
Puerto Rico Farm Credit, ACA

FIRST QUARTER 2008

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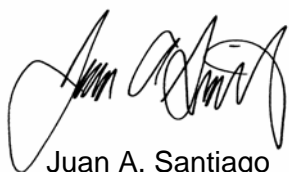
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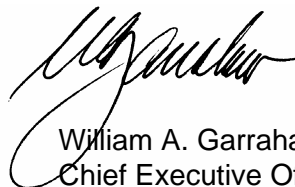
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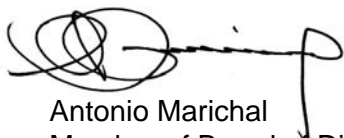
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Juan A. Santiago
Chairman of the Board



William A. Garrahan
Chief Executive Officer



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



Bruce M. Hoffman
Chief Financial Officer

April 24, 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 three months ended March 31, 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 local service area agricultural commodities were dairy, livestock, field crops and fruits which totaled approximately \$114.7 million or 35.7 percent of all outstanding loan volume at March 31, 2008.

The gross loan volume of the Association at March 31, 2008 was \$256,295, an increase of \$6,276 or 2.5 percent as compared to \$250,019 at December 31, 2007. Loans originated within the Association's chartered territory increased by approximately \$1,274, while participation loans purchased increased by approximately \$5,002.

Net loans outstanding at March 31, 2008 totaled \$255,965 as compared to \$249,689 at December 31, 2007. Net loans at March 31, 2008 made up 96.6 percent of total assets as compared to 96.2 percent at December 31, 2007. The change in the ratio was primarily related to the reduction in the receivable from AgFirst Farm Credit Bank (the Bank) which was paid in January 2008.

As a percentage of gross loans, nonaccrual loans equaled 1.95 percent at March 31, 2008, compared with 1.78 percent at December 31, 2007. Despite the increase in nonaccrual loan volume during the first quarter of 2008, credit quality ratios were not negatively impacted and remained at relatively higher levels, when compared to the past ten years. Credit quality has been supported and enhanced by the lower interest rate environment, favorable weather and stable product demand, which have also had a positive impact on delinquency rates.

The allowance for loan losses was \$330 at March 31, 2008, the same as at December 31, 2007. The ratio of allowance to outstanding loan volume decreased slightly to .129 percent at March 31, 2008 from .132 percent at December 31, 2007 as a result of the higher level of outstanding loan volume. There were no charge-offs or recoveries during the first three months of 2008.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2008 totaled \$956, an increase of \$102 or 11.8 percent as compared to \$854 for the first quarter of 2007. The increase primarily resulted from no provision expense to increase the allowance and lower operating expenses, both of which more than offset the slight decline in net interest income.

During the first quarter of 2008, interest income decreased by \$568 or 12.4 percent. Additionally, interest expense decreased by \$528 or 17.4 percent. Thus, net interest income decreased by \$43 or 2.7 percent.

This was due primarily to the significant decline in market interest rates, which negatively impacted the net interest margin more than offsetting interest income earned from the \$7,447 increase in accruing loan volume year-over-year.

During the first quarter of 2008, the Association did not record a provision (reversal) for loan losses. This compared to a \$28 provision expense for the first quarter of 2007.

Noninterest income for the three months ended March 31, 2008 was \$518 or .8 percent lower than the \$521 recognized during the first three months of 2007.

Noninterest expense for the three months ended March 31, 2008 decreased by \$120 or 9.9 percent compared to the same three month period of 2007. The decrease was primarily related to salaries and employee benefits, for which revised actuarial analyses materially lowered 2008 operating expenses for pension and other postretirement medical upon implementation of SFAS 158.

Key Results of Operations Ratios:

	Annualized for the three months ended 3/31/08	For the year ended 12/31/07
Return on Average Assets	1.62%	1.48%
Return on Average Members' Equity	7.41%	6.83%
Net Interest Income as a Percentage of Average Earning Assets	2.68%	2.49%

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, 2008 was \$202,795 as compared with \$197,926 at December 31, 2007. The increase of \$4,869 or 2.5 percent corresponded closely to the increase in outstanding loan volume of \$6,276, net of the liquidation of amounts due from the Bank of \$1,367.

The Association had no lines of credit outstanding with third parties as of March 31, 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 March 31, 2008 increased 1.8 percent to \$56,536 from December 31, 2007 when total members' equity was \$55,561. The increase of \$975 was primarily attributable to net income retained as unallocated retained earnings during the quarter.

Total capital stock and participation certificates were \$814 on March 31, 2008 compared to \$819 on December 31, 2007. The decrease of \$5 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 \$986 or 1.8 percent from December 31, 2007 when unallocated retained earnings totaled \$53,880. The increase was from net income earned during the quarter and a patronage dividend adjustment of \$48 to reconcile the year-end estimated dividend payable to the Association's 2007 federal taxable income.

