

THIRD QUARTER 2008

TABLE OF CONTENTS

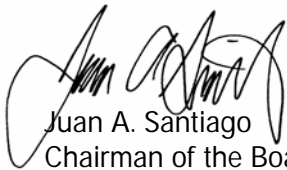
Management's Discussion and Analysis of
Financial Condition and Results of Operations.....2

Consolidated Financial Statements
Consolidated Balance Sheets5
Consolidated Statements of Income.....6
Consolidated Statements of Changes in Members' Equity.....7

Notes to the Consolidated Financial Statements.....8

CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2008 quarterly report of Puerto Rico 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.



Juan A. Santiago
Chairman of the Board



William A. Garrahan
Chief Executive Officer



Antonio Marichal
Member of Board of Directors
Chairman of the Audit Committee



Bruce M. Hoffman
Chief Financial Officer

October 23, 2008

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

(dollars in thousands)

The following commentary reviews the consolidated financial condition and results of operations of Puerto Rico Farm Credit, ACA (Association) for the nine months ended September 30, 2008. These comments 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 business for financing short and intermediate-term loans and long-term real estate mortgage loans. The Association also maintains a portfolio of purchased loans, originated by other Farm Credit System entities and non-system entities. The Association's predominant chartered territory agricultural commodities were dairy, livestock, field crops and fruits which totaled approximately \$113.7 million or 44.2 percent of all outstanding loan volume at September 30, 2008.

The loan volume of the Association at September 30, 2008 was \$257,104, an increase of \$7,085 or 2.8 percent as compared to \$250,019 at December 31, 2007. Loans originated within the Association's chartered territory were lower by approximately \$2,732, while participation loans purchased increased by approximately \$9,812.

Net loans outstanding at September 30, 2008 totaled \$256,250 as compared to \$249,689 at December 31, 2007. Net loans at September 30, 2008 made up 92.9 percent of total assets as compared to 96.2 percent at December 31, 2007. The change in the ratio was primarily related to the Association's purchase of \$10,000 total of fixed rate unsecured subordinated notes issued by two other associations of the AgFirst Farm Credit District. Refer to Note 5, "Notes Receivable from other Farm Credit Institutions."

As a percentage of loans, nonaccrual loans equaled 2.57 percent at September 30, 2008, compared with 1.78 percent at December 31, 2007. The increase in nonaccrual loan volume during the first nine months of 2008, resulted in credit quality ratios being negatively impacted. Borrowers found it increasingly difficult to maintain a current repayment status, given the island's two plus years of recessionary economic status. However, the overall delinquency rate for the accruing loan portfolio has remained favorable, supported by the lower interest rate environment. Management expects to see a continued slight deterioration in credit quality in the coming months.

The allowance for loan losses increased to \$854 at September 30, 2008, from \$330 at December 31, 2007. The third quarter increase related to a specific reserve established for a large participation loan placed in nonaccrual status during the quarter. The ratio of allowance to outstanding loan volume increased to .33 percent at September 30, 2008 from .13 percent at December 31, 2007 as a result of the higher level of nonaccrual loan volume. There were no charge-offs or recoveries during the first nine months of 2008.

RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2008 totaled \$2,065, a decrease of \$692 or 25.1 percent as compared to \$2,757 for the first nine months of 2007. The decrease primarily resulted from a third quarter provision expense to increase the allowance for loan loss totaling \$524 and a decline in net interest income as a result of the lower interest rate environment.

During the first nine months of 2008, interest income decreased by \$3,235 or 23.4 percent. Additionally, interest expense decreased by \$2,498 or 27.9 percent. Thus, net interest income decreased by \$737 or 15.2 percent.

This was due primarily to the significant decline in market interest rates, which negatively impacted by \$944 the interest credit earned on loanable funds invested with the Bank. This decrease in the interest credit earned more than offset the additional net interest income earned from the increase in accruing loan volume.

For the first eight months of 2008 the Association did not record a provision (reversal) for loan losses. During September of 2008, the Association recorded a provision for loan losses totaling \$524. This compared to a \$47 provision expense for the first nine months of 2007.

Noninterest income for the nine months ended September 30, 2008 was \$1,549 or 9.7 percent higher than the \$1,412 recognized during the first nine months of 2007. The increase was primarily attributable to other income rebate fees received from various Puerto Rico investment funds.

Noninterest expense for the nine months ended September 30, 2008 decreased by \$385 or 11.1 percent compared to the same nine month period of 2007. The decrease was primarily related to salaries and employee benefits, for which revised actuarial analyses materially lowered the 2008 operating expenses for pension and other postretirement medical upon implementation of SFAS 158. Also, other operating expenses decreased by \$58, mostly due to the timing of payments related to annually recurring obligations.

