



**Yankee Farm Credit, ACA**

289 Hurricane Lane, Suite 102  
P.O. Box 467  
Williston, Vermont 05495  
802/879-4700 FAX 802/878-0360  
www.yankeeaca.com

**CONSOLIDATED FINANCIAL STATEMENTS  
THIRD QUARTER ENDED SEPTEMBER 30, 2014**

November 6, 2014

Dear Shareholder:

Enclosed are the Association's consolidated financial statements for the third quarter of 2014. These statements should be read in conjunction with the 2013 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.

Copies of the Association's annual and quarterly reports are available to members at no charge from any of our local offices or by accessing the Association's website at [www.yankeeaca.com](http://www.yankeeaca.com). The Association's annual reports are available 75 days after year end, and quarterly reports are available 40 days after the end of each calendar quarter. 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,

Rocklyn A. Groux  
Chairperson, Board of Directors

George S. Putnam  
President and CEO

Rocki-Lee DeWitt  
Chairperson, Audit Committee

Pamela A. Simek  
Acting Chief Financial Officer

## YANKEE FARM CREDIT, ACA

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

#### Third Quarter Ended September 30, 2014

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

#### Results of Operations: Third Quarter

Net income for the third quarter of 2014 was \$2.425 million, up \$167 thousand (7%) from net income of \$2.258 million in the third quarter of 2013.

Net interest income before the provision for loan losses was up \$132 thousand (4%) in 2014 as compared to 2013. 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	\$ 140
Changes in interest rates on accrual loans & debt	17
Changes in interest income on nonaccrual loans	(25)
Other adjustments	-
Total change in net interest income	<u>\$ 132</u>

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

	Three Months Ended September 30,	
	2014	2013
Average accrual loan volume	\$ 402,030	\$ 387,088
Average interest rate on loans	4.20%	4.19%
Average interest rate spread	3.48%	3.46%

Average loan volume was higher in 2014, and this contributed an increase of \$140 thousand and changes in interest rates on accrual loans contributed \$17 thousand to the total change in net interest income as shown in the first table above. These increases were offset by a decrease in interest recognized upon payouts of nonaccrual loans of \$25 thousand as shown in the first table above.

There was a negative provision for credit losses of \$71 thousand in the third quarter of 2014, as compared to a provision for credit losses of \$83 thousand in the third quarter of 2013.

Other income increased by \$49 thousand (7%) in 2014 as compared to 2013. Fees for financial services and patronage refunds from CoBank increased by \$69 thousand (10%).

Other expense increased by \$168 thousand (9%) in 2014 as compared to 2013. Salaries and employee benefits increased by \$176 thousand (16%) and the Farm Credit Insurance Fund premium increased \$18 thousand (26%).

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

Net income through the third quarter of 2014 was \$6.827 million, up \$148 thousand (2%) from net income of \$6.679 million through the third quarter of 2013.

There was a provision for credit losses of \$661 thousand through the third quarter of 2014, as compared to a provision for credit losses of \$244 thousand for the same period in 2013.

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

Net interest income before the provision for loan losses was up \$650 thousand (6%) in 2014 as compared to 2013. 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	\$ 683
Changes in interest rates on accrual loans & debt	114
Changes in interest income on nonaccrual loans	(145)
Other adjustments	(2)
Total change in net interest income	<u>\$ 650</u>

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

	Nine Months Ended September 30,	
	2014	2013
Average accrual loan volume	\$ 405,205	\$ 379,973
Average interest rate on loans	4.21%	4.18%
Average interest rate spread	3.49%	3.44%

Average loan volume was higher in 2014, contributing an increase of \$683 thousand and changes in interest rates contributed \$114 thousand to the total change in net interest income, as shown in the first table above. These increases to net interest income were offset by a decrease in interest recognized upon payouts on nonaccrual loans of \$145 thousand, as shown in the first table above.

Other income increased by \$374 thousand (16%) in 2014 as compared to 2013. Fees for financial services and patronage refunds from CoBank increased by \$400 thousand (17%).

Other expense increased by \$459 thousand (8%) in 2014 as compared to 2013. Salaries and employee benefits increased by \$326 thousand (10%), fees paid to Farm Credit Financial Partners (the Association's service provider) increased \$84 thousand (11%) and the Farm Credit Insurance Fund premium increased \$67 thousand (34%).

