Yankee Farm Credit, ACA

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CONSOLIDATED FINANCIAL STATEMENTS
SECOND QUARTER ENDED JUNE 30, 2008

August 1, 2008

Dear Shareholder:

Enclosed are the Association's consolidated financial statements for the second 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

Second Quarter Ended June 30, 2008
(Dollars in thousands, except as noted)
(Unaudited)

Results of Operations: Second Quarter

Net income for the second quarter of 2008 was $1.093 million, down $310 thousand (22%) from net income of $1.403 million in the second quarter of 2007.

Net interest income before the provision for loan losses was down $242 thousand (10%) in 2008 as compared to 2007. The following table shows the components of this decrease:

Changes in net interest income due to:	
Changes in volumes of accrual loans & debt	$ 16
Changes in interest rates on accrual loans & debt	(381)
Changes in interest income on nonaccrual loans	(3)
Changes in interest rate swap income	120
Other adjustments	6
Total change in net interest income	$ (242)

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Average accrual loan volume	$ 285,784	$ 289,265
Average interest rate on loans	5.22%	7.78%
Average interest rate spread	2.28%	2.36%

Average loan volume was lower in 2008. The average interest rate spread was lower in 2008, as was the general level of interest rates. 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 a decrease of $381 thousand.

There was a reversal to the provision for loan losses of $25 thousand in the second quarter of 2008, as compared to a provision for loan losses of $51 thousand in the second quarter of 2007.

Other income decreased by $40 thousand (7%) in 2008 as compared to 2007. This was primarily due to a decrease of $86 thousand (22%) in the accrual for patronage refunds from CoBank in 2008.

Other expense increased by $104 thousand in 2008 as compared to 2007. Salaries and employee benefits increased by $61 thousand (9%). The fees paid to Farm Credit Financial Partners increased by $20 thousand (9%).

Results of Operations: Year-to-Date

Net income through the second quarter of 2008 was $2.930 million, down $230 thousand (7%) from net income of $3.160 million through the second quarter of 2007.

Net interest income before the provision for loan losses was down $138 thousand (3%) in 2008 as compared to 2007. The following table shows the components of this decrease:

Changes in net interest income due to:		
Changes in volumes of accrual loans & debt	$	17
Changes in interest rates on accrual loans & debt		(349)
Changes in interest income on nonaccrual loans		(15)
Changes in interest rate swap income		198
Other adjustments		11
Total change in net interest income	$	(138)

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Average accrual loan volume	$ 289,652	$ 293,187
Average interest rate on loans	5.77%	7.77%
Average interest rate spread	2.47%	2.32%

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 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 a decrease of $349 thousand.

There were reversals to the provision for loan losses of $204 thousand through the second quarter of 2008, as compared to a provision for loan losses of $44 thousand for the same period in 2007.

Other income decreased by $153 thousand (12%) in 2008 as compared to 2007. This was primarily due to a decrease of $203 thousand (24%) in the accrual for patronage refunds from CoBank in the first two quarters of 2008 as compared to the same period in 2007. Partially offsetting this decrease was an increase of $28 thousand (7%) in fees for financial services through the second quarter of 2008 as compared to the same period in 2007.

Other expense increased by $187 thousand (7%) in 2008 as compared to 2007. Salaries and employee benefits expense increased by $115 thousand (8%). The fees paid to Farm Credit Financial Partners increased by $41 thousand (9%)

Loan Portfolio and Financial Condition

Loans originated by the Association decreased by $29.2 million (9%) from year-end. Loans purchased increased by $1.5 million (11%) from year-end, and participations sold decreased by $14.1 million (30%). Loans held by the Association decreased by $13.6 million (5%) from year-end.

The loan portfolio continues to be concentrated in the dairy industry. Farm prices for dairy products decreased in the second quarter of 2008. Federal Order 1 prices for the second quarter of 2008 averaged $18.21/cwt, down $2.54/cwt (12%) from the first quarter of 2008, but up $0.98/cwt (6%) from the second 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 the Vermont Target Price Program.) The change in prices received for dairy products has been accompanied by an increase in the cost of farm inputs, particularly purchased feed. The composite Feed Index published by the USDA was 199 for the second quarter of 2008, up 12% from the first quarter of 2008, and up 35% from the second quarter of 2007. (Feed Index = 100 for 1990-1992)

Loan quality remained stable through the second quarter of 2008. Loans graded Substandard or lower were 2.3% of total loans at June 30, 2008, 1.0% improved from year-end. High risk assets comprised 0.3% of loans and related assets at June 30, 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 1.3% at June 30, 2008, up 1.2% from year-end. The 12-month rolling average for this statistic was 0.4% at June 30, 2008, up 0.1% from year-end. There were no charge-offs, but there were recoveries of $16 thousand in the first two quarters of 2008, as compared to no charge-offs and recoveries of $28 thousand in the first two quarters 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 22.2% at June 30, 2008 as compared to 20.7% at year-end. The Association's permanent capital ratio was 20.1% at June 30, 2008, up 0.7% from year-end.

