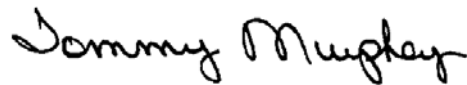



SECOND QUARTER 2004

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Tommy Murphey
Chief Executive Officer



David Leonard
Chairman of the Board

July 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 June 30, 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 June 30, 2004, was \$209,466, a decrease of \$6,794 as compared to \$216,260 at December 31, 2003. Net loans outstanding at June 30, 2004, were \$205,403 as compared to \$212,218 at December 31, 2003. Net loans accounted for 95.60 percent of total assets at June 30, 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 an unusually large agricultural paydown resulting from tremendous 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 \$856 at December 31, 2003, to \$722 at June 30, 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 June 30, 2004, was \$4,063 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' (AICPA) Accounting Standards Executive Committee (AcSEC) issued a proposed Statement of Position – 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 Statement of Position and announced that it would focus instead on improving financial statement disclosures regarding the allowance for loan losses.

System institutions have initiated studies to further refine their methodologies for calculating their respective allowances 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. These studies are likely to be completed by the fourth quarter of 2004 with any appropriate reductions to the allowance for loan losses implemented at that time. The resulting reductions in the allowance for loan losses may be significant.

In April 2004, the Farm Credit Administration, the System's regulator, issued an "Informational Memorandum" to System institutions regarding the allowance for loan losses. The memorandum addresses the status of the AICPA's project and the Securities and Exchange Commission and the Federal Financial Institutions Examination Council guidance on the subject. The objective of the Farm Credit Administration's memorandum was to clarify its expectations regarding the analysis and related documentation for the allowance for loan losses. The Farm Credit Administration endorsed the direction provided by these other regulatory agencies and will include the conceptual framework addressed in this guidance in their examination process.

RESULTS OF OPERATIONS

For the three months ended June 30, 2004

Net income for the three months ended June 30, 2004, totaled \$863, as compared to \$510 for the same period in 2003, an increase of \$353. Net interest income increased \$85, for the three months ended June 30, 2004, as compared to the same period in 2003.

At June 30, 2004, interest income on loans decreased \$56 compared to June 30, 2003. Nonaccrual income was \$8 for the three months ended June 30, 2003, as compared to \$45 for the same period in 2003. Interest expense decreased \$141 for the three months ended June 30, 2004, as compared to the comparable period of 2003. Noninterest income for the three months ended June 30, 2004, totaled \$403, as compared to \$435 for the same period of 2003, a decrease of \$32. This decrease is primarily the result of a decrease in loan fees. Noninterest expense for the three months ended June 30, 2004, decreased \$19 compared to the same period of 2003. This decrease is primarily attributed to a decrease in normal operating expenses.

For the six months ended June 30, 2004

Net income for the six months ended June 30, 2004, totaled \$1,607 as compared to \$912 for the same period in 2003. This increase of \$695 or 76.21 percent is attributed mainly to a decrease in provision for loan losses resulting from decreased loan volume and also a decrease in provision for income taxes.

At June 30, 2004, interest income on loans decreased \$58 compared to June 30, 2003. Nonaccrual income was \$29 for the six months ended June 30, 2004, as compared to the \$57 for the same period in 2003.

Interest expense decreased \$225 for the six months ended June 30, 2004, as compared to the same period in 2003. Noninterest income for the six months ended June 30, 2004, totaled \$818, as compared to \$854 for the same period of 2003, a decrease of \$36.

