
Jackson Purchase Agricultural Credit Association

SECOND QUARTER 2009

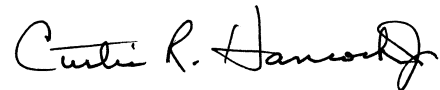
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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2009 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

July 23, 2009

Jackson Purchase Agricultural Credit Association

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2009. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of June 30, 2009, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2009



Stan Brunston
Chief Executive Officer



Barbara Davis
Chief Financial Officer

July 23, 2009

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 June 30, 2009. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2008 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, 2009, was \$241,057, a decrease of \$22,679, as compared to \$263,736 at December 31, 2008. Net loans outstanding at June 30, 2009, were \$238,567 as compared to \$261,965 at December 31, 2008. Net loans accounted for 90.01 percent of total assets at June 30, 2009, as compared to 88.82 percent of total assets at December 31, 2008. The decrease in gross and net loan volume during the reporting period is primarily attributable to seasonal paydown on production loans and the reduced need for additional credit due to the bountiful harvest in 2008.

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 \$2,017 at December 31, 2008, to \$3,750 at June 30, 2009. This increase is primarily the result of six borrower's loans (including two participation loans) being transferred to nonaccrual status during the period.

Other property owned (OPO) consists primarily of assets once held as loan collateral that were acquired through foreclosure or deeded to the Association (or a lender group) in satisfaction of secured loans. Traditionally, OPO is primarily

in the form of real estate. However, it can also include equipment and equity interests in companies or partnerships. The Association's ownership interest in certain plants is primarily in the form of a limited liability company (LLC) equity. OPO increased \$845 during the first half of 2009 and totaled \$845 at June 30, 2009. This increase is primarily due to one nonaccrual participation loan that was transferred into OPO.

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, 2009, was \$2,490 compared to \$1,771 at December 31, 2008, and was considered by management to be adequate to cover probable losses. The increase of \$719 in the allowance for loan losses was primarily the result of classification changes, chargeoffs, and additional specific reserves needed for participation loans.

RESULTS OF OPERATIONS

For the three months ended June 30, 2009

Net income for the three months ended June 30, 2009, totaled (\$372), as compared to \$1,206 for the same period in 2008. Net interest income decreased \$122 for the three months ended June 30, 2009, as compared to the same period in 2008. This decrease in net interest income is attributed primarily to a decrease in interest income and expense as a result of loans sold to AgFirst through the Capitalized Participation Pool (CPP) program.

Noninterest income for the three months ended June 30, 2009, totaled \$881 as compared to \$614 for the same period of 2008, an increase of \$267. The increase is primarily the result of an increase in gains on sale of rural home loans and an increase in equity in earnings of other Farm Credit institutions attributed to the loans sold to AgFirst through the CPP program. Noninterest expense for the three months ended June 30, 2009, increased \$241 compared to the same period of 2008. The primary reason for the increase in noninterest expense resulted from an increase in salaries and employee benefits and other operating expenses.

Nonaccrual income was \$285 for the three months ended June 30, 2009, as compared to \$30 for the same period in 2008. This increase is mainly the result of one loan that paid off that had deferred interest income. The Association recorded a provision for loan loss of \$1,486 for the three

months ended June 30, 2009, as compared to \$0 for the same period in 2008. The increase in provision for loan loss is attributed to classification changes and specific reserves needed for participation loans.

For the six months ended June 30, 2008

Net income for the six months ended June 30, 2009, totaled \$708, as compared to \$2,537 for the same period in 2008. Net interest income decreased \$407 for the six months ended June 30, 2009, as compared to the same period in 2008. This decrease in net interest income is attributed primarily to a decrease in interest income and expense as a result of loans sold to AgFirst through the Capitalized Participation Pool (CPP) program.

Noninterest income for the six months ended June 30, 2009, totaled \$1,933, as compared to \$1,459 for the same period of 2008, an increase of \$474. The increase is primarily the result of an increase in equity in earnings of other Farm Credit institutions. Noninterest expense for the six months ended June 30, 2009, increased \$414 compared to the same period of 2008. The primary reason for the increase in noninterest expense resulted from an increase in salaries and employee benefits, and other operating expenses.

