



Yankee Farm Credit, ACA

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**CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER ENDED MARCH 31, 2008**

May 1, 2008

Dear Shareholder:

Enclosed are the Association's consolidated financial statements for the first quarter of 2008. These statements should be read in conjunction with the 2007 Annual Report to Shareholders.

The purpose of these financial statements is to provide timely financial information about your Association's financial condition and results of operations. Should you have any questions about these statements, please call us.

As a shareholder, your investment in the Association is materially affected by the financial condition and results of operations of CoBank, ACB. CoBank's annual and quarterly reports are available at no charge from any of our offices. Our office locations are listed at the end of this report.

The undersigned certify that they have reviewed this report and it has been prepared in accordance with all statutory and regulatory requirements and that the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief. The financial statements, in the opinion of management, fairly present the financial condition of the institution except as noted.

Sincerely,

Paul E. Doton
Chairperson

George S. Putnam
President and CEO

Pamela A. Simek
Controller

YANKEE FARM CREDIT, ACA

Management's Discussion & Analysis of Results of Operations and Financial Condition

First Quarter Ended March 31, 2008

(Dollars in thousands, except as noted)

(Unaudited)

Results of Operations: First Quarter

Net income for the first quarter of 2008 was \$1.837 million, up \$80 thousand (5%) from net income of \$1.757 million in the first quarter of 2007.

Net interest income before the provision for loan losses was up \$104 thousand (4%) in 2008 as compared to 2007. The following table shows the components of this increase:

Changes in net interest income due to:

Changes in volumes of accrual loans & debt	\$	8
Changes in interest rates on accrual loans & debt		24
Changes in interest income on nonaccrual loans		(12)
Changes in interest rate swap income		78
Other adjustments		6
Total change in net interest income	\$	<u>104</u>

Changes in accrual volumes and rates are shown in the following table:

	Three Months Ended March 31,	
	2008	2007
Average accrual loan volume	\$ 293,520	\$ 297,153
Average interest rate on loans	6.30%	7.77%
Average interest rate spread	2.66%	2.31%

Average loan volume was lower in 2008. The average interest rate spread was higher in 2008, while the general level of interest rates was lower. A lower level of interest rates generally contributes to lower net interest income, all other factors being equal. As shown in the first table above, the net effect of changes in interest rates on net interest income was an increase of \$24 thousand, which is primarily due to the increase in the average interest rate spread.

There was a reversal to the provision for loan losses of \$179 thousand in the first quarter of 2008, as compared to a reversal to the provision for loan losses of \$7 thousand in the first quarter of 2007.

Other income decreased by \$114 thousand (16%) in 2008 as compared to 2007. This was primarily due to a decrease of \$117 thousand (25%) in patronage refunds from CoBank in 2008.

Other expense increased by \$82 thousand (6%) in 2008 as compared to 2007. Salaries and employee benefits increased by \$55 thousand (8%). The fees paid to Farm Credit Financial Partners increased by \$20 thousand (9%).

Loan Portfolio and Financial Condition

Loans originated by the Association decreased by \$39.0 million (12%) from year-end. Loans purchased increased by \$2.2 million (17%) from year-end, and participations sold decreased by \$18.8 million (40%). Loans held by the Association decreased by \$18.0 million (6%) from year-end.

The loan portfolio continues to be concentrated in the dairy industry. Farm prices for dairy products decreased in the first quarter of 2008. Federal Order 1 prices for the first quarter of 2008 averaged \$20.75/cwt, down \$1.81/cwt (8%) from the fourth quarter of 2007, but up \$5.84/cwt (39%) from the first quarter of 2007. (Prices quoted do not include the effect of the Milk Income Loss Contract (MILC or MILCX) program, which began December 1, 2001, or

Management's Discussion & Analysis (cont.)

the Vermont Target Price Program.) The change in prices received for dairy products has been accompanied by a continuing increase in the cost of farm inputs, particularly purchased feed. The composite Feed Index published by the USDA was 186 for the first quarter of 2008, up 15.5% from the fourth quarter of 2007, and up 27.4% from the first quarter of 2007. (Feed Index = 100 for 1990-1992)

Loan quality remained stable through the first quarter of 2008. Loans graded Substandard or lower were 2.2% of total loans at March 31, 2008, 1.1% improved from year-end. High risk assets comprised 0.3% of loans and related assets at March 31, 2008, up 0.1% from year-end. (High risk assets include nonaccrual loans, accrual restructured loans, loans delinquent 90 days or more but not yet classified as nonaccrual, and other property owned.) Repayment performance remained satisfactory. Accrual loans delinquent 30 days or more were 0.2% at March 31, 2008, up 0.1% from year-end. The 12-month rolling average for this statistic was 0.4% at March 31, 2008, up 0.1% from year-end. There were no charge-offs, but there were recoveries of \$16 thousand in the first quarter of 2008, as compared to no charge-offs and recoveries of \$28 thousand in the first quarter of 2007.