For the three months ended September 30, 2008

Net income for the third quarter of 2008 totaled \$312 a decrease of \$6695 or 69.0 percent when compared to \$1,007 for the third quarter of 2007. Net interest income for the three months ended September 30, 2008 was \$1,273 compared to \$1,649 for the three months ended September 30, 2007. The decrease in net interest income reflected the impact of the Federal Reserve's actions to materially lower the interest rate environment.

During the third quarter of 2008 the Association recorded a provision of \$524 increasing the allowance for loan losses. During the third quarter of 2007, provision expense totaled \$19.

Noninterest income for the three months ended September 30, 2008 totaled \$527, an increase of \$72 or 15.8 percent when compared to the same three month period of 2007. This increase was related to the recognition of loan fees from both chartered territory and participation lending activity. Also, the accrual for the estimated patronage dividend receivable from the Bank increased.

For the third quarter of 2008, noninterest expense decreased by \$114 or 10.6 percent to total \$964 compared to the third quarter of 2007 which totaled \$1,078. The decrease was primarily related to salaries and employee benefits expense.

Key Results of Operations Ratios

	Annualized for the nine months ended 9/30/08	For the year ended 12/31/07
Return on Average Assets	1.04%	1.62%
Return on Average Members' Equity	4.85%	7.41%
Net Interest Income as a Percentage of Average Earning Assets	2.20%	2.68%

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

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 funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate notes are utilized by the Association to fund variable rate loan advances and

operating funds requirements. The total notes payable to the Bank at September 30, 2008 was \$215,419 as compared with \$197,926 at December 31, 2007. The increase of \$17,493 or 8.8 percent corresponded closely to the increase in outstanding loan volume of \$7,085 and the \$10,000 investment in notes receivable from other Farm Credit institutions.

The Association had no lines of credit outstanding with third parties as of September 30, 2008.

Funds Management

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers variable and fixed rate loan products which are competitively priced according to local market rates. Variable rate loans may be indexed to either the Prime rate or the 90-day London Interbank Offered Rate (LIBOR). The majority of the interest rate risk in the Association balance sheet is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control interest rate risk associated with the loan portfolio.

CAPITAL RESOURCES

Total members' equity at September 30, 2008 increased 3.7 percent to \$57,611 from December 31, 2007 when total members' equity was \$55,561. The increase of \$2,050 was primarily attributable to net income retained as unallocated retained earnings during the first nine months of 2008.

Total capital stock and participation certificates were \$792 on September 30, 2008 compared to \$819 on December 31, 2007. The decrease of \$27 was the net result of refunding more stock to non-borrowing stockholders than new stockholders purchasing capital stock or participation certificates.

Unallocated retained earnings increased \$2,095 or 3.9 percent from December 31, 2007 when unallocated retained earnings totaled \$53,880. The increase was from net income earned during the first nine months of 2008 and a patronage dividend adjustment of \$47 to reconcile the year-end estimated dividend payable to the Association's 2007 federal taxable income. Additionally, retained earnings was reduced by \$17 related to an employee benefit plan measurement date adjustment required by the implementation of SFAS 158.

The Board of directors intends to continue its policy of declaring cash patronage dividends. 2007 was the fifteenth consecutive year of paying dividends. The table below sets forth the recent amount of patronage dividends declared:

Year	Amount Declared
2007	\$3,250
2006	\$3,200
2005	3,000

The amount of dividends, as always, will depend on continued strong earnings, the overall financial condition of the Association and credit-related factors.

The Association's regulatory permanent capital ratio at September 30, 2008 was 20.94 percent compared to 23.48 percent at December 31, 2007. The Association's total surplus and core surplus ratios were both 20.62 percent at September 30, 2008. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

Key financial condition ratios were as follows:

	9/30/08	12/31/07
Total Members' Equity to Asset	20.88%	21.40%
Debt to Total Members' Equity	3.79:1	3.67:1

Accounting for Defined Benefit Pension and Other Postretirement Plans

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 measurement determined for the prior year end. Under this alternative, 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 other postretirement benefit liability by \$17.

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. \$18 has been recognized for the first nine months of 2008 as a debit to accumulated other comprehensive income and a credit to other postretirement benefit expense.

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 its website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-981-3323, or writing Bruce M. Hoffman, CFO, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936-3649, or accessing the website, www.puertoricofarmcredit.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 Association.