Nonaccrual income was \$290 for the six months ended June 30, 2009, as compared to \$36 for the same period in 2008. This increase is mainly the result of one loan that paid off that had deferred interest income. The Association recorded a provision for loan loss of \$1,486 for the six months ended June 30, 2009, as compared to \$0 for the same period in 2008. The increase in provision for loan loss is attributed to classification changes and specific reserves needed for participation loans.

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 June 30, 2009, was \$214,094 compared to \$237,734 at December 31, 2008.

CAPITAL RESOURCES

Total members' equity at June 30, 2009, decreased to \$42,156 from the December 31, 2008, total of \$42,372. The decrease

is primarily attributed to a payout of patronage for the year 2003.

Total capital stock and participation certificates were \$1,997 on June 30, 2009, compared to \$2,015 on December 31, 2008.

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, 2009, the Association's total surplus ratio and core surplus ratio were 15.54 percent and 14.24 percent, respectively, and the permanent capital ratio was 16.47 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>	June 30, 2009	December 31, 2008
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Cash	\$ 553	\$ 2,860
Investment securities:		
Held to maturity (fair value of \$8,350 and \$9,816 respectively)	8,382	9,889
Total investment securities	8,382	9,889
Loans	241,057	263,736
Less: allowance for loan losses	2,490	1,771
Net loans	238,567	261,965
Loans held for sale	143	352
Other investments	2,490	2,901
Accrued interest receivable	2,851	4,290
Investment in other Farm Credit institutions	7,366	7,881
Premises and equipment, net	1,807	1,415
Other property owned	845	—
Due from AgFirst Farm Credit Bank	1,459	2,510
Other assets	580	860
Total assets	\$ 265,043	\$ 294,923
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 214,094	\$ 237,734
Accrued interest payable	562	741
Patronage refund payable	17	1,460
Advanced conditional payments	5,523	5,716
Other liabilities	2,691	6,900
Total liabilities	222,887	252,551
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	1,997	2,015
Retained earnings		
Allocated	15,705	16,553
Unallocated	24,454	23,804
Total members' equity	42,156	42,372
Total liabilities and members' equity	\$ 265,043	\$ 294,923

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

Jackson Purchase Agricultural Association

Consolidated Statements of Operations

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
Interest Income				
Investment securities	\$ 36	\$ 78	\$ 67	\$ 240
Loans	3,290	4,676	6,530	9,505
Other	34	45	68	75
Total interest income	3,360	4,799	6,665	9,820
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	1,685	2,948	3,503	6,137
Other	18	72	48	162
Total interest expense	1,703	3,020	3,551	6,299
Net interest income	1,657	1,779	3,114	3,521
Provision for (reversal of allowance for) loan losses	1,486	—	1,486	—
Net interest income after provision for (reversal of allowance for) loan losses	171	1,779	1,628	3,521
Noninterest Income				
Loan fees	80	68	144	245
Fees for financially related services	20	15	167	157
Equity in earnings of other Farm Credit institutions	719	504	1,458	980
Gains (losses) on sale of rural home loans, net	55	21	137	39
Other noninterest income	7	6	27	38
Total noninterest income	881	614	1,933	1,459
Noninterest Expense				
Salaries and employee benefits	944	725	1,908	1,550
Occupancy and equipment	83	77	176	159
Insurance Fund premium	83	95	167	187
Other operating expenses	314	286	602	543
Total noninterest expense	1,424	1,183	2,853	2,439
Income (loss) before income taxes	(372)	1,210	708	2,541
Provision (benefit) for income taxes	—	4	—	4
Net income (loss)	\$ (372)	\$ 1,206	\$ 708	\$ 2,537

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, 2007	\$ 1,988	\$ 14,541	\$ 23,182	\$ 39,711
Net income			2,537	2,537
Capital stock/participation certificates issued/(retired), net	32			32
Retained earnings retired		(725)		(725)
Patronage distribution adjustment		58	(91)	(33)
Balance at June 30, 2008	\$ 2,020	\$ 13,874	\$ 25,628	\$ 41,522
Balance at December 31, 2008	\$ 2,015	\$ 16,553	\$ 23,804	\$ 42,372
Net income			708	708
Capital stock/participation certificates issued/(retired), net	(18)			(18)
Retained earnings retired		(885)		(885)
Patronage distribution adjustment		37	(58)	(21)
Balance at June 30, 2009	\$ 1,997	\$ 15,705	\$ 24,454	\$ 42,156

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

