



**Yankee Farm Credit, ACA**

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**CONSOLIDATED FINANCIAL STATEMENTS  
THIRD QUARTER ENDED SEPTEMBER 30, 2011**

November 2, 2011

Dear Shareholder:

Enclosed are the Association's consolidated financial statements for the third quarter of 2011. These statements should be read in conjunction with the 2010 Annual Report to Shareholders.

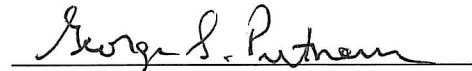
The purpose of these financial statements is to provide timely financial information about your Association's financial condition and results of operations. Should you have any questions about these statements, please call us.

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. Gingue  
Chairperson

  
George S. Putnam  
President and CEO

  
Greg M. LeDuc  
Chief Financial Officer

## YANKEE FARM CREDIT, ACA

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

#### Third Quarter Ended September 30, 2011

(Dollars in thousands, except as noted)

(Unaudited)

#### Results of Operations: Third Quarter

Net income for the third quarter of 2011 was \$1.545 million, down \$194 thousand (11%) from net income of \$1.739 million in the third quarter of 2010.

There was a provision for loan losses of \$317 thousand in the third quarter of 2011, as compared to a provision for loan losses of \$25 thousand in the third quarter of 2010.

Net interest income before the provision for loan losses was up \$212 thousand (8%) in 2011 as compared to 2010. The following table shows the components of this increase:

<u>Changes in net interest income due to:</u>	
Changes in volumes of accrual loans & debt	\$ (94)
Changes in interest rates on accrual loans & debt	322
Changes in interest income on nonaccrual loans	-
Changes in interest rate swap income	(4)
Other adjustments	(12)
Total change in net interest income	<u>\$ 212</u>

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

	Three Months Ended September 30,	
	2011	2010
Average accrual loan volume	\$ 324,684	\$ 337,457
Average interest rate on loans	4.32%	4.09%
Average interest rate spread	3.41%	2.99%

Average loan volume was lower in 2011, and this contributed a decrease of \$94 thousand to the total change in net interest income, as shown in the first table above. The average interest rate spread was higher in 2011 which contributed to an increase of \$322 thousand in net interest income, as shown in the first table above.

Other expense increased by \$73 thousand (5%) in 2011 as compared to 2010. Salaries and employee benefits increased by \$74 thousand (8%).

#### Results of Operations: Year-to-Date

Net income through the third quarter of 2011 was \$5.376 million, down \$0.5 million (8%) from net income of \$5.874 million through the third quarter of 2010.

There was a provision for loan losses of \$317 thousand through the third quarter of 2011, as compared to a provision for loan losses of \$114 thousand for the same period in 2010.

## Management's Discussion & Analysis (cont.)

Net interest income before the provision for loan losses was up \$364 thousand (4%) in 2011 as compared to 2010. The following table shows the components of this increase:

<u>Changes in net interest income due to:</u>	
Changes in volumes of accrual loans & debt	\$ (419)
Changes in interest rates on accrual loans & debt	920
Changes in interest income on nonaccrual loans	38
Changes in interest rate swap income	(168)
Other adjustments	<u>(7)</u>
Total change in net interest income	<u>\$ 364</u>

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

	Nine Months Ended September,	
	<u>2011</u>	<u>2010</u>
Average accrual loan volume	\$ 324,665	\$ 342,902
Average interest rate on loans	4.33%	4.10%
Average interest rate spread	3.38%	2.98%

Average loan volume was lower in 2011, contributing a decrease of \$419 thousand to the total change in net interest income, as shown in the first table above. The average interest rate spread was higher in 2011 which contributed to an increase of \$920 thousand in net interest income, as shown in the first table above.

Other income decreased by \$418 thousand (18%) in 2011 as compared to 2010. This decrease resulted primarily from \$390 thousand in refunds received in 2010 from the Farm Credit System Insurance Corporation related to the Farm Credit Insurance Fund.

Other expense increased by \$241 thousand (5%) in 2011 as compared to 2010. Salaries and employee benefits expense increased by \$197 thousand (7%).

