



FIRST QUARTER 2006

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William A. Garrahan
Chief Executive Officer



Juan A. Santiago
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 consolidated financial condition and results of operations of Puerto Rico Farm Credit, ACA (Association) for the three months ended March 31, 2006. These comments 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 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 local service area agricultural commodities were dairy, livestock and fruits which totaled approximately \$92.7 million or 36.5 percent of all outstanding loan volume at March 31, 2006.

The gross loan volume of the Association at March 31, 2006 was \$254,675 a decrease of \$22,793 or 8.2 percent as compared to \$277,468 at December 31, 2005. During the first quarter, following objectives established by the Board of Directors, the Association participated part of its originated loan portfolio to the AgFirst Farm Credit Bank (the Bank). This action initiated in January resulted in a reduction in loan volume of approximately \$16,973. Additionally, during the first quarter, pay offs further reduced loan volume by approximately \$9,279. These reductions were partially offset by an increase of \$3,247 in net participation loans purchased.

Net loans outstanding at March 31, 2006 also decreased by the same amount as gross loan volume, as there was no change in the allowance for loan losses during the first quarter. Net loans at March 31, 2006 made up 96.7 percent of total assets, compared to 97.4 percent at December 31, 2005. Besides the material decrease in net loans, other assets increased due to recognizing receivables and increasing the level of cash.

As a percentage of gross loans, nonaccrual loans equaled .71 percent at March 31, 2006, compared with .58 percent and .86 percent at December 31 and March 31, 2005, respectively. Despite the decrease in loan volume, credit quality ratios were not impacted and remained at relatively higher levels, when compared to the past ten years. Credit quality has also been supported and enhanced by the lower interest rate environment, favorable weather and stable product demand, which have also had a favorable impact on delinquency rates.

The allowance for loan losses was the same at March 31, 2006 as at December 31, 2005. The ratio of allowance to

outstanding loan volume was .09 percent at March 31, 2006 compared with .09 percent at December 31, 2005. There were no charge-offs or recoveries during the first quarter of 2006.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2006 totaled \$902, an increase of \$298 or 49.3 percent as compared to \$604 for the first quarter of 2005. The increase primarily resulted from the Association and the Bank redefining the direct note borrowing relationship, with the expiration of IRS Section 936 as of December 31, 2005. As a result of this change net interest income decreased by \$103 or 6.4 percent to \$1,501 for the first quarter of 2006, as compared to \$1,604 for the first three months of 2005. However, this was more than offset by accruing one-quarter of the Banks projected annual patronage dividend distribution for 2006. For the first quarter ended March 31, 2006 equity earnings of other Farm Credit institutions totaled \$413 as compared to no such income recognized for the first quarter of 2005.

During the first quarter of 2006, interest income on accruing loans increased by \$1,135 to \$4,331, or by 35.5 percent. This material increase was the result of not only the increase in accruing loan volume, but also the increase in the overall interest rate environment. However, interest expense for the first quarter payable to the Bank increased by \$1,230 or 77.8 percent, primarily due to the change on the direct note pricing agreement with the Bank.

Thus, for 2006 the Association expects to show a decrease in net interest income as compared to 2005. However, this decrease will be more than offset by the annual, patronage refund distribution received from the Bank.

During the first quarter of 2006, the allowance was not changed, resulting in no impact to income.

Noninterest income for the three months ended March 31, 2006 was \$510, an increase of \$432 as compared to the first three months of 2005. Primarily, this was the result of recording patronage income from the Bank which totaled \$413.

Noninterest expense for the three months ended March 31, 2006 increased by \$31 or 2.9 percent compared to the same period of 2005. The increase was primarily related to an increase in the insurance fund premium of \$59, which was partially offset by a decrease in the guarantee fee. This offsetting relationship between the two expense categories is projected to be in place for the entire year. The insurance fund increased premiums on accruing loans by 140 percent for 2006 and the guarantee fee paid to the Bank expired with the sale of participation loans to the Bank.

During the first quarter of 2006, like 2005, the Association did not record a provision for income tax expense.

Key Results of Operations Ratios:

	Annualized for the three months ended 3/31/06	For the year ended 12/31/05
Return on Average Assets	1.35%	1.12%
Return on Average Stockholders' Equity	6.78%	5.53%
Net Interest Income as a Percentage of Average Earning Assets	2.32%	2.69%

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 March 31, 2006 was \$206,072 as compared with \$225,635 at December 31, 2005. The decrease of \$19,563 or 8.7 percent during the first quarter corresponded very closely to the decrease in gross loan volume outstanding and the funding of the 2005 year end dividend.

The Association had no lines of credit outstanding with third parties as of March 31, 2006.

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 stockholders' equity at March 31, 2006 increased 1.7 percent to \$53,741 from December 31, 2005 when total stockholders' equity was \$52,853. The increase was primarily attributable to net income retained as unallocated surplus during the quarter.

Total capital stock and participation certificates were \$926 on March 31, 2006 compared to \$940 on December 31, 2005. The decrease of \$14 was the net result of refunding more stock to non-borrowing stockholders than new stockholders purchasing capital stock or participation certificates.

Retained earnings unallocated increased \$902 or 1.7 percent from December 31, 2005 when unallocated retained earnings totaled \$51,913. The increase was from net income earned during the first quarter.