Puerto Rico Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30,		December 31,
	2008	2007	2007
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Assets			
Cash	\$ 310	\$ 121	\$ 130
Loans	257,104	245,670	250,019
Less: allowance for loan losses	854	318	330
Net loans	256,250	245,352	249,689
Notes receivable from other Farm Credit institutions (Note 5)	10,000	—	—
Accrued interest receivable	1,552	2,119	1,783
Investment in other Farm Credit institutions	3,399	3,670	3,399
Premises and equipment, net	1,212	723	976
Other property owned	—	—	73
Due from AgFirst Farm Credit Bank	1,185	1,126	1,784
Other assets	1,971	1,844	1,849
Total assets	\$ 275,879	\$ 254,955	\$ 259,683
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 215,419	\$ 194,280	\$ 197,926
Accrued interest payable	651	976	958
Patronage refund payable	—	—	3,250
Other liabilities	2,198	3,101	1,988
Total liabilities	218,268	198,357	204,122
Commitments and contingencies			
Members' Equity			
Capital stock and participation certificates	792	835	819
Unallocated retained earnings	55,975	55,763	53,880
Accumulated other comprehensive income (loss)	844	—	862
Total members' equity	57,611	56,598	55,561
Total liabilities and members' equity	\$ 275,879	\$ 254,955	\$ 259,683

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

Puerto Rico 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,	
	2008	2007	2008	2007
Interest Income				
Loans	\$ 3,212	\$ 4,618	\$ 10,577	\$ 13,822
Notes receivable from other Farm Credit institutions (Note 5)	15	—	15	—
Other	—	1	1	6
Total interest income	3,227	4,619	10,593	13,828
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	1,954	2,970	6,469	8,967
Net interest income	1,273	1,649	4,124	4,861
Provision for (reversal of allowance for) loan losses	524	19	524	47
Net interest income after provision for (reversal of allowance for) loan losses	749	1,630	3,600	4,814
Noninterest Income				
Loan fees	86	61	291	238
Fees for financially related services	3	3	6	7
Equity in earnings of other Farm Credit institutions	405	378	1,185	1,126
Gains (losses) on other property owned, net	—	—	(50)	—
Other noninterest income	33	13	117	41
Total noninterest income	527	455	1,549	1,412
Noninterest Expense				
Salaries and employee benefits	599	716	1,925	2,279
Occupancy and equipment	75	64	218	191
Insurance Fund premium	71	83	246	246
Other operating expenses	219	215	695	753
Total noninterest expense	964	1,078	3,084	3,469
Income before income taxes	312	1,007	2,065	2,757
Provision (benefit) for income taxes	—	—	—	—
Net income	\$ 312	\$ 1,007	\$ 2,065	\$ 2,757

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

Puerto Rico Farm Credit, ACA
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2006	\$ 874	\$ 52,941	\$ —	\$ 53,815
Net income		2,757		2,757
Capital stock/participation certificates issued/(retired), net	(39)			(39)
Patronage distribution adjustment		65		65
Balance at September 30, 2007	\$ 835	\$ 55,763	\$ —	\$ 56,598
Balance at December 31, 2007	\$ 819	\$ 53,880	\$ 862	\$ 55,561
Net income		2,065		2,065
Capital stock/participation certificates issued/(retired), net	(27)			(27)
Patronage distribution adjustment		47		47
Employee benefit plans adjustments		(17)	(18)	(35)
Balance at September 30, 2008	\$ 792	\$ 55,975	\$ 844	\$ 57,611

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

Puerto Rico 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 Puerto Rico 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 of the Association. These unaudited third quarter 2008 consolidated financial statements should be read in conjunction with the 2007 Annual Report of the Association.

The accompanying consolidated financial statements contain all necessary adjustments for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the nine months ended September 30, 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 loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of September 30, 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 Statements 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 SFAS 141R, but believes that its adoption will significantly impact its accounting for combinations/acquisitions that may occur in 2009 and beyond, if any. As of the end of the third quarter of 2008, the Association had no mergers or acquisitions under consideration.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30,	
	2008	2007
Balance at beginning of period	\$ 330	\$ 271
Provision for (reversal of) loan losses	524	47
Loans (charged off), net of recoveries	—	—
Balance at end of period	<u>\$ 854</u>	<u>\$ 318</u>

NOTE 3 – COMMITMENTS AND CONTINGENT LIABILITIES

Actions are pending against the Association in which money damages are sought. However, on the basis of information now at hand, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom, would not be material in relation to the overall financial position of the Association.

NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	For the nine months ended September 30,	
	2008	2007
Pension	\$ 119	\$ 197
401(k)/1165(e)	54	58
Other postretirement benefits	51	226
Total	<u>\$ 224</u>	<u>\$ 481</u>