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

YANKEE FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEET
(Unaudited)

	June 30, 2008	December 31, 2007
	(in thousands)	
ASSETS		
Loans originated by the Association	$ 306,052	$ 335,257
Plus loans purchased	14,890	13,378
Less participations sold	32,550	46,616
Loans held by the Association	288,392	302,019
Less allowance for loan losses	772	960
Net loans	287,620	301,059
Cash	1,628	2,075
Accrued interest receivable	943	1,117
Patronage refunds due from CoBank, ACB	647	1,624
Investment in CoBank, ACB	11,779	11,504
Mission related investment	360	360
Premises and equipment, less accumulated depreciation	1,172	1,108
Other assets	2,171	1,950
Total assets	$ 306,320	$ 320,797
LIABILITIES		
Note payable to CoBank, ACB	$ 235,310	$ 248,997
Patronage distribution payable	1,238	3,332
Other liabilities	1,671	2,085
Total liabilities	238,219	254,414
MEMBERS' EQUITY		
Capital stock and participation certificates	910	906
Unallocated surplus	67,552	65,852
Accumulated other comprehensive income	(361)	(375)
Total members' equity	68,101	66,383
Total liabilities and members' equity	$ 306,320	$ 320,797

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands)			
INTEREST INCOME				
Loans	$ 3,722	$ 5,616	$ 8,321	$ 11,320
Total interest income	3,722	5,616	8,321	11,320
INTEREST EXPENSE				
Note payable to CoBank, ACB	1,641	3,293	3,819	6,680
Total interest expense	1,641	3,293	3,819	6,680
Net interest income	2,081	2,323	4,502	4,640
Provision for loan losses	(25)	51	(204)	44
Net interest income after provision for loan losses	2,106	2,272	4,706	4,596
OTHER INCOME				
Patronage refunds from CoBank, ACB	301	387	647	850
Fees for financial services	173	148	412	384
Loan fees and other income	33	12	68	46
Total other income	507	547	1,127	1,280
OTHER EXPENSE				
Salaries and employee benefits	765	704	1,525	1,410
Occupancy and equipment	71	68	148	142
Farm Credit Insurance Fund premium	110	103	221	206
Fees paid to Farm Credit Financial Partners, Inc.	241	221	483	442
Other expenses	329	316	518	508
Total other expense	1,516	1,412	2,895	2,708
Income before income taxes	1,097	1,407	2,938	3,168
Provision for income taxes	4	4	8	8
Net income	$ 1,093	$ 1,403	$ 2,930	$ 3,160

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 Allocated	Surplus Unallocated (in thousands)	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2006	$ 935	$ -	$ 62,792	$ (228)	$ 63,499
Comprehensive income					
Net income	-	-	3,160	-	3,160
Other comprehensive income					
Net unrealized gains (losses) on interest rate swaps	-	-	-	103	103
Total comprehensive income	-	-	3,160	103	3,263
Capital stock/PCs issued	95	-	-	-	95
Capital stock/PCs retired	(96)	-	-	-	(96)
Patronage distribution accrued					
Cash	-	-	(1,266)	-	(1,266)
Adjustment for Rounding	-	-	1	-	1
Balance at June 30, 2007	$ 934	$ -	$ 64,687	$ (125)	$ 65,496
Balance at December 31, 2007	$ 906	$ -	$ 65,852	$ (375)	$ 66,383
Comprehensive income					
Net income	-	-	2,930	-	2,930
Other comprehensive income	-	-	-	-	-
Net unrealized gains (losses) on interest rate swaps	-	-	-	14	14
Total comprehensive income	-	-	2,930	14	2,944
FAS 158 Implementation	-	-	8	-	8
Capital stock/PCs issued	76	-	-	-	76
Capital stock/PCs retired	(72)	-	-	-	(72)
Patronage distribution accrued					
Cash	-	-	(1,238)	-	(1,238)
Balance at June 30, 2008	$ 910	$ -	$ 67,552	$ (361)	$ 68,101

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

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 second quarter 2008 financial statements should be read in conjunction with the 2007 Annual Report to Shareholders.

In December 2007, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards (SFAS) No. 141R, "Business Combinations." SFAS No. 141R requires business combinations to be accounted for under the acquisition method of accounting (previously called the purchase method). The acquisition method requires (a) identifying the acquirer, (b) determining the acquisition date, (c) recognizing and measuring the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, at their acquisition date fair values, and (d) recognizing and measuring goodwill or a gain from a bargain purchase. SFAS No. 141R should be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Association is still evaluating the provisions of the Standard, but believes that its adoption will significantly impact its accounting for any acquisitions that may occur in 2009 and beyond.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133.

Effective January 1, 2008, the Association adopted SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, and highly structured or long-term derivative contracts.

The adoption of the Standard did not have an impact on the consolidated financial statements.

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 six month period ended June 30, 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:

	Three Months Ended June 30,	
	2008	2007
Balance at beginning of quarter	$ 797	$ 822
(Reversal of) provision for loan losses	(25)	51
Charge-offs	-	-
Recoveries	-	-
Balance at end of quarter	$ 772	$ 873

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.

	June 30,	
	2008	2007
Impaired loans with related allowance	$ 227	$ 338
Impaired loans with no related allowance	682	431
Total impaired loans	$ 909	$ 769
Allowance on impaired loans	$ 12	$ 8

The following table summarizes impaired loan information for the quarter ended June 30:

	Three Months Ended June 30,	
	2008	2007
Average impaired loans	$ 725	$ 836
Interest income recognized on impaired loans	9	17

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 two quarters of 2008 is approximately $1.238 million. 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 two quarters of 2008 for patronage distribution payable of $1.238 million. The corresponding interim accrual at the end of the first two quarters of 2007 for patronage distribution payable was $1.266 million (also 100% cash).

The Association's regulatory capital ratios were:

	Value At		
	June 30, 2008	December 31, 2007	Regulatory Minimum
Core surplus ratio	19.6%	18.7%	3.5%
Total surplus ratio	19.8%	19.1%	7.0%
Permanent capital ratio	20.1%	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. There were no significant changes in the composition or valuation of tax assets/liabilities during the first two quarters of 2008.

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) was credited to beginning 2008 retained earnings. As result, the Association increased retained earnings $8 thousand and increased the pension asset $8 thousand.

YANKEE FARM CREDIT, ACA
OFFICE LOCATIONS

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