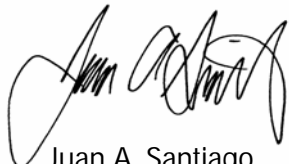


SECOND QUARTER 2008

Management's Discussion and Analysis of	
Financial Condition and Results of Operations.....	2
Consolidated Financial Statements	
Consolidated Balance Sheets.....	5
Consolidated Statements of Income.....	6
Consolidated Statements of Changes in Members' Equity.....	7
Notes to the Consolidated Financial Statements.....	8



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

July 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 six months ended June 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 \$115.4 million or 44.6 percent of all outstanding loan volume at June 30, 2008.

The loan volume of the Association at June 30, 2008 was \$258,688, an increase of \$8,669 or 3.5 percent as compared to \$250,019 at December 31, 2007. Loans originated within the Association's chartered territory were slightly lower by \$348, while participation loans purchased increased by approximately \$9,020.

Net loans outstanding at June 30, 2008 totaled \$258,358 as compared to \$249,689 at December 31, 2007. Net loans at June 30, 2008 made up 96.8 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, and reduced accrued interest receivable.

As a percentage of loans, nonaccrual loans equaled 1.99 percent at June 30, 2008, compared with 1.78 percent at December 31, 2007. With the increase in nonaccrual loan volume during the first six months of 2008, credit quality ratios were negatively impacted as borrowers have found it more difficult to maintain current repayment status, given the island's two year recessionary economic situation. However, the overall delinquency rate for the accruing loan portfolio has remained favorable, supported by the lower interest rate environment.

The allowance for loan losses was \$330 at June 30, 2008, the same as at December 31, 2007. The ratio of allowance to outstanding loan volume decreased slightly to .128 percent at June 30, 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 six months of 2008.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2008 totaled \$1,753, an increase of \$3 or .2 percent as compared to \$1,750 for the first six months 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 decline in net interest income as a result of the lower interest rate environment.

During the first half of 2008, interest income decreased by \$1,843 or 20.0 percent. Additionally, interest expense decreased by \$1,482 or 24.7 percent. Thus, net interest income decreased by \$361 or 11.2 percent.

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

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

Noninterest income for the six months ended June 30, 2008 was \$1,022 or 6.8 percent higher than the \$957 recognized during the first six months of 2007.

Noninterest expense for the six months ended June 30, 2008 decreased by \$271 or 11.3 percent compared to the same six 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 \$62, mostly due to the timing of payments related to annually recurring obligations.

For the three months ended June 30, 2008

Net income for the second quarter of 2008 totaled \$797 a decrease of \$99 or 11.1 percent when compared to \$896 for the second quarter of 2007. Net interest income for the three months ended June 30, 2008 was \$1,322 compared to \$1,640 for the three months ended June 30, 2007. The decrease in net interest income reflected the impact of the Federal Reserve's first quarter 2008 actions to materially lower the interest rate environment.

During the second quarter of 2008 there was no provision (reversal) related to the allowance for loan losses, the same as during the second quarter of 2007.

Noninterest income for the three months ended June 30, 2008 totaled \$504, an increase of \$68 or 15.6 percent when compared to the same three month period of 2007. This increase was primarily 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, helping to offset a one-time expense related to other property owned.

For the second quarter of 2008, noninterest expense decreased by \$151 or 12.8 percent to total \$1,029 compared to the second quarter of 2007 which totaled \$1,180. The decrease was primarily related to salaries and employee benefits expense.

Key Results of Operations Ratios

	Annualized for the three months ended 6/30/08	For the year ended 12/31/07
Return on Average Assets	1.34%	1.62%
Return on Average Members' Equity	6.23%	7.41%
Net Interest Income as a Percentage of Average Earning Assets	2.30%	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 June 30, 2008 was \$206,830 as compared with \$197,926 at December 31, 2007. The increase of \$8,904 or 4.5 percent corresponded closely to the increase in outstanding loan volume of \$8,669.

The Association had no lines of credit outstanding with third parties as of June 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 June 30, 2008 increased 3.2 percent to \$57,315 from December 31, 2007 when total members' equity was \$55,561. The increase of \$1,754 was primarily attributable to net income retained as unallocated retained earnings during the quarter.

Total capital stock and participation certificates were \$802 on June 30, 2008 compared to \$819 on December 31, 2007. The decrease of \$17 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 \$1,783 or 3.3 percent from December 31, 2007 when unallocated retained earnings totaled \$53,880. The increase was from net income earned during the first six 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 other factors.