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:

<u>Year</u>	<u>Amount Declared</u>
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 other factors.

The Association's regulatory permanent capital ratio at March 31, 2008 was 23.08 percent compared to 23.48 percent at December 31, 2007. The Association's total surplus and core surplus ratios were both 22.71 percent at March 31, 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:

	<u>3/31/08</u>	<u>12/31/07</u>
Total Members' Equity to Assets	21.34%	21.40%
Debt to Total Members' Equity	3.69:1	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 measurements 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. \$6 has been recognized for the first three months of 2008 as a credit to accumulated other comprehensive income and a debit 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>	March 31,		December 31,
	2008	2007	2007
	<i>(unaudited)</i>		<i>(audited)</i>
Assets			
Cash	\$ 496	\$ 212	\$ 130
Loans	256,295	246,532	250,019
Less: allowance for loan losses	330	299	330
Net loans	255,965	246,233	249,689
Accrued interest receivable	1,623	2,071	1,783
Investment in other Farm Credit institutions	3,399	3,670	3,399
Premises and equipment, net	1,092	779	976
Other property owned	—	—	73
Due from AgFirst Farm Credit Bank	417	376	1,784
Other assets	1,905	1,896	1,849
Total assets	\$ 264,897	\$ 255,237	\$ 259,683
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 202,795	\$ 193,800	\$ 197,926
Accrued interest payable	744	1,005	958
Patronage refund payable	1	—	3,250
Other liabilities	4,821	5,718	1,988
Total liabilities	208,361	200,523	204,122
Commitments and contingencies			
Members' Equity			
Capital stock and participation certificates	814	855	819
Unallocated retained earnings	54,866	53,859	53,880
Accumulated other comprehensive income (loss)	856	—	862
Total members' equity	56,536	54,714	55,561
Total liabilities and members' equity	\$ 264,897	\$ 255,237	\$ 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 March 31,	
	2008	2007
Interest Income		
Loans	\$ 4,028	\$ 4,596
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	2,499	3,027
Net interest income	1,529	1,572
Provision for (reversal of allowance for) loan losses	—	28
Net interest income after provision for (reversal of allowance for) loan losses	1,529	1,544
Noninterest Income		
Loan fees	114	115
Fees for financially related services	2	2
Equity in earnings of other Farm Credit institutions	384	376
Gains (losses) on other property owned, net	(1)	—
Other noninterest income	19	28
Total noninterest income	518	521
Noninterest Expense		
Salaries and employee benefits	685	820
Occupancy and equipment	72	64
Insurance Fund premium	86	82
Other operating expenses	248	245
Total noninterest expense	1,091	1,211
Income before income taxes	956	854
Provision (benefit) for income taxes	—	—
Net income	\$ 956	\$ 854

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	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		854		854
Capital stock/participation certificates issued/(retired), net	(19)			(19)
Patronage distribution adjustment		64		64
Balance at March 31, 2007	\$ 855	\$ 53,859	\$ —	\$ 54,714
Balance at December 31, 2007	\$ 819	\$ 53,880	\$ 862	\$ 55,561
Net income		956		956
Capital stock/participation certificates issued/(retired), net	(5)			(5)
Patronage distribution adjustment		47		47
Employee benefit plans adjustments		(17)	(6)	(23)
Balance at March 31, 2008	\$ 814	\$ 54,866	\$ 856	\$ 56,536

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

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 first 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 three months ended March 31, 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 March 31, 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 No. 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 No. 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 the Standard, but believes that its adoption will significantly impact its accounting for acquisitions that may occur in 2009 and beyond, if any. As of the end of the first 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 three months ended March 31,	
	2008	2007
Balance at beginning of period	\$ 330	\$ 271
Provision for (reversal of) loan losses	–	28
Loans (charged off), net of recoveries	–	–
Balance at end of period	<u>\$ 330</u>	<u>\$ 299</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 three months ended March 31,	
	2008	2007
Pension	\$ 40	\$ 66
401(k)	17	17
Other postretirement benefits	17	75
Total	<u>\$ 70</u>	<u>\$ 158</u>

As of March 31, 2008, no contributions have been made to the pension plan for 2008. Actuarial projections as of the last plan measurements date (September 30, 2007) did not anticipate any contributions for 2008. Market conditions could impact discount rates and return on plan assets which could change the above contribution projections by making additional contributions necessary before the next plan measurement date.

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 measurements determined for the prior year end. Under this alternative, pension and 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. \$6 has been recognized for the first three months of 2008 as a credit to accumulated other comprehensive income and a debit to other postretirement benefit expense.

Further details regarding employee benefit plans and adoption of SFAS 158 are contained in the 2007 Annual Report of the Association.