### Loan Portfolio and Financial Condition

Loans originated by the Association decreased by \$20.6 million (4%) from year-end. Loans purchased decreased by \$330 thousand (2%) from year-end, and participations sold decreased by \$11.9 million (9%). Loans held by the Association decreased by \$8.3 million (2%) from year-end.

The loan portfolio continues to be concentrated in the dairy industry. Farm prices for dairy products decreased in the third quarter of 2014. Federal Order 1 prices for the third quarter of 2014 averaged \$24.85/cwt, down \$0.37/cwt (1%) from the second quarter of 2014, and up \$4.63/cwt (23%) from the third quarter of 2013. (Prices quoted do not include the effect of the Milk Income Loss Contract (MILC) program, which began December 1, 2001 and expired September 2014.) The change in prices received for dairy products has been accompanied by a decrease in the cost of farm inputs, particularly purchased feed. The composite Feed Index published by the USDA was 110 for the third quarter of 2014, down 9% from both the second quarter of 2014, and the third quarter of 2013. (Feed Index = 100 for 2011)

Enrollment for the new Margin Protection Program for Dairy Producers (MPP-Dairy) began in September 2014. MPP-Dairy is designed to provide a compensating benefit payment to producers when a national trigger indicates that margins between milk prices and feed costs fall below a designated level. The program is designed to give producers a cash benefit during periods of low margins (milk income over feed costs). Producers are allowed to pick a margin level and the percentage of their historic milk production to be covered. Producers pay a premium based on the level of coverage they have selected.

Loan quality worsened slightly but remained strong through the third quarter of 2014. Loans graded Substandard or lower were 4.5% of total loans at September 30, 2014, 0.8% worse than year-end. High risk assets comprised 0.7% of loans and related assets at September 30, 2014, 0.1% improved from year-end. (High risk assets include nonaccrual loans, accrual restructured loans, loans delinquent 90 days or more but not yet classified as nonaccrual,

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

and other property owned.) Repayment performance remained satisfactory. Loans (both accrual and nonaccrual) delinquent 30 days or more were 0.6% at September 30, 2014, 1.1% improved from year-end. The 12-month rolling average for this statistic was 1.3% at September 30, 2014, 0.2% worse than year-end. There were charge-offs of \$19 thousand and recoveries of \$6 thousand in the first three quarters of 2014. There were no charge-offs, but recoveries of \$7 thousand in the first three quarters of 2013.

As discussed in the 2013 Annual Report to Shareholders, the Association declared a patronage distribution of \$4.934 million based on 2013 earnings, 100% in cash. This was paid on March 25, 2014.

