500   | 250       | 1,700                                      | 250        |
| Net interest income after provision for<br>(reversal of allowance for) loan losses | 12,296                                      | 12,725    | 36,496                                     | 36,773     |
| <b>Noninterest Income</b>  |   |           |  |            |
| Loan fees  | 268   | 566       | 1,016                                      | 1,493      |
| Fees for financially related services  | 1,221                                       | 882       | 1,325                                      | 1,095      |
| Equity in earnings of other Farm Credit institutions                               | 3,295                                       | 2,921     | 9,452                                      | 8,663      |
| Gains (losses) on other property owned, net  | 31  | (1)       | 35   | (74)       |
| Gains (losses) on sale of rural home loans, net                                    | 106   | (17)      | 301  | 8          |
| Other noninterest income   | 4   | 12        | 161  | 259        |
| Total noninterest income   | 4,925                                       | 4,363     | 12,290                                     | 11,444     |
| <b>Noninterest Expense</b>   |   |           |  |            |
| Salaries and employee benefits   | 3,577                                       | 3,585     | 10,812                                     | 10,444     |
| Occupancy and equipment  | 430   | 423       | 1,312                                      | 1,374      |
| Insurance Fund premium   | 618   | 659       | 1,986                                      | 1,928      |
| Other operating expenses   | 1,220                                       | 1,116     | 3,551                                      | 3,085      |
| Total noninterest expense  | 5,845                                       | 5,783     | 17,661                                     | 16,831     |
| Income before income taxes   | 11,376                                      | 11,305    | 31,125                                     | 31,386     |
| Provision (benefit) for income taxes   | (38)  | (95)      | 39   | (223)      |
| Net income   | \$ 11,414                                   | \$ 11,400 | \$ 31,086                                  | \$ 31,609  |

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<br>Stock and<br>Participation<br>Certificates | Retained Earnings |             | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Members'<br>Equity |
|---|---|-------------------|-------------|---|-----------------------------|
|   |   | Allocated         | Unallocated |   |                             |
| Balance at December 31, 2006                                      | \$ 9,290  | \$ 130,402        | \$ 160,702  | \$ —  | \$ 300,394                  |
| Net income  |   |                   | 31,609      |   | 31,609                      |
| Capital stock/participation<br>certificates issued/(retired), net | (1,462)   |                   |             |   | (1,462)                     |
| Patronage distribution  |   |                   |             |   |                             |
| Cash  |   |                   | (7,044)     |   | (7,044)                     |
| Retained earnings retired   |   | (633)             | 26          |   | (607)                       |
| Patronage distribution adjustment                                 |   | (157)             | (538)       |   | (695)                       |
| Balance at September 30, 2007                                     | \$ 7,828  | \$ 129,612        | \$ 184,755  | \$ —  | \$ 322,195                  |
| Balance at December 31, 2007                                      | \$ 7,656  | \$ 143,316        | \$ 164,909  | \$ (443)  | \$ 315,438                  |
| Net income  |   |                   | 31,086      |   | 31,086                      |
| Capital stock/participation<br>certificates issued/(retired), net | 3   |                   |             |   | 3                           |
| Patronage distribution  |   |                   |             |   |                             |
| Cash  |   |                   | (9,156)     |   | (9,156)                     |
| Retained earnings retired   |   | (32)              |             |   | (32)                        |
| Patronage distribution adjustment                                 |   | 321               | (860)       |   | (539)                       |
| Employee benefit plans adjustments                                |   |                   | (26)        | 33  | 7                           |
| Balance at September 30, 2008                                     | \$ 7,659  | \$ 143,605        | \$ 185,953  | \$ (410)  | \$ 336,807                  |

*The accompanying notes are an integral part of these financial statements.*



