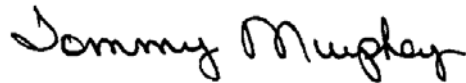
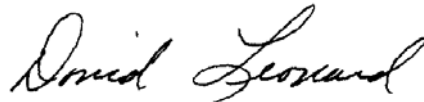


FIRST QUARTER 2004

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Tommy Murphey
Chief Executive Officer



David Leonard
Chairman of the Board

April 29, 2004

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 March 31, 2004. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2003 Annual Report of the Association.

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 in our region, 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 impacts the level of dependency on a given commodity.

The gross loan volume of the Association as of March 31, 2004, was \$190,845, a decrease of \$25,415 as compared to \$216,260 at December 31, 2003. Net loans outstanding at March 31, 2004, were \$186,787 as compared to \$212,218 at December 31, 2003. Net loans accounted for 95.94 percent of total assets at March 31, 2004 as compared to 95.27 percent of total assets at December 31, 2003.

The decrease in gross and net loan volume during the reporting period is attributed primarily to seasonal paydown of 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, however, and credit administration remains satisfactory. Nonaccrual loans decreased from \$856 at December 31, 2003, to \$738 at March 31, 2004. 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, 2004, was \$4,058 compared to \$4,042 at December 31, 2003, and was considered by management to be adequate to cover possible losses.

In June, 2003, the American Institute of Certified Public Accountants' Accounting Standards Executive Committee (AcSEC) issued a proposed Statement of Position (SOP) – Allowance for Credit Losses, which was intended to clarify the methodology for estimating the allowance for credit losses and to enhance financial statement disclosures related to the allowance for credit losses. In January 2004, AcSEC abandoned its proposed SOP and announced that it would focus instead on improving financial statement disclosures regarding the allowance for loan losses.

We plan to conduct a study to further refine our methodology for calculating the allowance for loan losses taking into account generally accepted accounting principles, and applicable Farm Credit Administration requirements, as well as the Securities and Exchange Commission and Federal Financial Institutions Examination Council guidelines. The study is likely to be completed by the fourth quarter of 2004 with any appropriate reduction to the allowance for loan losses implemented at that time, which reduction may be significant.

RESULTS OF OPERATIONS

For the three months ended March 31, 2004

Net income for the three months ended March 31, 2004, totaled \$744, as compared to \$402 for the same period in 2003. This increase of \$342 is attributed mainly to a decrease in interest expense, provision for loan losses, and provision for income taxes. Net interest income increased \$82 for the three months ended March 31, 2004, as compared to the same period in 2003.

At March 31, 2004, interest income on accruing loans decreased \$2 compared to March 31, 2003.

Nonaccrual income was \$21 for the three months ended March 31, 2004, as compared to \$12 for the same period in 2003. Interest expense decreased \$84 for the three months ended March 31, 2004, as compared to the comparable period of 2003.

Noninterest income for the three months ended March 31, 2004, totaled \$415, as compared to \$419 for the same period of 2003, a decrease of \$4.

Noninterest expense for the three months ended March 31, 2004, increased \$59 compared to the same period of 2003.

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 funds are advanced by the Bank 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. The total notes payable to the Bank at March 31, 2004 was \$160,807 as compared to \$188,036 at December 31, 2003. The decrease during the period is primarily attributed to the funding of decreased loan volume.

CAPITAL RESOURCES

Total members' equity at March 31, 2004, increased to \$30,799 from the December 31, 2003, total of \$30,057. The increase is primarily attributed to income generated through the first quarter. Total capital stock and participation certificates were \$3,795 on March 31, 2004, compared to \$3,777 on December 31, 2003. This increase is attributed to stock requirements on new loan volume.

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, 2004 the Association's total surplus ratio and core surplus ratio were 14.38 percent and 12.56 percent, respectively, and the permanent capital ratio was 15.39 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.