Members' equity as a percentage of assets was 20.8% at September 30, 2014 as compared to 19.6% at year-end. The Association's permanent capital ratio was 19.3% at September 30, 2014, up 0.6% 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, 2014	December 31, 2013
	(in thousands)	
<b><u>ASSETS</u></b>		
Loans originated by the Association	\$ 507,238	\$ 527,796
Plus loans purchased	19,466	19,136
Less participations sold	<u>121,687</u>	<u>133,628</u>
Loans held by the Association	405,017	413,304
Less allowance for loan losses	<u>5,809</u>	<u>5,186</u>
Net loans	399,208	408,118
Cash	381	1,282
Accrued interest receivable	1,308	1,272
Patronage refunds due from CoBank, ACB	2,048	2,135
Investment in CoBank, ACB	15,130	14,952
Mission related investment	657	646
Premises and equipment, less accumulated depreciation	2,113	1,016
Other assets	<u>1,898</u>	<u>1,960</u>
Total assets	<u>\$ 422,743</u>	<u>\$ 431,381</u>
<b><u>LIABILITIES</u></b>		
Note payable to CoBank, ACB	\$ 328,773	\$ 339,736
Patronage distribution payable	3,499	4,934
Reserve for unfunded commitments	213	188
Other liabilities	<u>2,302</u>	<u>1,893</u>
Total liabilities	<u>334,787</u>	<u>346,751</u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	1,066	1,068
Unallocated surplus	88,256	84,928
Accumulated other comprehensive income	<u>(1,366)</u>	<u>(1,366)</u>
Total members' equity	<u>87,956</u>	<u>84,630</u>
Total liabilities and members' equity	<u>\$ 422,743</u>	<u>\$ 431,381</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 4,257	\$ 4,115	\$ 12,774	\$ 12,044
Total interest income	<u>4,257</u>	<u>4,115</u>	<u>12,774</u>	<u>12,044</u>
<b><u>INTEREST EXPENSE</u></b>				
Note payable to CoBank, ACB	596	586	1,794	1,714
Total interest expense	<u>596</u>	<u>586</u>	<u>1,794</u>	<u>1,714</u>
Net interest income	3,661	3,529	10,980	10,330
Provision for credit losses	(71)	83	661	244
Net interest income after provision for credit losses	<u>3,732</u>	<u>3,446</u>	<u>10,319</u>	<u>10,086</u>
<b><u>OTHER INCOME</u></b>				
Patronage refunds from CoBank, ACB	613	518	1,822	1,530
Fees for financial services	169	195	879	771
Loan fees and other income	12	32	36	62
Total other income	<u>794</u>	<u>745</u>	<u>2,737</u>	<u>2,363</u>
<b><u>OTHER EXPENSE</u></b>				
Salaries and employee benefits	1,266	1,090	3,708	3,382
Occupancy and equipment	110	85	285	270
Farm Credit Insurance Fund premium	87	69	263	196
Fees paid to Farm Credit Financial Partners, Inc.	276	248	828	744
Other expenses	357	436	1,132	1,165
Total other expense	<u>2,096</u>	<u>1,928</u>	<u>6,216</u>	<u>5,757</u>
Income before income taxes	2,430	2,263	6,840	6,692
Provision for income taxes	5	5	13	13
Net income	<u>\$ 2,425</u>	<u>\$ 2,258</u>	<u>\$ 6,827</u>	<u>\$ 6,679</u>
<b><u>OTHER COMPREHENSIVE INCOME</u></b>				
OCI related to pension liabilities	-	-	-	-
Comprehensive income	<u>\$ 2,425</u>	<u>\$ 2,258</u>	<u>\$ 6,827</u>	<u>\$ 6,679</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, 2012	\$ 1,030	\$ -	\$ 80,551	\$ (1,970)	\$ 79,611
Comprehensive income					
Net income	-	-	6,679	-	6,679
Other comprehensive income					
Change in pension liabilities	-	-	-	-	-
Total comprehensive income	<u>-</u>	<u>-</u>	<u>6,679</u>	<u>-</u>	<u>6,679</u>
Capital stock/PCs issued	150	-	-	-	150
Capital stock/PCs retired	(122)	-	-	-	(122)
Patronage distribution accrued					
Cash	-	-	(3,206)	-	(3,206)
Adjustment for Rounding	-	-	-	-	-
Balance at September 30, 2013	<u>\$ 1,058</u>	<u>\$ -</u>	<u>\$ 84,024</u>	<u>\$ (1,970)</u>	<u>\$ 83,112</u>
Balance at December 31, 2013	\$ 1,068	\$ -	\$ 84,928	\$ (1,366)	\$ 84,630
Comprehensive income					
Net income	-	-	6,827	-	6,827
Other comprehensive income					
Change in pension liabilities	-	-	-	-	-
Total comprehensive income	<u>-</u>	<u>-</u>	<u>6,827</u>	<u>-</u>	<u>6,827</u>
Capital stock/PCs issued	99	-	-	-	99
Capital stock/PCs retired	(100)	-	-	-	(100)
Patronage distribution accrued					
Cash	-	-	(3,499)	-	(3,499)
Adjustment for rounding	(1)	-	-	-	(1)
Balance at June 30, 2014	<u>\$ 1,066</u>	<u>\$ -</u>	<u>\$ 88,256</u>	<u>\$ (1,366)</u>	<u>\$ 87,956</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, 2014

(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, 2013 are contained in the 2013 Annual Report to Shareholders. These unaudited third quarter 2014 financial statements should be read in conjunction with the 2013 Annual Report to Shareholders.

In the opinion of management, the accompanying unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2014.

In February 2013, the Financial Accounting Standards Board (FASB) issued guidance, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for non-public entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. The Association is in the process of reviewing contracts to determine the effect, if any, on the Association's financial condition or its results of operations.

