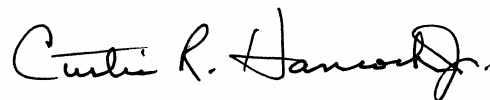


THIRD QUARTER 2006

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Tommy Murphey
Chief Executive Officer



Curtis R. Hancock, Jr.
Chairman of the Board

October 27, 2006

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 September 30, 2006. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2005 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 September 30, 2006, was \$245,003, an increase of \$4,112, as compared to \$240,891 at December 31, 2005. Net loans outstanding at September 30, 2006, were \$243,839 as compared to \$239,741 at December 31, 2005. Net loans accounted for 86.83 percent of total assets at September 30, 2006, as compared to 93.25 percent of total assets at December 31, 2005. The increase in gross and net loan volume during the reporting period is primarily attributable to increased borrowing by members, participation loans purchased, and government guaranteed loans purchased.

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 increased from \$825 at December 31, 2005, to \$1,147 at September 30, 2006. This increase is primarily the result of three loans being transferred to nonaccrual status during the period.

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 September 30, 2006, was \$1,164 compared to \$1,150 at

December 31, 2005, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2006

Net income for the three months ended September 30, 2006, totaled \$1,249, as compared to \$1,218 for the same period in 2005. Net interest income increased \$64 for the three months ended September 30, 2006, as compared to the same period in 2005. This increase in net interest income is attributed primarily to interest income on our own funds and from interest income generated through the Tobacco Buyout program and marketable investments.

Noninterest income for the three months ended September 30, 2006, totaled \$720, as compared to \$585 for the same period of 2005, an increase of \$135. The increase is primarily the result of increased fee income and also from an increase in equity in earnings of other Farm Credit institutions. Noninterest expense for the three months ended September 30, 2006, increased \$157 compared to the same period of 2005. The primary reasons for the increase in noninterest expense were an increase in the insurance fund premium and an increase in salaries and benefits.

Nonaccrual income was \$6 for the three months ended September 30, 2006, as compared to \$8 for the same period in 2005. The Association recorded a provision for loan loss of \$0 for the three months ended September 30, 2006, as compared to \$0 for the same period in 2005.

For the nine months ended September 30, 2006

Net income for the nine months ended September 30, 2006, totaled \$3,197, as compared to \$3,186 for the same period in 2005. Net interest income increased \$225 for the nine months ended September 30, 2006, as compared to the same period in 2005. This increase in net interest income is attributed primarily to interest income on our own funds and from interest income generated through the Tobacco Buyout program and marketable investments.

Noninterest income for the nine months ended September 30, 2006, totaled \$1,765, as compared to \$1,435 for the same period of 2005, an increase of \$330. The increase is primarily the result of increased fee income and an increase in equity in earnings of other Farm Credit institutions. Noninterest expense for the nine months ended September 30, 2006,

increased \$531 compared to the same period of 2005. The primary reasons for the increase in noninterest expense were an increase in the insurance fund premium, increase in salaries and benefits, and an increase in miscellaneous operating expenses.

Nonaccrual income was \$22 for the nine months ended September 30, 2006, as compared to \$52 for the same period in 2005. The Association recorded a provision for loan loss of \$8 for the nine months ended September 30, 2006, as compared to \$0 for the same period in 2005.

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 75% of the Association's own funds. The total notes payable to the Bank at September 30, 2006, was \$237,164 compared to \$213,177 at December 31, 2005.

CAPITAL RESOURCES

Total members' equity at September 30, 2006, increased to \$38,613 from the December 31, 2005, total of \$36,407. The increase is primarily attributed to income generated through the first three quarters.

Total capital stock and participation certificates were \$2,790 on September 30, 2006, compared to \$2,796 on December 31, 2005.

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 September 30, 2006, the Association's total surplus ratio and core surplus ratio were 13.88 percent and 13.10 percent, respectively, and the permanent capital ratio was 14.71 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. 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 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>	September 30, 2006 <i>(unaudited)</i>	December 31, 2005 <i>(audited)</i>
Assets		
Cash	\$ 2,230	\$ 4,287
Investment securities, held to maturity	19,478	—
Loans	245,003	240,891
Less: allowance for loan losses	1,164	1,150
Net loans	243,839	239,741
Other investments	2,020	1,571
Accrued interest receivable	6,567	4,114
Investment in other Farm Credit institutions	3,450	3,450
Premises and equipment, net	1,316	1,174
Prepaid retirement expense	248	410
Due from AgFirst Farm Credit Bank	1,192	2,070
Other assets	481	290
Total assets	<u>\$ 280,821</u>	<u>\$ 257,107</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 237,164	\$ 213,177
Accrued interest payable	1,148	918
Patronage refund payable	16	1,700
Other liabilities	3,880	4,905
Total liabilities	<u>242,208</u>	<u>220,700</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	2,790	2,796
Retained earnings		
Allocated	10,243	11,226
Unallocated	25,580	22,385
Total members' equity	<u>38,613</u>	<u>36,407</u>
Total liabilities and members' equity	<u>\$ 280,821</u>	<u>\$ 257,107</u>