Noninterest expense for the six months ended June 30, 2004, increased \$40 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 June 30, 2004 was \$180,500 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 June 30, 2004, increased to \$30,865 from the December 31, 2003, total of \$30,057. Total capital stock and participation certificates were \$3,825 on June 30, 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 June 30, 2004 the Association's total surplus ratio and core surplus ratio were 13.91 percent and 12.32 percent, respectively, and the permanent capital ratio was 14.90 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>	June 30, 2004	December 31, 2003
	<i>(unaudited)</i>	
Assets		
Cash	\$ 507	\$ 1,105
Loans	209,466	216,260
Less: allowance for loan losses	4,063	4,042
Net loans	205,403	212,218
Accrued interest receivable	2,873	2,848
Investment in AgFirst Farm Credit Bank	3,478	3,478
Premises and equipment, net	726	584
Other assets	1,879	2,528
Total assets	\$ 214,866	\$ 222,761
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 180,500	\$ 188,036
Accrued interest payable	487	544
Patronage refund payable	14	941
Other liabilities	3,000	3,183
Total liabilities	184,001	192,704
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	3,825	3,777
Retained earnings		
Allocated	6,599	7,475
Unallocated	20,441	18,805
Total members' equity	30,865	30,057
Total liabilities and members' equity	\$ 214,866	\$ 222,761

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 June 30,		For the six months ended June 30,	
	2004	2003	2004	2003
Interest Income				
Loans	\$ 2,775	\$ 2,831	\$ 5,457	\$ 5,515
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	1,452	1,593	2,934	3,159
Net interest income	1,323	1,238	2,523	2,356
Provision for (reversal of) loan losses	—	284	—	500
Net interest income after provision for (reversal of) loan losses	1,323	954	2,523	1,856
Noninterest Income				
Loan fees	27	60	58	112
Fees for financially related services	43	48	90	91
Equity in earnings of AgFirst Farm Credit Bank	320	312	627	606
Other noninterest income	13	15	43	45
Total noninterest income	403	435	818	854
Noninterest Expense				
Salaries and employee benefits	578	558	1,187	1,119
Occupancy and equipment	58	70	117	128
Insurance Fund premium	48	56	95	110
Other operating expenses	176	195	327	329
Total noninterest expense	860	879	1,726	1,686
Income before income taxes	866	510	1,615	1,024
Provision (benefit) for income taxes	3	—	8	112
Net income	\$ 863	\$ 510	\$ 1,607	\$ 912

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			912	912
Capital stock/participation certificates issued	180			180
Capital stock/participation certificates retired	(64)			(64)
Retained earnings retired		(1,052)		(1,052)
Distribution adjustment		(31)	43	12
Balance at June 30, 2003	<u>\$ 3,703</u>	<u>\$ 5,756</u>	<u>\$ 19,684</u>	<u>\$ 29,143</u>
Balance at December 31, 2003	\$ 3,777	\$ 7,475	\$ 18,805	\$ 30,057
Net income			1,607	1,607
Capital stock/participation certificates issued	123			123
Capital stock/participation certificates retired	(75)			(75)
Retained earnings retired		(827)		(827)
Distribution adjustment		(49)	29	(20)
Balance at June 30, 2004	<u>\$ 3,825</u>	<u>\$ 6,599</u>	<u>\$ 20,441</u>	<u>\$ 30,865</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, 2003, are contained in the 2003 Annual Report to Stockholders. These unaudited second 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 six months ended June 30, 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 June 30, 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	500
Recoveries, net of loans charged off	<u>22</u>
Balance at 6-30-03	<u>\$ 4,102</u>
Balance at 12-31-03	\$ 4,042
(Reversal of) provision for loan losses	–
Recoveries, net of loans charged off	<u>21</u>
Balance at 6-30-04	<u>\$ 4,063</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 six months ended June 30, 2004:

	For the six months ended June 30,	
	2004	2003
Service cost	\$ 81	\$ 62
Interest cost	90	80
Expected return on plan assets	(138)	(110)
Amortization of prior service cost	18	18
Recognized net actuarial (gain) loss	2	6
Other	29	–
Net periodic benefit (income) cost	<u>\$ 82</u>	<u>\$ 56</u>

The Association previously disclosed in its financial statements for the quarter ended March 31, 2004, that it expected to contribute \$120 to its pension plan in 2004. As of June 30, 2004 the Association had contributed \$55 to the pension plan. The Association does not anticipate contributing additional funds to 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 six months ended June 30, 2004:

	For the six months ended June 30,	
	2004	2003
Pension	\$ 82	\$ 56
Thrift/deferred compensation	49	47
Other postretirement benefits	(11)	(8)
Total	<u>\$ 120</u>	<u>\$ 95</u>