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

A summary of loans follows:

	Value at	
	September 30, 2014	December 31, 2013
Long-term farm mortgage	\$ 172,610	\$ 162,021
Country home	2,513	2,324
Farm related business	23,862	20,880
Production and intermediate term	308,253	342,571
Total loan originated by the Association	507,238	527,796
Plus participations purchased	19,466	19,136
Less participations sold	121,687	133,628
Loans held by the Association	<u>\$ 405,017</u>	<u>\$ 413,304</u>



The Association purchases and sells participation interests 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:

	Value at			
	September 30, 2014		December 31, 2013	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Long-term farm mortgage	\$ 12,581	\$ 6,734	\$ 10,332	\$ 6,871
Farm related business	6,378	874	8,401	149
Production and intermediate term	507	114,079	403	126,608
Total	<u>\$ 19,466</u>	<u>\$ 121,687</u>	<u>\$ 19,136</u>	<u>\$ 133,628</u>

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

	Value at	
	September 30, 2014	December 31, 2013
<u>Nonaccrual Loans:</u>		
Long-term farm mortgage	\$ 1,151	\$ 1,524
Farm related business	756	613
Production and intermediate term	507	636
Total nonaccrual loans	<u>\$ 2,414</u>	<u>\$ 2,773</u>
<u>Accrual Troubled Debt Restructured Loans:</u>		
Long-term farm mortgage	\$ 546	\$ 562
Total troubled debt restructured loans	<u>\$ 546</u>	<u>\$ 562</u>
<u>Accrual Loans ≥ 90 Days Past Due:</u>		
Production and intermediate term	\$ -	\$ -
Total accrual loans ≥ 90 days past due	<u>\$ -</u>	<u>\$ -</u>
Total impaired assets	<u>\$ 2,960</u>	<u>\$ 3,335</u>

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Association, for economic or legal reasons related to the member's financial difficulties, grants a concession to the member that it would not have otherwise considered. The Association had no new TDR loans through the period ending September 30, 2014.

The following table provides information on outstanding loans restructured in troubled debt restructurings (including accrued interest) as of September 30, 2014:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Long-term farm mortgage	\$ 546	\$ 825	\$ -	\$ 263
Farm related business	126	-	126	-
Production and intermediate term	9	12	9	12
Total	<u>\$ 681</u>	<u>\$ 837</u>	<u>\$ 135</u>	<u>\$ 275</u>

\*represents the portion of loans modified as TDRs (first two columns) that are in nonaccrual status

There were no additional commitments to lend additional funds to members whose loans were classified as troubled debts restructured at September 30, 2014.

The following table provides an age analysis of past due loans (including accrued interest) as of September 30, 2014:

	Past Due		
	30 – 89 Days	≥ 90 Days	Total
Long-term farm mortgage	\$ 1,256	\$ 21	\$ 1,277
Country home	-	-	-
Farm related business	127	567	694
Production and intermediate term	194	323	517
Total loans past due	<u>\$ 1,577</u>	<u>\$ 911</u>	<u>\$ 2,488</u>

There were no loans that were 90 days or more past due but still classified as accrual at September 30, 2014.

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2014	December 31, 2013
Long-term farm mortgage		
Acceptable	37.0%	34.2%
OAEM*	1.3%	1.8%
Substandard/doubtful	2.2%	1.4%
	<u>40.5%</u>	<u>37.4%</u>
Country home		
Acceptable	0.5%	0.5%
OAEM*	0.1%	0.1%
Substandard/doubtful	0.0%	0.0%
	<u>0.6%</u>	<u>0.6%</u>
Farm related business		
Acceptable	15.8%	14.0%
OAEM*	0.0%	0.2%
Substandard/doubtful	0.4%	0.4%
	<u>16.2%</u>	<u>14.6%</u>
Production and intermediate term		
Acceptable	39.4%	43.6%
OAEM*	1.4%	1.9%
Substandard/doubtful	1.9%	1.9%
	<u>42.7%</u>	<u>47.4%</u>
Total Loans		
Acceptable	92.7%	92.3%
OAEM*	2.8%	4.0%
Substandard/doubtful	4.5%	3.7%
	<u>100.0%</u>	<u>100.0%</u>

\*Other Assets Especially Mentioned

The following tables present information on impaired loans and related amounts in the Allowance for Loan Losses:

	At September 30, 2014		
	Recorded Investment	Unpaid Principal Balance*	Related Allowance
<b>Impaired Loans with a related allowance for loan losses:</b>			
Long-term farm mortgage	\$ 1,687	\$ 2,206	\$ 175
Farm related business	756	1,127	181
Production and intermediate term	498	882	91
Total	<u>\$ 2,941</u>	<u>\$ 4,215</u>	<u>\$ 447</u>
<b>Impaired Loans with no related allowance for loan losses:</b>			
Long-term farm mortgage	\$ 9	\$ 25	\$ -
Production and intermediate term	9	31	-
Total	<u>\$ 18</u>	<u>\$ 56</u>	<u>\$ -</u>
<b>Total Impaired Loans:</b>			
Long-term farm mortgage	\$ 1,696	\$ 2,231	\$ 175
Farm related business	631	853	56
Production and intermediate term	632	1,187	216
Total	<u>\$ 2,959</u>	<u>\$ 4,271</u>	<u>\$ 447</u>

	At December 31, 2013		
	Recorded Investment	Unpaid Principal Balance*	Related Allowance
<b>Impaired Loans with a related allowance for loan losses:</b>			
Long-term farm mortgage	\$ 2,075	\$ 2,540	\$ 219
Farm related business	480	663	36
Production and intermediate term	757	1,222	221
Total	<u>\$ 3,312</u>	<u>\$ 4,425</u>	<u>\$ 476</u>
<b>Impaired Loans with no related allowance for loan losses:</b>			
Long-term farm mortgage	\$ 11	\$ 26	\$ -
Production and intermediate term	12	33	-
Total	<u>\$ 23</u>	<u>\$ 59</u>	<u>\$ -</u>
<b>Total Impaired Loans:</b>			
Long-term farm mortgage	\$ 2,086	\$ 2,566	\$ 219
Farm related business	480	663	36
Production and intermediate term	769	1,255	221
Total	<u>\$ 3,335</u>	<u>\$ 4,484</u>	<u>\$ 476</u>

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

The following table presents additional information on impaired loans:

	Three Months Ended			
	September 30, 2014		September 30, 2013	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
<b>Impaired Loans with a related allowance for loan losses:</b>				
Long-term farm mortgage	\$ 1,718	\$ 7	\$ 2,186	\$ 32
Farm related business	792	-	127	-
Production and intermediate term	552	-	722	14
Total	<u>\$ 3,062</u>	<u>\$ 7</u>	<u>\$ 3,035</u>	<u>\$ 46</u>
<b>Impaired Loans with no related allowance for loan losses:</b>				
Long-term farm mortgage	\$ 9	\$ -	\$ 13	\$ -
Production and intermediate term	9	-	12	-
Total	<u>\$ 18</u>	<u>\$ -</u>	<u>\$ 25</u>	<u>\$ -</u>
<b>Total Impaired Loans:</b>				
Long-term farm mortgage	\$ 1,727	\$ 7	\$ 2,199	\$ 32
Farm related business	792	-	127	-
Production and intermediate term	561	-	734	14
Total	<u>\$ 3,080</u>	<u>\$ 7</u>	<u>\$ 3,060</u>	<u>\$ 46</u>

	Nine Months Ended			
	September 30, 2014		September 30, 2013	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
<b>Impaired Loans with a related allowance for loan losses:</b>				
Long-term farm mortgage	\$ 1,910	\$ 52	\$ 2,303	\$ 123
Farm related business	847	-	120	-
Production and intermediate term	630	-	844	90
Total	<u>\$ 3,387</u>	<u>\$ 52</u>	<u>\$ 3,267</u>	<u>\$ 213</u>
<b>Impaired Loans with no related allowance for loan losses:</b>				
Long-term farm mortgage	\$ 10	\$ -	\$ 14	\$ -
Production and intermediate term	10	-	12	-
Total	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ 26</u>	<u>\$ -</u>
<b>Total Impaired Loans:</b>				
Long-term farm mortgage	\$ 1,920	\$ 52	\$ 2,317	\$ 123
Farm related business	847	-	120	-
Production and intermediate term	640	-	856	90
Total	<u>\$ 3,407</u>	<u>\$ 52</u>	<u>\$ 3,293</u>	<u>\$ 213</u>