### Loan Portfolio and Financial Condition

Loans originated by the Association decreased by \$1.8 million (1%) from year-end. Loans purchased increased by \$0.9 million (9%) from year-end, and participations sold increased by \$3.8 million (9%). Loans held by the Association decreased by \$4.7 million (1%) from year-end.

The loan portfolio continues to be concentrated in the dairy industry. Farm prices for dairy products increased in the third quarter of 2011. Federal Order 1 prices for the third quarter of 2011 averaged \$22.69/cwt, up \$2.21/cwt (11%) from the second quarter of 2011, and up \$5.39/cwt (31%) from the third quarter of 2010. (Prices quoted do not include the effect of the Milk Income Loss Contract.) 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 234 for the third quarter of 2011, up 3% from the second quarter of 2011, and up 34% from the third quarter of 2010. (Feed Index = 100 for 1990-1992)

Loan quality improved slightly and remained strong through the third quarter of 2011. Loans graded Substandard or lower were 5.8% of total loans at September 30, 2011, 1.3% improvement to year-end. High risk assets comprised 1.71% of loans and related assets at September 30, 2011, 0.4% improved from at 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 improved slightly in the third quarter of 2011. Accrual loans delinquent 30 days or more were 0.3% at September 30, 2011, no change from year-end. The 12-month rolling average for this statistic was 0.4% at September 30, 2011, down 0.4% from year-end. There were no charge-offs, but recoveries of \$4 thousand in the first three quarters of 2011. There were no charge-offs or recoveries in the first three quarters of 2010.

As discussed in the 2010 Annual Report to Shareholders, the Association declared a patronage distribution of \$3.659 million based on 2010 earnings, 100% in cash. This was paid on March 25, 2011.

### **Management's Discussion & Analysis (cont.)**

Members' equity as a percentage of assets was 21.8% at September 30, 2011 as compared to 20.7% at year-end. The Association's permanent capital ratio was 20.5% at September 30, 2011, up 1.2% 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)

