


SECOND QUARTER 2007


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William A. Garrahan
Chief Executive Officer



Bruce M. Hoffman
Chief Financial Officer



Juan A. Santiago
Chairman of the Board

August 2, 2007

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 six months ended June 30, 2007. These comments 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 business for financing short and intermediate-term loans and long-term real estate mortgage loans within the Association's chartered territory. The Association's predominant chartered territory service area agricultural commodities were dairy, livestock, field crops and fruits which totaled approximately \$110.8 million or 46.1 percent of outstanding loan volume at June 30, 2007. The Association also maintains a portfolio of purchased loans, originated by other Farm Credit System entities and non-system entities. Participation loans purchased totaled approximately \$74.2 million or 30.9 percent of outstanding loan volume at June 30, 2007.

The gross loan volume of the Association at June 30, 2007 was \$240,243 a decrease of \$6,893 or 2.79 percent as compared to \$247,136 at December 31, 2006. Loans originated within the Association's chartered territory increased by approximately \$4,997 thousand, while participation loans purchased decreased by approximately \$11,914

Net loans outstanding at June 30, 2007 totaled \$239,944 as compared to \$246,865 at December 31, 2006. Net loans at June 30, 2007 made up 96.3 percent of total assets as compared to 95.8 percent at December 31, 2006. Besides the reduction in loan volume, the change related to a decrease in other assets, plus the reduction in the receivable due from AgFirst Farm Credit Bank (the Bank).

As a percentage of gross loans, nonaccrual loans equaled 1.11 percent at June 30, 2007, compared with .82 percent at December 31, 2006. Despite the decrease in loan volume, credit quality ratios have not been materially impacted and

remained within regulatory parameters. Credit quality has also been supported and enhanced by the 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 \$299 at June 30, 2007, an increase of \$28 from December 31, 2006. The increase, which occurred during the first quarter, reflected the downgrade in credit quality of a specific participation loan, but did not require the recognition of a specific allowance. The ratio of allowance to gross outstanding loan volume at June 30, 2007 was .12 percent, compared to .11 percent at December 31, 2006. There were no charge-offs or recoveries during the first quarter of 2007.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2007 totaled \$1,750 a decrease of \$21 or 1.2 percent as compared to \$1,771 for the first two quarters of 2006. The decrease resulted primarily from the \$57 less accrued for the estimated patronage dividend receivable from the Bank. Otherwise, higher net interest income and loan fees offset slightly higher operating expenses.

Through the first two quarters of 2007, interest income increased by \$306 or 7.1 percent to \$9,209, compared to \$8,903 for the first two quarters of 2006. This was partially offset by an increase in interest expense of \$207 or 3.6 percent to \$5,997, compared to \$5,790 at June 30, 2006. Thus, net interest income increased by \$99 or 3.2 percent for the first two quarters of 2007 compared to the first two quarters of 2006.

During the first two quarters of 2007, the Association recorded a provision expense for loan losses which totaled \$28. This compared to a provision expense of \$46 during the first six months of 2006.

Noninterest income for the six months ended June 30, 2007 was \$957, a decrease of \$20, or 2.0 percent less than the \$977 recognized during the first six months of 2006. The decrease was the net result of higher fee income related to participation loans and lower estimated patronage income from the Bank. The estimated patronage dividend income accrual was lower due to the decrease in outstanding loan volume funded through the Bank.

Noninterest expense for the six months ended June 30, 2007 increased by \$125 or 5.5 percent compared to the same six months of 2006. The increase was primarily related to an increase of \$109 in salaries and benefits, which resulted from annual merit salary adjustments and the accrual of discretionary bonus payments.

For the three months ended June 30, 2007

Net income for the second quarter of 2007 totaled \$896 an increase of \$27 or 3.1 percent when compared to \$869 for the second quarter of 2006. Net interest income for the three months end June 30, 2007 was \$1,640 compared to \$1,607 for the three months ended June 30, 2006.

