
Jackson Purchase Agricultural Credit Association

THIRD QUARTER 2008

TABLE OF CONTENTS

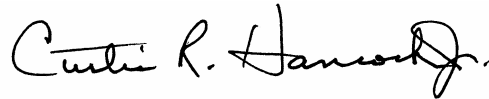
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	2
Consolidated Financial Statements	
Consolidated Balance Sheets.....	4
Consolidated Statements of Income.....	5
Consolidated Statements of Changes in Members' Equity.....	6
Notes to the Consolidated Financial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

CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2008 quarterly report of Jackson Purchase Agricultural Credit Association, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Stan Brunston
Chief Executive Officer



Curtis R. Hancock, Jr.
Chairman of the Board



Barbara Davis
Chief Financial Officer



Joe F. Campbell
Member of the Board of Directors
Chairman of the Audit Committee

October 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 September 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 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, 2008, was \$265,737, a decrease of \$18,022, as compared to \$283,759 at December 31, 2007. Net loans outstanding at September 30, 2008, were \$264,466 as compared to \$282,720 at December 31, 2007. Net loans accounted for 89.75 percent of total assets at September 30, 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 loans sold to AgFirst through the Capitalized Participation Pool (CPP) program. The program is used as a tool to optimize use of Association capital.

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 increased from \$377 at December 31, 2007, to \$1,826 at September 30, 2008. This increase is primarily the result of one large participation loan 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, 2008, was \$1,271 compared to \$1,039 at December 31, 2007, and was considered by management to be adequate to cover probable losses. The addition to the allowance was necessary to cover a \$394,000 specific reserve established for one loan placed in nonaccrual in September.

RESULTS OF OPERATIONS

For the nine months ended September 30, 2008

Net income for the three months ended September 30, 2008, totaled \$1,448, as compared to \$1,373 for the same period in 2007. Net interest income increased \$33 for the three months ended September 30, 2008, as compared to the same period in 2007. This increase in net interest income is attributed primarily to a decrease in interest expense.

Noninterest income for the three months ended September 30, 2008, totaled \$1,167 as compared to \$816 for the same period of 2007, an increase of \$351. The increase is primarily the result of an increase in fee income and increased equity in earnings of other Farm Credit institutions. Noninterest expense for the three months ended September 30, 2008, increased \$78 compared to the same period of 2007. The primary reason for the increase in noninterest expense resulted from an increase in other operating expenses.

Nonaccrual income was \$6 for the three months ended September 30, 2008, as compared to \$28 for the same period in 2007. The Association recorded a provision for loan loss of \$232 for the three months ended September 30, 2008, as compared to \$0 for the same period in 2007. This increase is attributed to one large participation loan that transferred to nonaccrual with a large reserve.

For the six months ended September 30, 2008

Net income for the nine months ended September 30, 2008, totaled \$3,985, as compared to \$3,207 for the same period in 2007. Net interest income increased \$587 for the nine

months ended September 30, 2008, as compared to the same period in 2007. This increase in net interest income is attributed primarily to a decrease in interest expense.

Noninterest income for the nine months ended September 30, 2008, totaled \$2,626, as compared to \$1,906 for the same period of 2007, an increase of \$720. The increase is primarily the result of an increase in financially related services income and equity in earnings of other Farm Credit institutions which included estimated patronage and fee income from the CPP program. Noninterest expense for the nine months ended September 30, 2008, increased \$298 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 \$42 for the nine months ended September 30, 2008, as compared to \$45 for the same period in 2007. The Association recorded a provision for loan loss of \$232 for the nine months ended September 30, 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 52% of the Association's own funds. The total notes payable to the Bank at September 30, 2008, was \$241,254 compared to \$261,974 at December 31, 2007.

CAPITAL RESOURCES

Total members' equity at September 30, 2008, increased to \$42,985 from the December 31, 2007, total of \$39,711. The increase is primarily attributed to income generated through the first three quarters.

