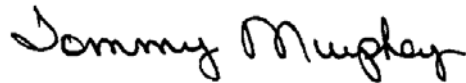
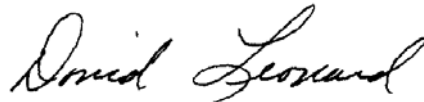


# **FIRST QUARTER 2005**

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Tommy Murphey  
Chief Executive Officer



David Leonard  
Chairman of the Board

April 29, 2005

# 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, 2005. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2004 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, 2005, was \$202,442, a decrease of \$16,145 as compared to \$218,587 at December 31, 2004. Net loans outstanding at March 31, 2005, were \$201,297 as compared to \$217,387 at December 31, 2004. Net loans accounted for 95.25 percent of total assets at March 31, 2005 as compared to 94.28 percent of total assets at December 31, 2004.

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. However, portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual loans decreased from \$723 at December 31, 2004, to \$482 at March 31, 2005. 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, 2005, was \$1,145 compared to \$1,200 at December 31, 2004, and was considered by management to be adequate to cover possible losses. As discussed in the 2004 Annual Report, the Association recorded a loan loss reversal of \$2,859 in the fourth quarter of 2004 that resulted in a decrease in the allowance for loan losses. For additional information concerning this reversal refer to the 2004 Annual Report of Jackson Purchase ACA.

## **RESULTS OF OPERATIONS**

### ***For the three months ended March 31, 2005***

Net income for the three months ended March 31, 2005, totaled \$945, as compared to \$744 for the same period in 2004. This increase of \$201 is attributed mainly to an increase in net interest income. Net interest income increased \$200 for the three months ended March 31, 2005, as compared to the same period in 2004. Of this \$200 increase in net interest income, \$133 is attributed to an increase in interest income on our own funds.

At March 31, 2005, interest income on accruing loans increased \$492 compared to March 31, 2004. Nonaccrual income was \$31 for the three months ended March 31, 2005, as compared to \$21 for the same period in 2004. Interest expense increased \$292 for the three months ended March 31, 2005, as compared to the comparable period of 2004. Noninterest income for the three months ended March 31, 2005, totaled \$425, as compared to \$415 for the same period of 2004, an increase of \$10. Noninterest expense for the three months ended March 31, 2005, increased \$8 compared to the same period of 2004.

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## **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, 2005 was \$173,121 as compared to \$191,552 at December 31, 2004. The decrease during the period is primarily attributed to the funding of decreased loan volume.

## **CAPITAL RESOURCES**

Total members' equity at March 31, 2005, increased to \$35,046 from the December 31, 2004, total of \$34,059. The increase is primarily attributed to income generated through the first quarter. Total capital stock and participation certificates were \$2,756 on March 31, 2005, compared to \$2,763 on December 31, 2004. This decrease is attributed to stock requirements on decreased 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, 2005 the Association's total surplus ratio and core surplus ratio were 15.13 percent and 13.67 percent, respectively, and the permanent capital ratio was 16.11 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>	<b>March 31, 2005</b>	<b>December 31, 2004</b>
	<i>(unaudited)</i>	
<b>Assets</b>		
Cash	\$ 1,209	\$ 2,516
Loans	202,442	218,587
Less: allowance for loan losses	1,145	1,200
Net loans	201,297	217,387
Accrued interest receivable	3,108	3,111
Investment in other Farm Credit institutions	3,483	3,483
Premises and equipment, net	1,159	1,158
Other assets	1,086	2,926
Total assets	\$ 211,342	\$ 230,581
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 173,121	\$ 191,552
Accrued interest payable	606	604
Patronage refund payable	23	1,548
Other liabilities	2,546	2,818
Total liabilities	176,296	196,522
Commitments and contingencies		
<b>Members' Equity</b>		
Capital stock and participation certificates	2,756	2,763
Retained earnings		
Allocated	9,345	9,444
Unallocated	22,945	21,852
Total members' equity	35,046	34,059
Total liabilities and members' equity	\$ 211,342	\$ 230,581

*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>	<b>For the three months ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Interest Income</b>		
Loans	\$ 3,174	\$ 2,682
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	1,774	1,482
Net interest income	1,400	1,200
Provision for (reversal of) loan losses	—	—
Net interest income after provision for (reversal of) loan losses	1,400	1,200
<b>Noninterest Income</b>		
Loan fees	38	31
Fees for financially related services	33	47
Equity in earnings of other Farm Credit institutions	323	307
Other noninterest income	31	30
Total noninterest income	425	415
<b>Noninterest Expense</b>		
Salaries and employee benefits	595	609
Occupancy and equipment	62	59
Insurance Fund premium	19	47
Other operating expenses	198	151
Total noninterest expense	874	866
Income before income taxes	951	749
Provision (benefit) for income taxes	6	5
Net income	\$ 945	\$ 744

*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>	<b>Capital Stock and Participation Certificates</b>	<b>Retained Earnings</b>		<b>Total Members' Equity</b>
		<b>Allocated</b>	<b>Unallocated</b>	
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>
Balance at December 31, 2004	\$ 2,763	\$ 9,444	\$ 21,852	\$ 34,059
Net income			945	945
Capital stock/participation certificates issued	63			63
Capital stock/participation certificates retired	(70)			(70)
Distribution adjustment		(99)	148	49
Balance at March 31, 2005	<u>\$ 2,756</u>	<u>\$ 9,345</u>	<u>\$ 22,945</u>	<u>\$ 35,046</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, 2004, are contained in the 2004 Annual Report to Stockholders. These unaudited first quarter 2005 consolidated financial statements should be read in conjunction with the 2004 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, 2005, are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

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, 2005, 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 12-31-03	\$ 4,042
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	16
Balance at 3-31-04	\$ 4,058
Balance at 12-31-04	\$ 1,200
(Reversal of) provision for loan losses	—
Loans (charged off), net of recoveries	(55)
Balance at 3-31-05	\$ 1,145

As discussed in the 2004 Annual Report, the Association recorded a loan loss reversal of \$2,859 in the fourth quarter of 2004 that resulted in a decrease in the allowance for loan losses.

**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 retirement and postretirement benefit expense for the three months ended March 31, 2005:

	<b>For the three months ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Service cost	\$ 43	\$ 40
Interest cost	55	45
Expected return on plan assets	(72)	(69)
Amortization of prior service cost	9	9
Recognized net actuarial (gain) loss	10	1
Other	—	15
Net periodic benefit (income) cost	\$ 45	\$ 41

As of March 31, 2005, no contributions have been made to the pension plan for 2005. Actuarial projections as of the last plan measurement date (September 30, 2004) did not anticipate any contributions for 2005; however, market conditions could impact discount rates and return on plan assets which could change this expectation, making contributions necessary before the next plan measurement date.

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, 2005:

	<b>For the three months ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Pension	\$ 45	\$ 41
Thrift/deferred compensation	27	24
Other postretirement benefits	(1)	(6)
Total	\$ 71	\$ 59