The Board of directors intends to continue its policy of declaring cash dividends. 2005 was the thirteenth consecutive year of paying dividends. The table below sets forth the amount of dividends declared:

Year	Type	Amount Declared
2005	Patronage	\$ 3,000
2004	Patronage	\$ 2,500
2003	Patronage Equity	\$ 1,847 153

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

The Association's regulatory permanent capital ratio at March 31, 2006 was 22.64 percent compared to 24.02 percent at December 31, 2005. The Association's total surplus and core surplus ratios were both 22.22 percent at March 31, 2006. 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:

	3/31/06	12/31/05
Stockholders' Equity to Assets	20.42%	18.57%
Debt to Stockholders' Equity	3.90:1	4.39:1

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 1-800-981-3323, writing Bruce M Hoffman, CFO, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan PR 00936, or accessing the website, www.puertoricofarmcredit.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.

Puerto Rico Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31,		December 31,
	2006	2005	2005
	<i>(unaudited)</i>		<i>(audited)</i>
Assets			
Cash	\$ 222	\$ 229	\$ 27
Loans	254,675	257,558	277,468
Less: allowance for loan losses	237	198	237
Net loans	254,438	257,360	277,231
Accrued interest receivable	1,909	1,481	1,687
Investment in other Farm Credit institutions	2,864	2,712	2,864
Premises and equipment, net	497	399	482
Other property owned	150	150	150
Prepaid retirement expense	2,022	1,872	2,106
Other assets	1,058	169	138
Total assets	\$ 263,160	\$ 264,372	\$ 284,685
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 206,072	\$ 208,329	\$ 225,635
Accrued interest payable	965	565	890
Dividends payable	—	—	3,000
Postretirement benefits other than pensions	1,731	1,491	1,696
Other liabilities	651	489	611
Total liabilities	209,419	210,874	231,832
Commitments and contingencies			
Stockholders' Equity			
Capital stock and participation certificates	926	986	940
Unallocated retained earnings	52,815	52,512	51,913
Total stockholders' equity	53,741	53,498	52,853
Total liabilities and stockholders' equity	\$ 263,160	\$ 264,372	\$ 284,685

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 March 31,	
	2006	2005
Interest Income		
Loans	\$ 4,327	\$ 3,196
Investment securities	4	—
Total Interest Income	4,331	3,196
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	2,830	1,592
Net interest income	1,501	1,604
Provision for (reversal of allowance for) loan losses	—	—
Net interest income after provision for (reversal of allowance for) loan losses	1,501	1,604
Noninterest Income		
Loan fees	69	62
Fees for financially related services	3	3
Equity in earnings of other Farm Credit institutions	413	—
Other noninterest income	25	13
Total noninterest income	510	78
Noninterest Expense		
Salaries and employee benefits	735	748
Occupancy and equipment	61	59
Insurance Fund premium	83	24
Guarantee fee	16	50
Other operating expenses	213	197
Losses on other property owned, net	1	—
Total noninterest expense	1,109	1,078
Income before income taxes	902	604
Provision (benefit) for income taxes	—	—
Net income	\$ 902	\$ 604

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Changes in Stockholders' Equity

(unaudited)

(dollars in thousands)

	Capital Stock and Participation Certificates	Retained Earnings Unallocated	Total Stockholders' Equity
Balance at December 31, 2004	\$ 998	\$ 51,906	\$ 52,904
Net income		604	604
Capital stock/participation certificates issued	10		10
Capital stock/participation certificates retired	(22)		(22)
Distribution adjustment		2	2
Balance at March 31, 2005	<u>\$ 986</u>	<u>\$ 52,512</u>	<u>\$ 53,498</u>
Balance at December 31, 2005	\$ 940	\$ 51,913	\$ 52,853
Net income		902	902
Capital stock/participation certificates issued	7		7
Capital stock/participation certificates retired	(21)		(21)
Balance at March 31, 2006	<u>\$ 926</u>	<u>\$ 52,815</u>	<u>\$ 53,741</u>

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

A description of the organization and operations of Puerto Rico 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	\$ 198
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	—
	<u>\$ 198</u>
Balance at 3-31-05	\$ 198
Balance at 12-31-05	\$ 237
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	—
	<u>\$ 237</u>
Balance at 3-31-06	<u>\$ 237</u>

NOTE 3 – CAPITAL

Beginning in 2006, the Association has chosen to operate as a cooperative that qualifies for federal tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds. It is projected that provisions for federal income tax will be recorded only on those earnings not distributed. The Association intends to distribute 100 percent of patronage on the basis of taxable

income. Management is of the opinion that any tax impact, as it relates to net deferred tax assets, will not be material.

NOTE 4 – 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 5 – 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 a Districtwide Thrift Plan.

The Association sponsors a plan providing certain benefits (primarily health care) to its retirees. The following table sets forth the components of net periodic benefit costs of the other postretirement benefits plan for the three months ended March 31, 2006:

	For the three months ended March 31,	
	2006	2005
Service cost	\$ 12	\$ 11
Interest cost	34	49
Amortization of net transition obligation (asset)	9	—
Amortization of net (gain) loss	—	8
Recognized net actuarial (gain) loss	7	25
	<u>\$ 62</u>	<u>\$ 93</u>
Net periodic benefit cost	<u>\$ 62</u>	<u>\$ 93</u>

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	\$ 84	\$ 82
Thrift	15	17
Other postretirement benefits	62	93
	<u>\$ 161</u>	<u>\$ 192</u>
Total	<u>\$ 161</u>	<u>\$ 192</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.