
Jackson Purchase Agricultural Credit Association

FIRST QUARTER 2008

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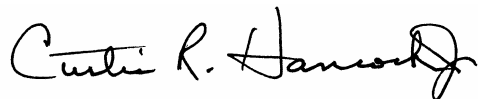
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Stan Brunston
Chief Executive Officer



Barbara Davis
Chief Financial Officer



Curtis R. Hancock, Jr.
Chairman of the Board

April 28, 2008

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Jackson Purchase, ACA (Association) for the period 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 businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including corn, soybeans, poultry, and tobacco. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of March 31, 2008, was \$282,405, a decrease of \$1,354, as compared to \$283,759 at December 31, 2007. Net loans outstanding at March 31, 2008, were \$281,366 as compared to \$282,720 at December 31, 2007. Net loans accounted for 90.70 percent of total assets at March 31, 2008, as compared to 89.43 percent of total assets at December 31, 2007. The decrease in gross and net loan volume during the reporting period is primarily attributable to seasonal paydown on production loans.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from \$377 at December 31, 2007, to \$326 at March 31, 2008. This decrease is primarily the result of normal collection procedures.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2008, was \$1,039 compared to \$1,039 at December 31, 2007, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2008

Net income for the three months ended March 31, 2008, totaled \$1,331, as compared to \$892 for the same period in 2007. Net interest income increased \$300 for the three months ended March 31, 2008, as compared to the same period in 2007. This increase in net interest income is attributed primarily to interest income on new loan volume.

Noninterest income for the three months ended March 31, 2008, totaled \$845, as compared to \$566 for the same period of 2007, an increase of \$279. The increase is primarily the result of an increase in fee income and equity in earnings of other Farm Credit institutions. Noninterest expense for the three months ended March 31, 2008, increased \$140 compared to the same period of 2007. The primary reason for the increase in noninterest expense resulted from an increase in salaries and employee benefits, insurance fund premium, and other operating expenses.

Nonaccrual income was \$7 for the three months ended March 31, 2008, as compared to \$7 for the same period in 2007. The Association recorded a provision for loan loss of \$0 for the three months ended March 31, 2008, as compared to \$0 for the same period in 2007.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (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 Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association and approximately 21% of the Association's own funds. The total notes payable to the Bank at March 31, 2008, was \$253,416 compared to \$261,974 at December 31, 2007.

CAPITAL RESOURCES

Total members' equity at March 31, 2008, increased to \$41,024 from the December 31, 2007, total of \$39,711. The increase is primarily attributed to income generated through the first quarter.

Total capital stock and participation certificates were \$2,004 on March 31, 2008, compared to \$1,988 on December 31, 2007.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk adjusted asset base. As of March 31, 2008, the Association's total surplus ratio and core surplus ratio were 13.65 percent and 12.48 percent, respectively, and the permanent capital ratio was 14.44 percent. 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.

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 their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling (270) 247-5613, writing Malinda Scoggins, Administrative Services Manager, Jackson Purchase ACA, P. O. Box 309, Mayfield, KY 42066, or accessing the website, www.jacksonpurchaseaca.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 institution.

Jackson Purchase Agricultural Credit Association
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
Assets		
Cash	\$ 2,465	\$ 3,536
Investment securities:		
Held to maturity (fair value of \$12,702 and \$12,682 respectively)	12,781	13,627
Total investment securities	12,781	13,627
Loans	282,405	283,759
Less: allowance for loan losses	1,039	1,039
Net loans	281,366	282,720
Loans held for sale		
Other investments	2,261	2,259
Accrued interest receivable	4,521	5,613
Investment in other Farm Credit institutions	4,067	4,067
Premises and equipment, net	1,331	1,331
Due from AgFirst Farm Credit Bank	478	2,115
Other assets	932	876
Total assets	\$ 310,202	\$ 316,144
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 253,416	\$ 261,974
Accrued interest payable	1,012	1,230
Patronage refund payable	36	1,531
Advanced conditional payments	10,569	6,263
Other liabilities	4,145	5,435
Total liabilities	269,178	276,433
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	2,004	1,988
Retained earnings		
Allocated	14,598	14,541
Unallocated	24,422	23,182
Total members' equity	41,024	39,711
Total liabilities and members' equity	\$ 310,202	\$ 316,144

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

Jackson Purchase Agricultural Association
Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2008	2007
Interest Income		
Investment securities	\$ 162	\$ 201
Loans	4,829	4,440
Other	30	29
Total interest income	5,021	4,670
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	3,189	3,168
Other	90	60
Total interest expense	3,279	3,228
Net interest income	1,742	1,442
Provision for (reversal of allowance for) loan losses	—	—
Net interest income after provision for (reversal of allowance for) loan losses	1,742	1,442
Noninterest Income		
Loan fees	177	56
Fees for financially related services	142	64
Equity in earnings of other Farm Credit institutions	476	408
Gains (losses) on sale of rural home loans, net	18	9
Other noninterest income	32	29
Total noninterest income	845	566
Noninterest Expense		
Salaries and employee benefits	825	732
Occupancy and equipment	82	78
Insurance Fund premium	92	77
Other operating expenses	257	229
Total noninterest expense	1,256	1,116
Income before income taxes	1,331	892
Provision (benefit) for income taxes	—	—
Net income	\$ 1,331	\$ 892

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

Jackson Purchase Agricultural Credit Association
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

(dollars in thousands)

	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2006	\$ 1,947	\$ 12,776	\$ 23,099	\$ 37,822
Net income			892	892
Capital stock/participation certificates issued/retired	2			2
Patronage distribution adjustment		54	(194)	(140)
Balance at March 31, 2007	\$ 1,949	\$ 12,830	\$ 23,797	\$ 38,576
Balance at December 31, 2007	\$ 1,988	\$ 14,541	\$ 23,182	\$ 39,711
Net income			1,331	1,331
Capital stock/participation certificates issued/retired	16			16
Patronage distribution adjustment		57	(91)	(34)
Balance at March 31, 2008	\$ 2,004	\$ 14,598	\$ 24,422	\$ 41,024

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

Jackson Purchase Agricultural Credit Association

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 Jackson Purchase Agricultural Credit Association (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 to Shareholders. These unaudited first quarter 2008 consolidated financial statements should be read in conjunction with the 2007 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 (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.

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	\$ 1,039	\$ 1,052
Provision for (reversal of) loan losses	–	–
Loans (charged off), net of recoveries	–	1
Balance at end of period	\$ 1,039	\$ 1,053

NOTE 3 – 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	\$ 38	\$ 46
401(k)	34	29
Other postretirement benefits	(3)	(2)
Total	\$ 69	\$ 73

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

	Actual YTD Through 3/31/08	Projected Contributions For Remainder of 2008	Projected Total Contributions 2008
Pension	\$ –	\$ –	\$ –
Other postretirement benefits	–	1	1
Total	\$ –	\$ 1	\$ 1

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.