Jackson Purchase Agricultural Credit Association

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2004	December 31, 2003
	<i>(unaudited)</i>	
Assets		
Cash	\$ 55	\$ 1,105
Loans	190,845	216,260
Less: allowance for loan losses	4,058	4,042
Net loans	186,787	212,218
Accrued interest receivable	2,617	2,848
Investment in AgFirst Farm Credit Bank	3,478	3,478
Premises and equipment, net	610	584
Other assets	1,146	2,528
Total assets	<u>\$ 194,693</u>	<u>\$ 222,761</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 160,807	\$ 188,036
Accrued interest payable	484	544
Patronage refund payable	25	941
Other liabilities	2,578	3,183
Total liabilities	<u>163,894</u>	<u>192,704</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	3,795	3,777
Retained earnings		
Allocated	7,426	7,475
Unallocated	19,578	18,805
Total members' equity	<u>30,799</u>	<u>30,057</u>
Total liabilities and members' equity	<u>\$ 194,693</u>	<u>\$ 222,761</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 March 31,	
	2004	2003
Interest Income		
Loans	\$ 2,682	\$ 2,684
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	1,482	1,566
Net interest income	1,200	1,118
Provision for (reversal of) loan losses	—	216
Net interest income after provision for (reversal of) loan losses	1,200	902
Noninterest Income		
Loan fees	31	52
Fees for financially related services	47	43
Equity in earnings of AgFirst Farm Credit Bank	307	294
Other noninterest income	30	30
Total noninterest income	415	419
Noninterest Expense		
Salaries and employee benefits	609	561
Occupancy and equipment	59	58
Insurance Fund premium	47	54
Other operating expenses	151	134
Total noninterest expense	866	807
Income before income taxes	749	514
Provision (benefit) for income taxes	5	112
Net income	\$ 744	\$ 402

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

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

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2002	\$ 3,587	\$ 6,839	\$ 18,729	\$ 29,155
Net income			402	402
Capital stock/participation certificates issued	92			92
Capital stock/participation certificates retired	(27)			(27)
Distribution adjustment		(31)	42	11
Balance at March 31, 2003	<u>\$ 3,652</u>	<u>\$ 6,808</u>	<u>\$ 19,173</u>	<u>\$ 29,633</u>
Balance at December 31, 2003	\$ 3,777	\$ 7,475	\$ 18,805	\$ 30,057
Net income			744	744
Capital stock/participation certificates issued	62			62
Capital stock/participation certificates retired	(44)			(44)
Distribution adjustment		(49)	29	(20)
Balance at March 31, 2004	<u>\$ 3,795</u>	<u>\$ 7,426</u>	<u>\$ 19,578</u>	<u>\$ 30,799</u>

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

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, 2003, are contained in the 2003 Annual Report to Stockholders. These unaudited first quarter 2004 consolidated financial statements should be read in conjunction with the 2003 Annual Report to Stockholders.

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 three months ended March 31, 2004, are not necessarily indicative of the results to be expected for the year ending December 31, 2004.

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 March 31, 2004, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

Balance at 12-31-02	\$ 3,580
(Reversal of) provision for loan losses	216
Recoveries, net of loans charged off	<u>5</u>
Balance at 3-31-03	<u>\$ 3,801</u>
Balance at 12-31-03	\$ 4,042
(Reversal of) provision for loan losses	–
Recoveries, net of loans charged off	<u>16</u>
Balance at 3-31-04	<u>\$ 4,058</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 three months ended March 31, 2004:

	For the three months ended March 31,	
	2004	2003
Service cost	\$ 40	\$ 31
Interest cost	45	40
Expected return on plan assets	(69)	(55)
Amortization of prior service cost	9	9
Recognized net actuarial (gain) loss	1	3
Other	15	–
Net periodic benefit (income) cost	<u>\$ 41</u>	<u>\$ 28</u>

As of March 31, 2004, no contributions have been made to the pension plan for 2004. The Association anticipates contributing \$120 to fund its pension plan for the remainder of 2004.

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 three months ended March 31, 2004:

	For the three months ended March 31,	
	2004	2003
Pension	\$ 41	\$ 28
Thrift/deferred compensation	24	23
Other postretirement benefits	(6)	(4)
Total	<u>\$ 59</u>	<u>\$ 47</u>