As discussed in the 2007 Annual Report to Shareholders, the Association declared a patronage distribution of \$3.332 million based on 2007 earnings, 100% in cash. This was paid on March 25, 2008.

Members' equity as a percentage of assets was 22.5% at March 31, 2008 as compared to 20.7% at year-end. The Association's permanent capital ratio was 19.3% at March 31, 2008, down 0.1% from year-end.

The financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

YANKEE FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEET
(Unaudited)

	March 31, 2008	December 31, 2007
	<u>(in thousands)</u>	
<u>ASSETS</u>		
Loans originated by the Association	\$ 296,264	\$ 335,257
Plus loans purchased	15,608	13,378
Less participations sold	<u>27,834</u>	<u>46,616</u>
Loans held by the Association	284,038	302,019
Less allowance for loan losses	<u>797</u>	<u>960</u>
Net loans	283,241	301,059
Cash	1,695	2,075
Accrued interest receivable	1,064	1,117
Patronage refunds due from CoBank, ACB	346	1,624
Investment in CoBank, ACB	11,779	11,504
Mission related investment	360	360
Premises and equipment, less accumulated depreciation	1,083	1,108
Other assets	2,423	1,950
Total assets	<u>\$ 301,991</u>	<u>\$ 320,797</u>
<u>LIABILITIES</u>		
Note payable to CoBank, ACB	\$ 231,888	\$ 248,997
Patronage distribution payable	636	3,332
Other liabilities	<u>1,622</u>	<u>2,085</u>
Total liabilities	<u>234,146</u>	<u>254,414</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	905	906
Unallocated surplus	67,054	65,852
Accumulated other comprehensive income	<u>(114)</u>	<u>(375)</u>
Total members' equity	<u>67,845</u>	<u>66,383</u>
Total liabilities and members' equity	<u>\$ 301,991</u>	<u>\$ 320,797</u>

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

YANKEE FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

	Three Months Ended	
	March 31,	
	2008	2007
	(in thousands)	
<u>INTEREST INCOME</u>		
Loans	\$ 4,599	\$ 5,704
Total interest income	<u>4,599</u>	<u>5,704</u>
<u>INTEREST EXPENSE</u>		
Note payable to CoBank, ACB	2,178	3,387
Total interest expense	<u>2,178</u>	<u>3,387</u>
Net interest income	2,421	2,317
Provision for loan losses	(179)	(7)
Net interest income after provision for loan losses	<u>2,600</u>	<u>2,324</u>
<u>OTHER INCOME</u>		
Patronage refunds from CoBank, ACB	346	463
Fees for financial services	239	237
Loan fees and other income	35	34
Total other income	<u>620</u>	<u>734</u>
<u>OTHER EXPENSE</u>		
Salaries and employee benefits	760	705
Occupancy and equipment	77	74
Farm Credit Insurance Fund premium	110	103
Fees paid to Farm Credit Financial Partners, Inc.	241	221
Other expenses	191	194
Total other expense	<u>1,379</u>	<u>1,297</u>
Income before income taxes	1,841	1,761
Provision for income taxes	4	4
Net income	<u>\$ 1,837</u>	<u>\$ 1,757</u>

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

YANKEE FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(Unaudited)

	Capital Stock and Participation Certificates	Surplus		Accumulated Other Comprehensive Income	Total Members' Equity
		Allocated	Unallocated (in thousands)		
Balance at December 31, 2006	\$ 935	\$ -	\$ 62,792	\$ (228)	\$ 63,499
Comprehensive income					
Net income	-	-	1,757	-	1,757
Other comprehensive income					
Net unrealized gains (losses) on interest rate swaps	-	-	-	100	100
Total comprehensive income	-	-	1,757	100	1,857
Capital stock/PCs issued	48	-	-	-	48
Capital stock/PCs retired	(45)	-	-	-	(45)
Allocated surplus redeemed	-	-	-	-	-
Patronage distribution accrued					
Cash	-	-	(641)	-	(641)
Balance at March 31, 2007	<u>\$ 938</u>	<u>\$ -</u>	<u>\$ 63,908</u>	<u>\$ (128)</u>	<u>\$ 64,718</u>
Balance at December 31, 2007	\$ 906	\$ -	\$ 65,852	\$ (375)	\$ 66,383
Comprehensive income					
Net income	-	-	1,837	-	1,837
Other comprehensive income	-	-	-	-	-
Net unrealized gains (losses) on interest rate swaps	-	-	-	253	253
Total comprehensive income	-	-	1,837	253	2,090
FAS 158 Implementation	-	-	-	8	8
Capital stock/PCs issued	31	-	-	-	31
Capital stock/PCs retired	(32)	-	-	-	(32)
Allocated surplus redeemed	-	-	-	-	-
Patronage distribution accrued					
Cash	-	-	(636)	-	(636)
Adjustment for rounding	-	-	1	-	1
Balance at March 31, 2008	<u>\$ 905</u>	<u>\$ -</u>	<u>\$ 67,054</u>	<u>\$ (114)</u>	<u>\$ 67,845</u>