During the second quarter of 2007 there was no provision related to the allowance for loan losses, as compared to a provision expense of \$46 during the second quarter of 2006.

Noninterest income for the three months ended June 30, 2007 was \$436 a decrease of \$31 when compared to the three months ended June 30, 2006. This was primarily related to a lesser accrual for the estimated patronage dividend receivable from the Bank.

For the second quarter of 2007, noninterest expense increased by \$23 to total \$1,180 compared to the second quarter of 2006 which totaled \$1,157. The increase for the quarter was primarily related to salaries and employee benefits.

Key Results of Operations Ratios:

	Annualized for the three months ended 6/30/07	For the year ended 12/31/06
Return on Average Assets	1.38%	1.62%
Return on Average Stockholders' Equity	6.38%	7.73%
Net Interest Income as a Percentage of Average Earning Assets	2.63%	2.53%

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 June 30, 2007 was \$189,547 as compared with \$197,058 at December 31, 2006. The decrease of \$7,511 or 3.8 percent during the first six months corresponded very closely to the reduction in loans outstanding.

The Association had no lines of credit outstanding with third parties as of June 30, 2007.

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 June 30, 2007 increased 3.3 percent to \$55,603 from December 31, 2006 when total members' equity was \$53,815. The increase was primarily attributable to net income retained as unallocated surplus during the first two quarters of 2007.

Total capital stock and participation certificates were \$848 on June 30, 2007 compared to \$874 on December 31, 2006. The decrease of \$26 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 \$1,814 or 3.4 percent from December 31, 2006 when unallocated retained earnings totaled \$52,941. The increase was from net income earned during the first two quarters of 2007 and a patronage dividend adjustment of \$64 to reconcile the year-end estimated dividend payable to the Association's 2006 federal taxable income.

The Board of directors intends to continue its policy of declaring cash patronage dividends. 2006 was the fourteenth consecutive year of paying dividends. The table below sets forth the recent amount of patronage dividends declared:

<u>Year</u>	<u>Amount Declared</u>
2006	\$3,200
2005	\$3,000
2004	\$2,500

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 June 30, 2007 was 23.94 percent compared to 24.31 percent at December 31, 2006. The Association's total surplus and core surplus ratios were both 23.54 percent at June 30, 2007. 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:

	6/30/07	12/31/06
Stockholders' Equity to Assets	22.32%	20.88%
Debt to Stockholders' Equity	3.48:1	3.79:1

ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

On September 29, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 – Employee's Accounting for Defined Benefit Pension and Other Postretirement Plans. The Standard 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 changes in that funded status in the year in which the changes occur through comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Association will be required to implement the Standard for the year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Association uses 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 Association is currently evaluating the impact of implementing this Standard. It is anticipated that the impact from the implementation of this Standard will have little to no impact on the income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the balance sheet.

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 Wanda Martin, 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 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 Association.

Puerto Rico Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30,		December 31,
	2007	2006	2006
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Assets			
Cash	\$ 29	\$ 4,153	\$ 132
Loans	240,243	255,192	247,136
Less: allowance for loan losses	299	283	271
Net loans	239,944	254,909	246,865
Accrued interest receivable	2,062	2,052	1,907
Investment in other Farm Credit institutions	3,670	2,864	3,670
Premises and equipment, net	759	523	792
Other property owned	—	150	—
Prepaid retirement expense	1,641	1,939	1,772
Due from AgFirst Farm Credit Bank	748	805	1,919
Other assets	213	142	683
Total assets	<u>\$ 249,066</u>	<u>\$ 267,537</u>	<u>\$ 257,740</u>
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 189,547	\$ 205,254	\$ 197,058
Accrued interest payable	982	1,009	1,014
Patronage refund payable	—	—	3,200
Postretirement benefits other than pensions	1,936	1,767	1,837
Other liabilities	998	4,909	816
Total liabilities	<u>193,463</u>	<u>212,939</u>	<u>203,925</u>
Commitments and contingencies			
Members' Equity			
Capital stock and participation certificates	848	910	874
Unallocated retained earnings	54,755	53,688	52,941
Total members' equity	<u>55,603</u>	<u>54,598</u>	<u>53,815</u>
Total liabilities and members' equity	<u>\$ 249,066</u>	<u>\$ 267,537</u>	<u>\$ 257,740</u>