	September 30, 2011	December 31, 2010
	(in thousands)	
<b><u>ASSETS</u></b>		
Loans originated by the Association	\$ 367,489	\$ 369,300
Plus loans purchased	10,614	9,751
Less participations sold	<u>46,400</u>	<u>42,645</u>
Loans held by the Association	331,703	336,406
Less allowance for loan losses	<u>4,938</u>	<u>4,617</u>
Net loans	326,765	331,789
Cash	865	1,488
Accrued interest receivable	843	852
Patronage refunds due from CoBank, ACB	1,129	1,597
Investment in CoBank, ACB	13,300	13,187
Mission related investment	700	454
Premises and equipment, less accumulated depreciation	1,127	1,033
Other assets	<u>1,630</u>	<u>1,488</u>
Total assets	<u>\$ 346,359</u>	<u>\$ 351,888</u>
<b><u>LIABILITIES</u></b>		
Note payable to CoBank, ACB	\$ 266,500	\$ 273,772
Patronage distribution payable	2,462	3,659
Other liabilities	<u>1,784</u>	<u>1,628</u>
Total liabilities	<u>270,746</u>	<u>279,059</u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	996	1,005
Unallocated surplus	76,342	73,427
Accumulated other comprehensive income	<u>(1,725)</u>	<u>(1,603)</u>
Total members' equity	<u>75,613</u>	<u>72,829</u>
Total liabilities and members' equity	<u>\$ 346,359</u>	<u>\$ 351,888</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands)			
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 3,538	\$ 3,497	\$ 10,555	\$ 10,517
Total interest income	<u>3,538</u>	<u>3,497</u>	<u>10,555</u>	<u>10,517</u>
<b><u>INTEREST EXPENSE</u></b>				
Note payable to CoBank, ACB	589	760	1,769	2,095
Total interest expense	<u>589</u>	<u>760</u>	<u>1,769</u>	<u>2,095</u>
Net interest income	2,949	2,737	8,786	8,422
Provision for loan losses	317	25	317	114
Net interest income after provision for loan losses	<u>2,632</u>	<u>2,712</u>	<u>8,469</u>	<u>8,308</u>
<b><u>OTHER INCOME</u></b>				
Patronage refunds from CoBank, ACB	382	350	1,128	1,065
Fees for financial services	117	216	699	764
Loan fees and other income	21	(5)	66	482
Total other income	<u>520</u>	<u>561</u>	<u>1,893</u>	<u>2,311</u>
<b><u>OTHER EXPENSE</u></b>				
Salaries and employee benefits	1,000	926	2,970	2,773
Occupancy and equipment	84	64	227	213
Farm Credit Insurance Fund premium	36	36	111	100
Fees paid to Farm Credit Financial Partners, Inc.	239	235	718	705
Other expenses	244	269	948	942
Total other expense	<u>1,603</u>	<u>1,530</u>	<u>4,974</u>	<u>4,733</u>
Income before income taxes	1,549	1,743	5,388	5,886
Provision for income taxes	4	4	12	12
Net income	<u>\$ 1,545</u>	<u>\$ 1,739</u>	<u>\$ 5,376</u>	<u>\$ 5,874</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, 2009	\$ 992	\$ -	\$ 70,104	\$ (1,178)	\$ 69,918
Comprehensive income					
Net income	-	-	5,874	-	5,874
Other comprehensive income					
Net unrealized gains (losses) on interest rate swaps	-	-	-	(138)	(138)
Adjustment for pension accounting					
Pension	-	-	-	-	-
Post Retirement Healthcare	-	-	-	-	-
Total comprehensive income	<u>-</u>	<u>-</u>	<u>5,874</u>	<u>(138)</u>	<u>5,736</u>
Capital stock/PCs issued	92	-	-	-	92
Capital stock/PCs retired	(80)	-	-	-	(80)
Patronage distribution accrued					
Cash	-	-	(2,456)	-	(2,456)
Balance at September 30, 2010	<u>\$ 1,004</u>	<u>\$ -</u>	<u>\$ 73,522</u>	<u>\$ (1,316)</u>	<u>\$ 73,210</u>
Balance at December 31, 2010	\$ 1,005	\$ -	\$ 73,427	\$ (1,603)	\$ 72,829
Comprehensive income					
Net income	-	-	5,377	-	5,377
Other comprehensive income					
Net unrealized gains (losses) on interest rate swaps	-	-	-	(122)	(122)
Adjustment for pension accounting					
Pension	-	-	-	-	-
Post Retirement Healthcare	-	-	-	-	-
Total comprehensive income	<u>-</u>	<u>-</u>	<u>5,377</u>	<u>(122)</u>	<u>5,255</u>
Capital stock/PCs issued	85	-	-	-	85
Capital stock/PCs retired	(94)	-	-	-	(94)
Patronage distribution accrued					
Cash	-	-	(2,462)	-	(2,462)
Balance at September 30, 2011	<u>\$ 996</u>	<u>\$ -</u>	<u>\$ 76,342</u>	<u>\$ (1,725)</u>	<u>\$ 75,613</u>

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

## YANKEE FARM CREDIT, ACA

### Notes To Consolidated Financial Statements

#### Third Quarter Ended September 30, 2011

(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, 2010 are contained in the 2010 Annual Report to Shareholders. These unaudited third quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Shareholders.

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements:

- A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income.
- In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities.)
2. Aligning the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets.
3. Clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy.
4. An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks.
5. Clarifying that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance.
6. Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a



nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

In January 2011, the FASB issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The Association is currently evaluating the impact of adoption of this Standard on the financial condition or results of operations. The adoption will result in additional disclosures.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard did not impact the Association's financial condition or results of operations, but did result in significant additional disclosures.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the Association's financial condition or results of operations but did result in additional disclosures.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to generally accepted accounting principles and prevailing practices within the banking industry. The results of operations for the nine month period ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year.