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

Jackson Purchase Agricultural Credit Association
Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Interest Income				
Loans	\$ 4,719	\$ 3,805	\$ 13,099	\$ 10,363
Investment securities	200	—	301	—
Other	33	—	91	—
Total interest income	4,952	3,805	13,491	10,363
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	3,336	2,286	8,836	6,017
Other	33	—	84	—
Total interest expense	3,369	2,286	8,920	6,017
Net interest income	1,583	1,519	4,571	4,346
Provision for (reversal of) loan losses	—	—	8	—
Net interest income after provision for (reversal of) loan losses	1,583	1,519	4,563	4,346
Noninterest Income				
Loan fees	65	93	263	186
Fees for financially related services	202	113	259	171
Equity in earnings of other Farm Credit institutions	435	373	1,194	1,034
Other noninterest income	18	6	49	44
Total noninterest income	720	585	1,765	1,435
Noninterest Expense				
Salaries and employee benefits	679	559	2,033	1,712
Occupancy and equipment	67	72	205	201
Insurance Fund premium	82	37	237	76
Other operating expenses	216	219	645	600
Total noninterest expense	1,044	887	3,120	2,589
Income before income taxes	1,259	1,217	3,208	3,192
Provision (benefit) for income taxes	10	(1)	11	6
Net income	\$ 1,249	\$ 1,218	\$ 3,197	\$ 3,186

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, 2004	\$ 2,763	\$ 9,444	\$ 21,852	\$ 34,059
Net income			3,186	3,186
Capital stock/participation certificates issued	175			175
Capital stock/participation certificates retired	(160)			(160)
Retained earnings retired		(856)		(856)
Distribution adjustment		(99)	148	49
Balance at September 30, 2005	<u>\$ 2,778</u>	<u>\$ 8,489</u>	<u>\$ 25,186</u>	<u>\$ 36,453</u>
Balance at December 31, 2005	\$ 2,796	\$ 11,226	\$ 22,385	\$ 36,407
Net income			3,197	3,197
Capital stock/participation certificates issued	128			128
Capital stock/participation certificates retired	(134)			(134)
Retained earnings retired		(874)		(874)
Distribution adjustment		(109)	(2)	(111)
Balance at September 30, 2006	<u>\$ 2,790</u>	<u>\$ 10,243</u>	<u>\$ 25,580</u>	<u>\$ 38,613</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 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, 2005, are contained in the 2005 Annual Report to Shareholders. These unaudited third quarter 2006 consolidated financial statements should be read in conjunction with the 2005 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 nine months ended September 30, 2006, are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

Certain amounts in prior period consolidated financial statements 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 September 30, 2006, 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:

	For the nine months ended September 30,	
	2006	2005
Balance at beginning of period	\$ 1,150	\$ 1,200
Provision for (reversal of) loan losses	8	–
Loans (charged off), net of recoveries	6	(49)
Balance at end of period	<u>\$ 1,164</u>	<u>\$ 1,151</u>

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 for the nine months ended September 30, 2006:

	For the nine months ended September 30,	
	2006	2005
Service cost	\$ 151	\$ 128
Interest cost	178	166
Expected return on plan assets	(238)	(216)
Amortization of prior service cost	37	27
Recognized net actuarial (gain) loss	34	30
Net periodic benefit (income) cost	<u>\$ 162</u>	<u>\$ 135</u>

As of September 30, 2006, no contributions have been made to the pension plan for 2006. The Association does not anticipate making additional contributions for the remainder of 2006.

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 for the nine months ended September 30, 2006:

	For the nine months ended September 30,	
	2006	2005
Pension	\$ 162	\$ 135
Thrift/deferred compensation	79	78
Other postretirement benefits	(7)	(3)
Total	<u>\$ 234</u>	<u>\$ 210</u>