The Association's regulatory permanent capital ratio at June 30, 2008 was 22.70 percent compared to 23.48 percent at December 31, 2007. The Association's total surplus and core surplus ratios were both 22.35 percent at June 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:

	6/30/08	12/31/07
Total Members' Equity to Assets	21.47%	21.40%
Debt to Total Members' Equity	3.66:1	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. \$12 has been recognized for the first six 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>	June 30,		December 31,
	2008	2007	2007
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Assets			
Cash	\$ 22	\$ 29	\$ 130
Loans	258,688	240,243	250,019
Less: allowance for loan losses	330	299	330
Net loans	258,358	239,944	249,689
Accrued interest receivable	1,340	2,062	1,783
Investment in other Farm Credit institutions	3,399	3,670	3,399
Premises and equipment, net	1,138	759	976
Other property owned	—	—	73
Due from AgFirst Farm Credit Bank	780	748	1,784
Other assets	1,857	1,854	1,849
Total assets	<u>\$ 266,894</u>	<u>\$ 249,066</u>	<u>\$ 259,683</u>
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 206,830	\$ 189,547	\$ 197,926
Accrued interest payable	641	982	958
Patronage refund payable	—	—	3,250
Other liabilities	2,108	2,934	1,988
Total liabilities	<u>209,579</u>	<u>193,463</u>	<u>204,122</u>
Commitments and contingencies			
Members' Equity			
Capital stock and participation certificates	802	848	819
Unallocated retained earnings	55,663	54,755	53,880
Accumulated other comprehensive income (loss)	850	—	862
Total members' equity	<u>57,315</u>	<u>55,603</u>	<u>55,561</u>
Total liabilities and members' equity	<u>\$ 266,894</u>	<u>\$ 249,066</u>	<u>\$ 259,683</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,	
	2008	2007	2008	2007
Interest Income				
Loans	\$ 3,337	\$ 4,608	\$ 7,365	\$ 9,204
Other	1	2	1	5
Total interest income	3,338	4,610	7,366	9,209
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	2,016	2,970	4,515	5,997
Net interest income	1,322	1,640	2,851	3,212
Provision for (reversal of allowance for) loan losses	—	—	—	28
Net interest income after provision for (reversal of allowance for) loan losses	1,322	1,640	2,851	3,184
Noninterest Income				
Loan fees	156	62	270	177
Fees for financially related services	1	2	3	4
Equity in earnings of other Farm Credit institutions	396	372	780	748
Gains (losses) on other property owned, net	(49)	—	(50)	—
Other noninterest income	—	—	19	28
Total noninterest income	504	436	1,022	957
Noninterest Expense				
Salaries and employee benefits	641	743	1,326	1,563
Occupancy and equipment	71	63	143	127
Insurance Fund premium	89	81	175	163
Other operating expenses	228	293	476	538
Total noninterest expense	1,029	1,180	2,120	2,391
Income before income taxes	797	896	1,753	1,750
Provision (benefit) for income taxes	—	—	—	—
Net income	\$ 797	\$ 896	\$ 1,753	\$ 1,750

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		1,750		1,750
Capital stock/participation certificates issued/(retired), net	(26)			(26)
Patronage distribution adjustment		4		4
Balance at June 30, 2007	<u>\$ 848</u>	<u>\$ 54,695</u>	<u>\$ —</u>	<u>\$ 55,543</u>
Balance at December 31, 2007	\$ 819	\$ 53,880	\$ 862	\$ 55,561
Net income		1,753		1,753
Capital stock/participation certificates issued/(retired), net	(17)			(17)
Patronage distribution adjustment		47		47
Employee benefit plans adjustments		(17)	(12)	(29)
Balance at June 30, 2008	<u>\$ 802</u>	<u>\$ 55,663</u>	<u>\$ 850</u>	<u>\$ 57,315</u>

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

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

(dollars in thousands)

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The loan volume of the Association at June 30, 2008 was \$258,688, an increase of \$8,669 or 3.5 percent as compared to \$250,019 at December 31, 2007. Loans originated within the Association's chartered territory were slightly lower by \$348, while participation loans purchased increased by approximately \$9,020.

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result of the higher level of outstanding loan volume. There were no charge-offs or recoveries during the first six months of 2008.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2008 totaled \$1,753, an increase of \$3 or .2 percent as compared to \$1,750 for the first six months 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 decline in net interest income as a result of the lower interest rate environment.

During the first half of 2008, interest income decreased by \$1,843 or 20.0 percent. Additionally, interest expense decreased by \$1,482 or 24.7 percent. Thus, net interest income decreased by \$361 or 11.2 percent.

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

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For the three months ended June 30, 2008

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Key Results of Operations Ratios

	Annualized for the three months ended 6/30/08	For the year ended 12/31/07
Return on Average Assets	1.34%	1.62%
Return on Average Members' Equity	6.23%	7.41%
Net Interest Income as a Percentage of Average Earning Assets	2.30%	2.68%

LIQUIDITY AND FUNDING SOURCES

Liquidity

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CAPITAL RESOURCES

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Key financial condition ratios were as follows:

	6/30/08	12/31/07
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Debt to Total Members' Equity	3.66:1	3.67:1