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

	Long-term Farm Mortgage	Country Home	Farm Related Business	Production & Intermediate Term	Total
<b>Allowance for Loan Losses:</b>					
Balance at June 30, 2014	\$ 3,752	\$ 45	\$ 407	\$ 1,686	\$ 5,890
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision for (reversal of provision for) loan losses	(38)	(1)	16	(58)	(81)
Balance at September 30, 2014	<u>\$ 3,714</u>	<u>\$ 44</u>	<u>\$ 423</u>	<u>\$ 1,628</u>	<u>\$ 5,809</u>
Balance at December 31, 2013	\$ 3,153	\$ 40	\$ 374	\$ 1,619	\$ 5,186
Charge-offs	-	-	(19)	-	(19)
Recoveries	-	-	6	-	6
Provision for (reversal of provision for) loan losses	561	4	62	9	636
Balance at September 30, 2014	<u>\$ 3,714</u>	<u>\$ 44</u>	<u>\$ 423</u>	<u>\$ 1,628</u>	<u>\$ 5,809</u>
Ending Balance: individually evaluated for impairment	\$ 175	\$ -	\$ 181	\$ 91	\$ 447
Ending Balance: collectively evaluated for impairment	<u>3,539</u>	<u>44</u>	<u>242</u>	<u>1,537</u>	<u>5,362</u>
Balance at June 30, 2014	<u>\$ 3,714</u>	<u>\$ 44</u>	<u>\$ 423</u>	<u>\$ 1,628</u>	<u>\$ 5,809</u>
Balance at June 30, 2013	\$ 3,064	\$ 71	\$ 312	\$ 1,590	\$ 5,037
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision for (reversal of provision for) loan losses	(8)	(35)	53	35	45
Balance at September 30, 2013	<u>\$ 3,056</u>	<u>\$ 36</u>	<u>\$ 365</u>	<u>\$ 1,625</u>	<u>\$ 5,082</u>
Balance at December 31, 2012	\$ 2,586	\$ 67	\$ 238	\$ 1,897	\$ 4,788
Charge-offs	-	-	-	-	-
Recoveries	-	-	7	-	7
Provision for (reversal of provision for) loan losses	470	(31)	120	(272)	287
Balance at September 30, 2013	<u>\$ 3,056</u>	<u>\$ 36</u>	<u>\$ 365</u>	<u>\$ 1,625</u>	<u>\$ 5,082</u>
Ending Balance: individually evaluated for impairment	\$ 219	\$ -	\$ 36	\$ 222	\$ 477
Ending Balance: collectively evaluated for impairment	<u>2,837</u>	<u>36</u>	<u>329</u>	<u>1,403</u>	<u>4,605</u>
Balance at September 30, 2013	<u>\$ 3,056</u>	<u>\$ 36</u>	<u>\$ 365</u>	<u>\$ 1,625</u>	<u>\$ 5,082</u>

	Long-term Farm Mortgage	Country Home	Farm Related Business	Production & Intermediate Term	Total
<b>Recorded Investment in Loans</b>					
<b>Outstanding:</b>					
At September 30, 2014					
Ending Balance for loans individually evaluated for impairment	\$ 1,695	\$ -	\$ 757	\$ 507	\$ 2,959
Ending Balance for loans collectively evaluated for impairment	<u>176,762</u>	<u>2,513</u>	<u>28,609</u>	<u>194,174</u>	<u>402,058</u>
Ending Balance at September 30, 2014	<u>\$ 178,457</u>	<u>\$ 2,513</u>	<u>\$ 29,366</u>	<u>\$ 194,681</u>	<u>\$ 405,017</u>
At December 31, 2013					
Ending Balance for loans individually evaluated for impairment	\$ 2,084	\$ -	\$ 480	\$ 769	\$ 3,333
Ending Balance for loans collectively evaluated for impairment	<u>163,398</u>	<u>2,324</u>	<u>28,562</u>	<u>215,597</u>	<u>409,971</u>
Ending Balance at December 31, 2013	<u>\$ 165,483</u>	<u>\$ 2,324</u>	<u>\$ 29,132</u>	<u>\$ 216,366</u>	<u>\$ 413,304</u>

The methodology for determining the Allowance for Credit Losses takes into consideration potential losses related to unfunded commitments, and as a result, we have established a separate Reserve for Unfunded Commitments, which is included on the Association's balance sheet.