## **NOTE 2 –LOANS AND ALLOWANCE FOR LOAN LOSSES**

A summary of loans follows:

	Value at	
	September 30, 2011	December 31, 2010
Real Estate Mortgage	\$ 127,483	\$ 127,250
Production and Intermediate Term	158,100	166,386
Loans to Cooperatives	1,484	1,224
Processing and Marketing	16,380	14,217
Farm Related Business	26,597	25,578
Rural Residential Real Estate	1,659	1,751
Total loans	<u>\$ 331,703</u>	<u>\$ 336,406</u>

The Association purchases and sells participations interest with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. All of the Association's loan purchases and sales are with other Farm Credit institutions. The following table presents information regarding the balances of participations purchased and sold at September 30, 2011:

	Participations Purchased	Participations Sold
Real Estate Mortgage	\$ 1,060	\$ 5,286
Production and Intermediate Term	456	22,221
Loans to Cooperatives	1,484	-
Processing and Marketing	4,638	18,893
Farm Related Business	2,976	-
Total loans	<u>\$ 10,614</u>	<u>\$ 46,400</u>

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	Value at	
	September 30, 2011	December 31, 2010
<u>Nonaccrual Loans:</u>		
Real Estate Mortgage	\$ 3,661	\$ 4,513
Production and Intermediate Term	982	1,621
Farm Related Business	781	723
Total nonaccrual loans	<u>\$ 5,424</u>	<u>\$ 6,857</u>
<u>Accruing Restructured Loans:</u>		
Real Estate Mortgage	\$ 248	\$ 256
Total accruing restructured loans	<u>\$ 248</u>	<u>\$ 256</u>
Total nonperforming assets	<u>\$ 5,672</u>	<u>\$ 7,113</u>

The following table provides an age analysis of past due loans (including accrued interest) as of September 30, 2011:

	Past Due		Total Loans
	30 – 89 Days	≥ 90 Days	
Real Estate Mortgage	\$ 1,512	\$ 2,011	\$ 3,523
Production and Intermediate Term	54	150	204
Farm Related Business	-	626	626
Rural Residential Real Estate	-	-	-
Total impaired loans	<u>\$ 1,566</u>	<u>\$ 2,787</u>	<u>\$ 4,353</u>

There were no loans 90 days or more past due but still classified as accrual at September 30, 2011 or December 31, 2010.

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2011	December 31, 2010
Real Estate Mortgage		
Acceptable	34.0%	33.3%
OAEM	1.6%	2.2%
Substandard/doubtful	2.9%	2.3%
	<u>38.5%</u>	<u>37.8%</u>
Production and Intermediate Term		
Acceptable	41.4%	42.6%
OAEM	3.7%	2.8%
Substandard/doubtful	2.5%	4.1%
	<u>47.6%</u>	<u>49.5%</u>
Loans to Cooperatives		
Acceptable	0.5%	0.4%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	<u>0.5%</u>	<u>0.4%</u>
Processing and Marketing		
Acceptable	4.6%	3.7%
OAEM	0.1%	0.1%
Substandard/doubtful	0.2%	0.4%
	<u>4.9%</u>	<u>4.2%</u>
Farm Related Business		
Acceptable	7.7%	7.2%
OAEM	0.1%	0.1%
Substandard/doubtful	0.2%	0.3%
	<u>8.0%</u>	<u>7.6%</u>
Rural Residential Real Estate		
Acceptable	0.4%	0.4%
OAEM	0.1%	0.1%
Substandard/doubtful	0.0%	0.0%
	<u>0.5%</u>	<u>0.5%</u>
Total Loans		
Acceptable	88.6%	87.6%
OAEM	5.6%	5.3%
Substandard/doubtful	5.8%	7.1%
	<u>100.0%</u>	<u>100.0%</u>

Additional impaired loan information is as follows:

	At September 30, 2011			For Nine Months Ended September 30, 2011	
	Recorded Investment	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
<b>Impaired Loans with a related allowance for loan losses:</b>					
Real Estate Mortgage	\$ 3,861	\$ 4,174	\$ 729	\$ 3,694	\$ 26
Production and Intermediate Term	921	1,101	109	779	19
Farm Related Business	781	832	35	568	-
Total	<u>\$ 5,563</u>	<u>\$ 6,107</u>	<u>\$ 873</u>	<u>\$ 5,041</u>	<u>\$ 45</u>
<b>Impaired Loans with no related allowance for loan losses:</b>					
Real Estate Mortgage	\$ 48	\$ 104	\$ -	\$ 35	\$ -
Production and Intermediate Term	61	128	-	51	-
Total	<u>\$ 109</u>	<u>\$ 232</u>	<u>\$ -</u>	<u>\$ 86</u>	<u>\$ -</u>
<b>Total Impaired Loans:</b>					
Real Estate Mortgage	\$ 3,909	\$ 4,278	\$ 729	\$ 3,729	\$ 26
Production and Intermediate Term	982	1,229	109	830	19
Farm Related Business	781	832	35	568	-
Total	<u>\$ 5,672</u>	<u>\$ 6,339</u>	<u>\$ 873</u>	<u>\$ 5,127</u>	<u>\$ 45</u>
	At December 31, 2010			For The Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
<b>Impaired Loans with a related allowance for loan losses:</b>					
Real Estate Mortgage	\$ 4,715	\$ 4,880	\$ 227	\$ 4,800	\$ 16
Production and Intermediate Term	1,544	1,662	175	2,326	7
Farm Related Business	723	763	30	844	38
Total	<u>\$ 6,982</u>	<u>\$ 7,305</u>	<u>\$ 432</u>	<u>\$ 7,970</u>	<u>\$ 61</u>
<b>Impaired Loans with no related allowance for loan losses:</b>					
Real Estate Mortgage	\$ 54	\$ 104	\$ -	\$ 57	\$ -
Production and Intermediate Term	77	130	-	86	-
Total	<u>\$ 131</u>	<u>\$ 234</u>	<u>\$ -</u>	<u>\$ 143</u>	<u>\$ -</u>
<b>Total Impaired Loans:</b>					
Real Estate Mortgage	\$ 4,769	\$ 4,984	\$ 227	\$ 4,857	\$ 16
Production and Intermediate Term	1,621	1,792	175	2,411	7
Farm Related Business	723	763	30	844	38
Total	<u>\$ 7,113</u>	<u>\$ 7,539</u>	<u>\$ 433</u>	<u>\$ 8,112</u>	<u>\$ 61</u>

\*Unpaid principal balance represents the borrower's contractual balance of the loan.

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production & Intermediate Term	Agribusiness	Rural Residential Real Estate	Total
<b>Allowance for Loan Losses:</b>					
Balance at December 31, 2010	\$ 1,504	\$ 2,420	\$ 683	\$ 10	\$ 4,617
Charge-offs	-	-	-	-	-
Recoveries	-	-	4	-	4
Provision for Loan Losses	1,553	(938)	(306)	8	317
Balance at September 30, 2011	<u>\$ 3,057</u>	<u>\$ 1,482</u>	<u>\$ 381</u>	<u>\$ 18</u>	<u>\$ 4,938</u>
Ending Balance: individually evaluated for impairment					
	\$ 729	\$ 109	\$ 35	\$ -	\$ 873
Ending Balance: collectively evaluated for impairment					
	<u>2,328</u>	<u>1,373</u>	<u>346</u>	<u>18</u>	<u>4,065</u>
<b>Recorded Investment in Loans</b>					
<b>Outstanding:</b>					
Ending Balance at September 30, 2011					
	<u>\$ 127,483</u>	<u>\$ 158,100</u>	<u>\$ 44,461</u>	<u>\$ 1,659</u>	<u>\$ 331,703</u>
Ending Balance for loans individually evaluated for impairment					
	<u>\$ 3,909</u>	<u>\$ 982</u>	<u>\$ 781</u>	<u>\$ -</u>	<u>\$ 5,672</u>
Ending Balance for loans collectively evaluated for impairment					
	<u>\$ 123,574</u>	<u>\$ 157,118</u>	<u>\$ 43,680</u>	<u>\$ 1,659</u>	<u>\$ 326,031</u>

### **NOTE 3 - CAPITAL**

Please see the 2010 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 2010 was \$3.659 million and was distributed 100% in cash on March 25, 2011. A patronage distribution program is also in effect for 2011. The amount of the patronage distribution for 2011 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 three quarters of 2011 is approximately \$2.462 million. Management believes it is probable that the 2011 patronage distribution will be paid 100% in cash. Therefore, the accompanying financial statements show an interim accrual at the end of the third quarter of 2011 for patronage distribution payable of \$2.462 million. The corresponding interim accrual at the end of the third quarter of 2010 for patronage distribution payable was \$2.456 million (also 100% cash).