Total capital stock and participation certificates were \$2,036 on September 30, 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 September 30, 2008, the Association's total surplus ratio and core surplus ratio were 12.87 percent and 12.03 percent, respectively, and the permanent capital ratio was 13.66 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 Barbara Davis, Chief Financial Officer, 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>	September 30, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
Assets		
Cash	\$ 497	\$ 3,536
Investment securities:		
Held to maturity (fair value of \$10,815 and \$12,682 respectively)	10,864	13,627
Total investment securities	10,864	13,627
Loans	265,737	283,759
Less: allowance for loan losses	1,271	1,039
Net loans	264,466	282,720
Other investments	2,759	2,259
Accrued interest receivable	5,220	5,613
Investment in other Farm Credit institutions	7,557	4,067
Premises and equipment, net	1,312	1,331
Due from AgFirst Farm Credit Bank	1,658	2,115
Other assets	342	876
Total assets	\$ 294,675	\$ 316,144
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 241,254	\$ 261,974
Accrued interest payable	838	1,230
Patronage refund payable	22	1,531
Advanced conditional payments	7,667	6,263
Other liabilities	1,909	5,435
Total liabilities	251,690	276,433
Members' Equity		
Capital stock and participation certificates	2,036	1,988
Retained earnings		
Allocated	13,874	14,541
Unallocated	27,075	23,182
Total members' equity	42,985	39,711
Total liabilities and members' equity	\$ 294,675	\$ 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 September 30,		For the nine months ended September 30,	
	2008	2007	2008	2007
Interest Income				
Investment securities	\$ 82	\$ 203	\$ 322	\$ 612
Loans	4,346	5,092	13,851	14,127
Other	36	34	111	95
Total interest income	4,464	5,329	14,284	14,834
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	2,694	3,585	8,831	9,996
Other	67	74	229	201
Total interest expense	2,761	3,659	9,060	10,197
Net interest income	1,703	1,670	5,224	4,637
Provision for (reversal of allowance for) loan losses	232	—	232	—
Net interest income after provision for (reversal of allowance for) loan losses	1,471	1,670	4,992	4,637
Noninterest Income				
Loan fees	51	100	296	215
Fees for financially related services	417	253	574	345
Equity in earnings of other Farm Credit institutions	676	468	1,656	1,300
Gains (losses) on sale of rural home loans, net	16	(8)	55	13
Other noninterest income	7	3	45	33
Total noninterest income	1,167	816	2,626	1,906
Noninterest Expense				
Salaries and employee benefits	724	726	2,274	2,180
Occupancy and equipment	69	73	228	227
Insurance Fund premium	77	88	264	246
Other operating expenses	321	226	864	679
Total noninterest expense	1,191	1,113	3,630	3,332
Income before income taxes	1,447	1,373	3,988	3,211
Provision (benefit) for income taxes	(1)	—	3	4
Net income	\$ 1,448	\$ 1,373	\$ 3,985	\$ 3,207

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			3,207	3,207
Capital stock/participation certificates issued/(retired), net	25			25
Retained earnings retired		(1,088)		(1,088)
Patronage distribution adjustment		55	(194)	(139)
Balance at September 30, 2007	\$ 1,972	\$ 11,743	\$ 26,112	\$ 39,827
Balance at December 31, 2007	\$ 1,988	\$ 14,541	\$ 23,182	\$ 39,711
Net income			3,985	3,985
Capital stock/participation certificates issued/(retired), net	48			48
Retained earnings retired		(725)		(725)
Patronage distribution adjustment		58	(92)	(34)
Balance at September 30, 2008	\$ 2,036	\$ 13,874	\$ 27,075	\$ 42,985

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 third 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 nine months ended September 30, 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 September 30, 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 141R). SFAS 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 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 SFAS 141R, but believes that its adoption will significantly impact its accounting for combinations/acquisitions that may occur in 2009 and beyond.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	<u>For the nine months ended September 30,</u>	
	<u>2008</u>	<u>2007</u>
Balance at beginning of period	\$ 1,039	\$ 1,052
Provision for (reversal of) loan losses	232	—
Loans (charged off), net of recoveries	—	(13)
Balance at end of period	<u>\$ 1,271</u>	<u>\$ 1,039</u>

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	<u>For the nine months ended September 30,</u>	
	<u>2008</u>	<u>2007</u>
Pension	\$ 114	\$ 139
401(k)	95	86
Other postretirement benefits	(8)	(5)
Total	<u>\$ 201</u>	<u>\$ 220</u>

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

	<u>Actual YTD Through 9/30/08</u>	<u>Projected Contributions For Remainder of 2008</u>	<u>Projected Total Contributions 2008</u>
Pension	\$ -	\$ -	\$ -
Other postretirement benefits	1	-	1
Total	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 1</u>

As of September 30, 2008 no contributions have been made to the pension plan for 2008. Actuarial projections as of the last plan measurement date (September 30, 2007) did not anticipate any contributions for 2008. However, a declining

investment market, which has impacted the discount rate and the return on plan assets, will require a contribution to be made prior to the next plan measurement date at December 31, 2008. The contribution amount will be determined by the plan's Sponsor Committee.