The provision for the Reserve for Unfunded Commitments is part of the Provision for Credit Losses on the income statement. The components of the Provision for Credit Losses are presented in the table below:

	Nine Months Ended September 30,	
	2014	2013
Provision for loan losses	\$ 636	\$ 288
Provision for unfunded commitments	25	(44)
Total provision for credit losses	<u>\$ 661</u>	<u>\$ 244</u>

### **NOTE 3 - CAPITAL**

Please see the 2013 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 2013 was \$4.934 million and was distributed 100% in cash on March 25, 2014. A patronage distribution program is also in effect for 2014. The amount of the patronage distribution for 2014 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 2014 is approximately \$3.499 million. Management believes it is probable that the 2014 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 2014 for patronage distribution payable of \$3.499 million. The corresponding interim accrual at the end of the first three quarters of 2013 for patronage distribution payable was \$3.206 million (also 100% cash).

The Association's regulatory capital ratios were:

	Value At		Regulatory Minimum
	September 30, 2014	December 31, 2013	
Core surplus ratio	19.1%	18.5%	3.5%
Total surplus ratio	19.1%	18.5%	7.0%
Permanent capital ratio	19.3%	18.7%	7.0%

Additionally, for 2014, the Association has established an internal minimum of 16.0% for the permanent capital ratio and a goal range of 17.5% - 19.5%. The ratio at September 30, 2014, as indicated above, is not indicative of the full year.

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

Please see the 2013 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 third quarter of 2014.

#### **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 2013 Annual Report to Shareholders, particularly Note 2L and Note 11 to the Financial Statements, for a more complete description.

The Association had no assets measured at a fair value on a recurring basis at September 30, 2014 or at December 31, 2013.

Assets measured at a fair value on a non-recurring basis at September 30, 2014 are summarized below:

<u>Assets:</u>	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Impaired loans	\$ -	\$ -	\$ 2,959
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,959</u>

Assets measured at a fair value on a non-recurring basis at December 31, 2013 are summarized below:

<u>Assets:</u>	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Impaired loans	\$ -	\$ -	\$ 3,333
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,333</u>

There were no liabilities measured at fair value on a recurring or non-recurring basis at September 30, 2014.

As more fully discussed in Note 2L and Note 11 of the 2013 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.

*Impaired Loans:* For certain loans evaluated for impairment, the fair value is based upon the underlying collateral since the loans were collateral dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a results, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Balance Sheet for each of the fair value hierarchy values are summarized as follows:

	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets:</b>				
Loans, net	\$ 399,208	\$ 400,031	\$ 408,118	\$ 408,307
Cash	381	381	1,282	1,282
Investment in CoBank, ACB	15,130	15,130	14,952	14,952
<b>Financial Liabilities:</b>				
Notes payable to CoBank, ACB	\$ 328,773	\$ 328,792	\$ 339,736	\$ 338,986

A description of the methods and assumptions used to estimate the fair value of the Association's financial instruments for which it is practicable to estimate that value follows:

*Loans:* Fair value is estimated by discounting the expected future cash flows using the Association's and/or CoBank's current interest rates at which similar loans would be made to borrowers with similar credit risk. As discount rates are based on the Association's current loan rates as well as management estimates, management has no basis to determine whether the estimated fair values presented would be indicative of assumptions and adjustments that a purchaser of the Association's loans would see in an actual sale, which could be less.

*Cash:* The carrying value is a reasonable estimate of the fair value.

*Note Payable to CoBank, ACB:* The note payable is segregated into pricing pools according to the types and terms of the loans (or other assets) which it funds. Fair value of the note payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the note is equal to the principal payments on the Association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

#### **NOTE 6 - SUBSEQUENT EVENTS**

The Association has evaluated subsequent events through November 6, 2014, which is the date the financial statements were available to be issued. No subsequent events were identified that would require additional disclosures or adjustments to the financial statements.

#### **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  
P.O. Box 1009  
White River Jct., VT 05001  
(800) 370-3276  
(802) 295-3670

Yankee Farm Credit, ACA  
289 Hurricane Lane, Suite 102  
P.O. Box 467  
Williston, VT 05495  
(800) 639-3053  
(802) 879-4700

Website: [www.yankeeaca.com](http://www.yankeeaca.com)