The Association's regulatory capital ratios were:

	Value At		Regulatory Minimum
	September 30, 2011	December 31, 2010	
Core surplus ratio	20.2%	19.0%	3.5%
Total surplus ratio	20.2%	19.0%	7.0%
Permanent capital ratio	20.5%	19.3%	7.0%

Additionally, for 2011, the Association has established an internal minimum of 15.0% for the permanent capital ratio and a goal of 20.0%. The ratio at September 30, 2011, as indicated above, is not indicative of the full year.

### **NOTE 4 - INCOME TAXES**

Please see the 2010 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 three quarters of 2011.

## **NOTE 5 - FAIR VALUE MEASUREMENTS**

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. Please see the 2010 Annual Report to Shareholders, particularly Note 2L and Note 11 to the Financial Statements, for a more complete description.

Assets measured at a fair value on a recurring basis at September 30, 2011 are summarized below:

<u>Assets:</u>	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Interest Rate Swaps	\$ -	\$ 31	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 31</u>	<u>\$ -</u>

Assets measured at a fair value on a recurring basis at December 31, 2010 are summarized below:

<u>Assets:</u>	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Interest Rate Swaps	\$ -	\$ 180	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 180</u>	<u>\$ -</u>

Assets measured at a fair value on a non-recurring basis at September 30, 2011 are summarized below:

<u>Assets:</u>	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Nonaccrual loans	\$ -	\$ -	\$ 5,424
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,424</u>

Assets measured at a fair value on a non-recurring basis at December 31, 2010 are summarized below:

<u>Assets:</u>	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Nonaccrual loans	\$ -	\$ -	\$ 6,857
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,857</u>

There were no liabilities measured at fair value on a recurring or non-recurring basis at September 30, 2011.

As more fully discussed in Note 2L and Note 11 of the 2010 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Associations' assets.

*Derivatives:* The only derivatives held by the Association are our interest rate swaps, which meet the definition of Level 2 financial instruments. The derivative positions are valued using internally developed models that use as their basis readily observable market parameters such as benchmark interest rate curves, volatility and other inputs that are observable directly or indirectly in the marketplace.

*Nonaccrual Loans:* For certain loans evaluated as nonaccrual, the fair value is based upon the underlying collateral, since the loans are collateral dependent loans. These loans are generally classified as Level 3 assets.

## **NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS**

The Association enters into derivative financial instruments known as "received fixed" interest rate swaps. The counterparty to the Association's swaps is CoBank. Please see the 2010 Annual Report to Shareholders, particularly Note 2K and Note 15 to the Financial Statements, for a more complete description.

The following tables show the impact of these derivatives on the financial statements as of or for the quarter end:

	Value at	
	September 30, 2011	Dec 31, 2010
<u>Balance sheet:</u>		
Accrued interest receivable	\$ 4	\$ 15
Accrued interest payable (included in other liabilities)	-	-
Positive fair values (included in other assets)	31	180
Negative fair values (included in other liabilities)	-	-
Accumulated other comprehensive income	23	145
	Nine Months Ended September 30, 2011	2010
<u>Statement of income:</u>		
(Decreased) increased interest expense	\$ (131)	\$ (299)
<u>Other comprehensive income:</u>		
Net unrealized gains (losses) on Interest rate swaps	\$ (122)	\$ (138)

## **NOTE 7 - SUBSEQUENT EVENTS**

The Association has evaluated subsequent events through November 2, 2011, which is the date the financial statements were available to be issued.

### **YANKEE FARM CREDIT, ACA OFFICE LOCATIONS**

Yankee Farm Credit, ACA  
9784 Route 9  
P.O. Box 507  
Chazy, NY 12921  
(800) 545-8374  
(518) 846-7330

Yankee Farm Credit, ACA  
1436 Exchange Street  
P.O. Box 350  
Middlebury, VT 05753  
(800) 545-1169  
(802) 388-2692

Yankee Farm Credit, ACA  
41 Highland Avenue  
P.O. Box 537  
Newport, VT 05855  
(800) 370-2738  
(802) 334-8050

Yankee Farm Credit, ACA  
130 Upper Welden Street  
P.O. Box 240  
St. Albans, VT 05478  
(800) 545-1097  
(802) 524-7800

Yankee Farm Credit, ACA  
52 Farmvu Drive  
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White River Jct., VT 05001  
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