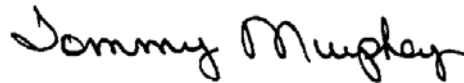
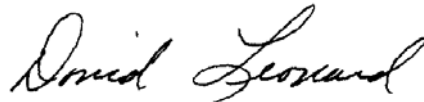


SECOND QUARTER 2005

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Tommy Murphey
Chief Executive Officer



David Leonard
Chairman of the Board

July 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 June 30, 2005. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated 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 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, 2005, was \$218,383, a decrease of \$204, as compared to \$218,587 at December 31, 2004. Net loans outstanding at June 30, 2005, were \$217,232 as compared to \$217,387 at December 31, 2004. Net loans accounted for 94.83 percent of total assets at June 30, 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 partly attributable to agricultural paydown resulting from increased 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 increased from \$723 at December 31, 2004, to \$841 at June 30, 2005. This increase is primarily the result of two loans 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 June 30, 2005, was \$1,151 compared to \$1,200 at December 31, 2004, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2005

Net income for the three months ended June 30, 2005, totaled \$1,023, as compared to \$863 for the same period in 2004. Net interest income increased \$104 for the three months ended June 30, 2005, as compared to the same period in 2004. Increased loan volume is the primary reason for this increase in net interest income.

Noninterest income for the three months ended June 30, 2005, totaled \$425, as compared to \$403 for the same period of 2004, an increase of \$22. The increase is primarily the result of increased fee income and equity in earnings of other Farm Credit institutions. Noninterest expense for the three months ended June 30, 2005, decreased \$32 compared to the same period of 2004. The primary reasons for the decrease in noninterest expense were a decrease in the insurance fund premium and decrease in the association health insurance premiums.

For the six months ended June 30, 2005

Net income for the six months ended June 30, 2005, totaled \$1,968, as compared to \$1,607 for the same period in 2004. At June 30, 2005, net interest income increased by \$304 or 12.05 percent compared to June 30, 2004. Interest income on loans increased by \$1,101 and interest expense increased by \$797. This change in net interest income is the result of increased interest rates and cost of funds.

Nonaccrual income was \$44 for the six months ended June 30, 2005, as compared to \$29 for the same period in 2004. The Association recorded a provision for loan loss of \$0 for the six months ended June 30, 2005, as compared to \$0 for the same period in 2004. 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 significant decrease in the allowance for loan losses. Please refer to the 2004 Annual Report of the Association for a more detailed explanation of this change in accounting estimate.

Noninterest income for the six months ended June 30, 2005, totaled \$850, as compared to \$818 for the same period of 2004, an increase of \$32. The increase is primarily the result of increased equity in earnings of other Farm Credit institutions. Noninterest expense for the six months ended June 30, 2005, decreased \$24 compared to the same period of 2004. The primary reason for the decrease in noninterest expense was a decrease in the insurance fund premium.

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 75% of the Association's own funds. The total notes payable to the Bank at June 30, 2005, was \$190,190 as compared to \$191,552 at December 31, 2004.

CAPITAL RESOURCES

Total members' equity at June 30, 2005, increased to \$35,240 from the December 31, 2004, total of \$34,059. The increase is primarily attributed to income generated through the first two quarters reduced by the 1999 allocated surplus paid out in patronage refunds.

Total capital stock and participation certificates were \$2,782 on June 30, 2005, compared to \$2,763 on December 31, 2004. 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, 2005, the Association's total surplus ratio and core surplus ratio were 14.82 percent and 13.59 percent, respectively, and the permanent capital ratio was 15.77 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 Jay Wise, 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 Malinda Scoggins, Administrative Services Manager, Jackson Purchase ACA, P. O. Box 309, Mayfield, KY 42066, or accessing the website, www.jacksonpurchaseaca.com. The Association prepares a quarterly report within 45 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, 2005 <i>(unaudited)</i>	December 31, 2004 <i>(audited)</i>
Assets		
Cash	\$ 1,693	\$ 2,516
Loans	218,383	218,587
Less: allowance for loan losses	1,151	1,200
Net loans	217,232	217,387
Accrued interest receivable	3,469	3,111
Investment in other Farm Credit institutions	3,483	3,483
Premises and equipment, net	1,159	1,158
Other assets	2,041	2,926
Total assets	\$ 229,077	\$ 230,581
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 190,190	\$ 191,552
Accrued interest payable	690	604
Patronage refund payable	14	1,548
Other liabilities	2,943	2,818
Total liabilities	193,837	196,522
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	2,782	2,763
Retained earnings		
Allocated	8,489	9,444
Unallocated	23,969	21,852
Total members' equity	35,240	34,059
Total liabilities and members' equity	\$ 229,077	\$ 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>	For the three months ended June 30,		For the six months ended June 30,	
	2005	2004	2005	2004
Interest Income				
Loans	\$ 3,384	\$ 2,775	\$ 6,558	\$ 5,457
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	1,957	1,452	3,731	2,934
Net interest income	1,427	1,323	2,827	2,523
Provision for (reversal of) loan losses	—	—	—	—
Net interest income after provision for (reversal of) loan losses	1,427	1,323	2,827	2,523
Noninterest Income				
Loan fees	55	27	93	58
Fees for financially related services	25	43	58	90
Equity in earnings of other Farm Credit institutions	338	320	661	627
Other noninterest income	7	13	38	43
Total noninterest income	425	403	850	818
Noninterest Expense				
Salaries and employee benefits	558	578	1,153	1,187
Occupancy and equipment	67	58	129	117
Insurance Fund premium	20	48	39	95
Other operating expenses	183	176	381	327
Total noninterest expense	828	860	1,702	1,726
Income before income taxes	1,024	866	1,975	1,615
Provision (benefit) for income taxes	1	3	7	8
Net income	\$ 1,023	\$ 863	\$ 1,968	\$ 1,607

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, 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	\$ 3,825	\$ 6,599	\$ 20,441	\$ 30,865
Balance at December 31, 2004	\$ 2,763	\$ 9,444	\$ 21,852	\$ 34,059
Net income			1,968	1,968
Capital stock/participation certificates issued	130			130
Capital stock/participation certificates retired	(111)			(111)
Retained earnings retired		(856)		(856)
Distribution adjustment		(99)	149	50
Balance at June 30, 2005	\$ 2,782	\$ 8,489	\$ 23,969	\$ 35,240

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 Shareholders. These unaudited second quarter 2005 consolidated financial statements should be read in conjunction with the 2004 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. The results for the six months ended June 30, 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 June 30, 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	<u>21</u>
Balance at 6-30-04	<u>\$ 4,063</u>
Balance at 12-31-04	\$ 1,200
(Reversal of) provision for loan losses	—
Loans (charged off), net of recoveries	<u>(49)</u>
Balance at 6-30-05	<u>\$ 1,151</u>

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 the components of net periodic benefit (income) cost for the defined benefit retirement plan for the six months ended June 30, 2005:

	For the six months ended June 30,	
	2005	2004
Service cost	\$ 86	\$ 81
Interest cost	111	90
Expected return on plan assets	(144)	(138)
Amortization of prior service cost	18	18
Recognized net actuarial (gain) loss	19	2
Other	—	29
Net periodic benefit (income) cost	<u>\$ 90</u>	<u>\$ 82</u>

As of June 30, 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 six months ended June 30, 2005:

	For the six months ended June 30,	
	2005	2004
Pension	\$ 90	\$ 82
Thrift/deferred compensation	52	49
Other postretirement benefits	(1)	(11)
Total	<u>\$ 141</u>	<u>\$ 120</u>