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

YANKEE FARM CREDIT, ACA

Notes To Consolidated Financial Statements

First Quarter Ended March 31, 2008

(Dollars in thousands, except as noted)
(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Yankee Farm Credit, ACA (the Association) is a member-owned cooperative within the Farm Credit System. A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2007 are contained in the 2007 Annual Report to Shareholders. These unaudited first quarter 2008 financial statements should be read in conjunction with the 2007 Annual Report to Shareholders.

The accompanying 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 and prevailing practices within the banking industry. The results of operations for the three month period ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 - ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	<u>Three Months Ended March 31,</u>	
	<u>2008</u>	<u>2007</u>
Balance at beginning of quarter	\$ 960	\$ 801
(Reversal of) provision for loan losses	(179)	(7)
Charge-offs	-	-
Recoveries	16	28
Balance at end of quarter	<u>\$ 797</u>	<u>\$ 822</u>

The following table presents information concerning impaired loans as of quarter-end. The Association defines impaired loans to be nonaccrual loans plus accrual restructured loans.

	<u>March 31,</u>	
	<u>2008</u>	<u>2007</u>
Impaired loans with related allowance	\$ 232	\$ 394
Impaired loans with no related allowance	438	475
Total impaired loans	<u>\$ 670</u>	<u>\$ 869</u>
Allowance on impaired loans	<u>\$ 12</u>	<u>\$ 9</u>

The following table summarizes impaired loan information for the quarter ended March 31:

	<u>Three Months Ended March 31,</u>	
	<u>2008</u>	<u>2007</u>
Average impaired loans	\$ 624	\$ 868
Interest income recognized on impaired loans	5	20

NOTE 3 - CAPITAL

Please see the 2007 Annual Report to Shareholders, particularly Note 7 to the Financial Statements, for a description of the Association's capitalization policies. The Association's requirement for purchased equities (stock and participation certificates) is presently the legal minimum of 2.0% of the loan with a cap of \$1 thousand.

The patronage distribution for 2007 was \$3.332 million and was distributed 100% in cash on March 25, 2008. A patronage distribution program is also in effect for 2008. The amount of the patronage distribution for 2008 will depend on financial results for the year as a whole and is therefore not known with certainty at this time. However, management estimates that the patronage distribution attributable to the first quarter of 2008 is approximately \$636 thousand. Management believes it is probable that the 2008 patronage distribution will be paid 100% in cash. Therefore, the accompanying financial statements show an interim accrual at the end of the first quarter of 2008 for patronage distribution payable of \$636 thousand. The corresponding interim accrual at the end of the first quarter of 2007 for patronage distribution payable was \$641 thousand (also 100% cash).

The Association's regulatory capital ratios were:

	Value At		Regulatory Minimum
	March 31, 2008	December 31, 2007	
Core surplus ratio	18.7%	18.7%	3.5%
Total surplus ratio	18.9%	19.1%	7.0%
Permanent capital ratio	19.3%	19.4%	7.0%

NOTE 4 - INCOME TAXES

Please see the 2007 Annual Report to Shareholders, particularly Note 8 to the Financial Statements, for a description of the Association's deferred tax assets and liabilities and the corresponding valuation allowance. At March 31, 2008, net deferred tax assets, net of the valuation allowance, were \$0 thousand, unchanged from year-end.

The provision for income taxes for the first quarter of 2008 was \$4 thousand. A provision for income taxes of \$4 thousand was recorded in the first quarter of 2007.

Please see the 2007 Annual Report to Shareholders, particularly Note 2 (Item K) to the Financial Statements, for a description of the Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." There were no uncertain income tax positions to recognize during the first quarter of 2008.

The tax years that remain open for federal and major state income tax jurisdictions are 2004 and forward.

NOTE 5 – EMPLOYEE BENEFIT PLANS

In September 2006, the FASB issued SFAS No. 158, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007. SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, we used a September 30 measurement date for pension plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. We have applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) will be credited to beginning 2008 retained earnings. As result, the Association will increase retained earnings \$8 thousand and increase the pension asset \$8 thousand.

**YANKEE FARM CREDIT, ACA
OFFICE LOCATIONS**

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