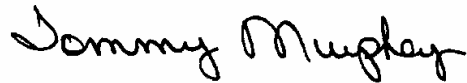
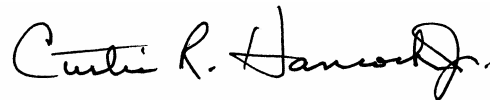


# **SECOND QUARTER 2007**

Management's Discussion and Analysis of Financial Condition and Results of Operations.....	2
Consolidated Financial Statements	
Consolidated Balance Sheets.....	4
Consolidated Statements of Income.....	5
Consolidated Statements of Changes in Members' Equity.....	6
Notes to the Consolidated Financial Statements.....	7



Tommy Murphey  
Chief Executive Officer



Curtis R. Hancock, Jr.  
Chairman of the Board

July 27, 2007

# 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 Agricultural Credit Association (Association) for the period 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 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 June 30, 2007, was \$248,095, a decrease of \$4,644, as compared to \$252,739 at December 31, 2006. Net loans outstanding at June 30, 2007, were \$247,035 as compared to \$251,687 at December 31, 2006. Net loans accounted for 88.66 percent of total assets at June 30, 2007, as compared to 86.50 percent of total assets at December 31, 2006. The decrease in gross and net loan volume during the reporting period is primarily attributable to agricultural paydown resulting from increased net farm earnings.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans decreased from \$894 at December 31, 2006, to \$796 at June 30, 2007. 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 June 30, 2007, was \$1,060 compared to \$1,052 at December 31, 2006, and was considered by management to be adequate to cover probable losses.

## **RESULTS OF OPERATIONS**

### ***For the three months ended June 30, 2007***

Net income for the three months ended June 30, 2007, totaled \$942, as compared to \$1,032 for the same period in 2006. Net interest income decreased \$20 for the three months ended June 30, 2007, as compared to the same period in 2006.

Noninterest income for the three months ended June 30, 2007, totaled \$524, as compared to \$510 for the same period of 2006, an increase of \$14. The increase is primarily the result of an increase in equity in earnings of other Farm Credit institutions. Noninterest expense for the three months ended June 30, 2007, increased \$80 compared to the same period of 2006. The primary reasons for the increase in noninterest expense were an increase in salaries and employee benefits, occupancy and equipment, and other miscellaneous operating expenses.

Nonaccrual income was \$10 for the three months ended June 30, 2007, as compared to \$6 for the same period in 2006. The Association recorded a provision for loan loss of \$0 for the three months ended June 30, 2007, as compared to \$0 for the same period in 2006.

### ***For the six months ended June 30, 2007***

Net income for the six months ended June 30, 2007, totaled \$1,834, as compared to \$1,948 for the same period in 2006. Net interest income decreased \$21 for the six months ended June 30, 2007, as compared to the same period in 2006.

Noninterest income for the six months ended June 30, 2007, totaled \$1,090, as compared to \$1,045 for the same period of 2006, an increase of \$45. The increase is primarily the result of an increase in equity in earnings of other Farm Credit institutions and other noninterest income. Noninterest expense for the six months ended June 30, 2007, increased \$143 compared to the same period of 2006. The primary reasons for the increase in noninterest expense were an increase in salaries and employee benefits, occupancy and equipment, and other miscellaneous operating expenses.

Nonaccrual income was \$17 for the six months ended June 30, 2007, as compared to \$17 for the same period in 2006. The Association recorded a provision for loan loss of \$0 for the six months ended June 30, 2007, as compared to \$8 for the same period in 2006.

## 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 27 percent of the Association's own funds. The total notes payable to the Bank at June 30, 2007, was \$231,001 compared to \$243,292 at December 31, 2006.

## CAPITAL RESOURCES

Total members' equity at June 30, 2007, increased to \$38,452 from the December 31, 2006, total of \$37,822. The increase is primarily attributed to income generated through the first two quarters.

Total capital stock and participation certificates were \$1,963 on June 30, 2007, compared to \$1,947 on December 31, 2006.

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 June 30, 2007, the Association's total surplus ratio and core surplus ratio were 14.30 percent and 13.37 percent, respectively, and the permanent capital ratio was 15.16 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.

## 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 - 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 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. 316, 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 their website, [www.agfirst.com](http://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](http://www.jacksonpurchaseaca.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.