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 June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
Interest Income				
Loans	\$ 4,608	\$ 4,567	\$ 9,204	\$ 8,898
Other	2	—	5	—
Total interest income	4,610	4,567	9,209	8,898
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	2,970	2,960	5,997	5,790
Net interest income	1,640	1,607	3,212	3,108
Provision for (reversal of allowance for) loan losses	—	46	28	46
Net interest income after provision for (reversal of allowance for) loan losses	1,640	1,561	3,184	3,062
Noninterest Income				
Loan fees	62	72	177	141
Fees for financially related services	2	2	4	5
Equity in earnings of other Farm Credit institutions	372	392	748	805
Other noninterest income	—	1	28	26
Total noninterest income	436	467	957	977
Noninterest Expense				
Salaries and employee benefits	743	719	1,563	1,454
Occupancy and equipment	63	66	127	127
Insurance Fund premium	81	83	163	166
Guarantee fee	—	—	—	16
Other operating expenses	293	289	538	502
Losses on other property owned, net	—	—	—	1
Total noninterest expense	1,180	1,157	2,391	2,266
Income before income taxes	896	871	1,750	1,773
Provision (benefit) for income taxes	—	2	—	2
Net income	\$ 896	\$ 869	\$ 1,750	\$ 1,771

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	Total Members' Equity
Balance at December 31, 2005	\$ 940	\$ 51,913	\$ 52,853
Net income		1,771	1,771
Capital stock/participation certificates issued	14		14
Capital stock/participation certificates retired	(44)		(44)
Distribution adjustment		4	4
Balance at June 30, 2006	<u>\$ 910</u>	<u>\$ 53,688</u>	<u>\$ 54,598</u>
Balance at December 31, 2006	\$ 874	\$ 52,941	\$ 53,815
Net income		1,750	1,750
Capital stock/participation certificates issued	14		14
Capital stock/participation certificates retired	(40)		(40)
Distribution adjustment		64	64
Balance at June 30, 2007	<u>\$ 848</u>	<u>\$ 54,755</u>	<u>\$ 55,603</u>

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 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, 2006, are contained in the 2006 Annual Report to Shareholders. These unaudited second 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. The Standard 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 changes in that funded status in the year in which the changes occur through comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Association will be required to implement the Standard for the year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Association uses 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 Association is currently evaluating the impact of implementing this Standard. It is anticipated that the impact from the implementation of this Standard will have no impact on the consolidated income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the consolidated balance sheet.

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 six months ended June 30, 2007, are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

Certain amounts in prior period consolidated financial statements may 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 June 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 six months ended June 30,	
	2007	2006
Balance at beginning of period	\$ 271	\$ 237
Provision for (reversal of) loan losses	28	46
Loans (charged off), net of recoveries	—	—
Balance at end of period	<u>\$ 299</u>	<u>\$ 283</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 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. Both plans also qualify under Puerto Rico law.

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 six months ended June 30,	
	2007	2006
Service cost	\$ 18	\$ 25
Interest cost	84	67
Amortization of net transition obligation (asset)	17	17
Amortization of prior service cost	25	—
Amortization of net (gain) loss	7	16
Net periodic benefit cost	<u>\$ 151</u>	<u>\$ 125</u>

The following is a table of retirement and postretirement benefit expense:

	For the six months ended June 30,	
	2007	2006
Pension	\$ 131	\$ 167
Thrift	42	31
Other postretirement benefits	151	125
Total	<u>\$ 324</u>	<u>\$ 323</u>

As of June 30, 2007, no contributions have been made to the pension plan for 2007. Actuarial projections as of the last plan measurement date (September 30, 2006) did not anticipate any contributions for 2007; 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.