# Jackson Purchase Agricultural Credit Association

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>June 30, 2007</b>	<b>December 31, 2006</b>
	<i>(unaudited)</i>	<i>(audited)</i>
<b>Assets</b>		
Cash	\$ 1,452	\$ 4,253
Investment securities, held to maturity	16,069	19,427
Loans	248,095	252,739
Less: allowance for loan losses	1,060	1,052
Net loans	247,035	251,687
Other investments, held to maturity	2,054	2,067
Accrued interest receivable	5,119	5,672
Investment in other Farm Credit institutions	3,685	3,685
Premises and equipment, net	1,288	1,312
Prepaid retirement expense	101	194
Due from AgFirst Farm Credit Bank	833	1,975
Other assets	990	691
Total assets	\$ 278,626	\$ 290,963
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 231,001	\$ 243,292
Accrued interest payable	1,112	1,202
Patronage refund payable	22	1,380
Other liabilities	8,039	7,267
Total liabilities	240,174	253,141
Commitments and contingencies		
<b>Members' Equity</b>		
Capital stock and participation certificates	1,963	1,947
Retained earnings		
Allocated	11,750	12,776
Unallocated	24,739	23,099
Total members' equity	38,452	37,822
Total liabilities and members' equity	\$ 278,626	\$ 290,963

*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>	<b>For the three months ended June 30,</b>		<b>For the six months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Interest Income</b>				
Loans	\$ 4,595	\$ 4,333	\$ 9,035	\$ 8,380
Investment securities	208	70	409	101
Other	32	31	61	58
Total interest income	4,835	4,434	9,505	8,539
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	3,243	2,861	6,411	5,500
Other	67	28	127	51
Total interest expense	3,310	2,889	6,538	5,551
Net interest income	1,525	1,545	2,967	2,988
Provision for (reversal of allowance for) loan losses	—	—	—	8
Net interest income after provision for (reversal of allowance for) loan losses	1,525	1,545	2,967	2,980
<b>Noninterest Income</b>				
Loan fees	59	101	115	198
Fees for financially related services	28	12	92	57
Equity in earnings of other Farm Credit institutions	424	389	832	759
Other noninterest income	13	8	51	31
Total noninterest income	524	510	1,090	1,045
<b>Noninterest Expense</b>				
Salaries and employee benefits	722	666	1,454	1,354
Occupancy and equipment	76	67	154	138
Insurance Fund premium	81	79	158	155
Other operating expenses	224	211	453	429
Total noninterest expense	1,103	1,023	2,219	2,076
Income before income taxes	946	1,032	1,838	1,949
Provision (benefit) for income taxes	4	—	4	1
Net income	\$ 942	\$ 1,032	\$ 1,834	\$ 1,948

*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, 2005	\$ 2,796	\$ 11,226	\$ 22,385	\$ 36,407
Net income			1,948	1,948
Capital stock/participation certificates issued	91			91
Capital stock/participation certificates retired	(92)			(92)
Retained earnings retired		(874)		(874)
Distribution adjustment		(109)	(2)	(111)
Balance at June 30, 2006	\$ 2,795	\$ 10,243	\$ 24,331	\$ 37,369
Balance at December 31, 2006	\$ 1,947	\$ 12,776	\$ 23,099	\$ 37,822
Net income			1,834	1,834
Capital stock/participation certificates issued	111			111
Capital stock/participation certificates retired	(95)			(95)
Retained earnings retired		(1,081)		(1,081)
Distribution adjustment		55	(194)	(139)
Balance at June 30, 2007	\$ 1,963	\$ 11,750	\$ 24,739	\$ 38,452

*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 Jackson Purchase Agricultural Credit Association (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.

*Investment Securities:* The Association, as permitted under the FCA regulations, holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. The Association’s investments are classified as held to maturity and accordingly have been reported at amortized cost. Purchased premiums and discounts are amortized by a two-step method using constant yield methodologies over a projected cash flow stream.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or permanent. In the event of permanent impairment, the cost basis of the investment would be written down to its fair value, and the realized loss would be included in current earnings.

## NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	<b>For the six months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Balance at beginning of period	\$ 1,052	\$ 1,150
Provision for (reversal of) loan losses	–	8
Recoveries, net of loans charged off	8	6
Balance at end of period	<u>\$ 1,060</u>	<u>\$ 1,164</u>

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**NOTE 3 – EMPLOYEE BENEFIT PLANS**

The Association participates in a defined benefit retirement plan with three other District associations. Pension costs were determined by an actuary on a separate entity basis.

The following is a table of the components of net periodic benefit (income) cost for the defined benefit retirement plan:

	<b>For the six months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Service cost	\$ 96	\$ 101
Interest cost	136	118
Expected return on plan assets	(169)	(159)
Amortization of prior service cost	27	25
Recognized net actuarial (gain) loss	3	23
Net periodic benefit (income) cost	<u>\$ 93</u>	<u>\$ 108</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.

The Association also participates in Districtwide thrift and other postretirement benefit plans. The other postretirement benefit plan provides certain benefits (primarily health care) to its retirees.

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

	<b>For the six months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Pension	\$ 93	\$ 108
Thrift/deferred compensation	58	52
Other postretirement benefits	(4)	(4)
Total	<u>\$ 147</u>	<u>\$ 156</u>