



**CONSOLIDATED FINANCIAL STATEMENTS  
THIRD QUARTER ENDED SEPTEMBER 30, 2017**

November 3, 2017

Dear Shareholder:

Enclosed are the Association's consolidated financial statements for the third quarter of 2017. These statements should be read in conjunction with the 2016 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.yankeeeca.com](http://www.yankeeeca.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,

Paul B. Franklin  
Chairperson, Board of Directors

Brenda K. Frank  
President and CEO

Kenneth F. Deon  
Chairperson, Audit Committee

Pamela A. Simek  
SVP/Chief Financial Officer

## YANKEE FARM CREDIT, ACA

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

#### Third Quarter Ended September 30, 2017

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

#### Results of Operations: Third Quarter

Net income for the third quarter of 2017 was \$2.632 million, up \$0.473 million (22%) from net income of \$2.159 million in the third quarter of 2016.

Net interest income before the provision for credit losses was up \$331 thousand (8%) in 2017 as compared to 2016. 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	\$ 200
Changes in interest rates on accrual loans & debt	137
Changes in interest income on nonaccrual loans	(5)
Other adjustments	(1)
Total change in net interest income	<u>\$ 331</u>

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

	Three Months Ended September 30,	
	2017	2016
Average accrual loan volume	\$ 476,909	\$ 453,415
Average interest rate on loans	5.05%	4.36%
Average interest rate spread	3.37%	3.38%

Average loan volume was higher in 2017, and this contributed an increase of \$200 thousand in the total change in net interest income as shown in the first table above. Change in interest rates contributed \$137 thousand to the total change in net interest income.

There was a provision for credit losses of \$100 thousand in the third quarter of 2017, as compared to a provision for credit losses of \$213 thousand in the third quarter of 2016.

Other income increased by \$145 thousand (15%) in 2017 as compared to 2016. This increase resulted primarily from an increase of \$147 thousand in patronage refunds from CoBank.

Other expense increased by \$117 thousand (4%) in 2017 as compared to 2016. Salaries and employee benefits increased by \$178 thousand (12%) as a result of the increases in staffing due to enhanced risk management practices.

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

Net income through the third quarter of 2017 was \$7.863 million, up \$398 thousand (5%) from net income of \$7.465 million through the third quarter of 2016.

Net interest income before the provision for loan losses was up \$676 thousand (6%) in 2017 as compared to 2016. 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	\$ 579
Changes in interest rates on accrual loans & debt	(82)
Changes in interest income on nonaccrual loans	166
Other adjustments	13
Total change in net interest income	<u>\$ 676</u>

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

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

	Nine Months Ended September 30,	
	2017	2016
Average accrual loan volume	\$ 473,696	\$ 450,150
Average interest rate on loans	4.80%	4.35%
Average interest rate spread	3.30%	3.42%

Average loan volume was higher in 2017 and this contributed to an increase of \$579 thousand to the total change in net interest income, as shown in the first table above. Additionally, there was an increase in interest recognized upon payouts of nonaccruals loans of \$166 thousand, as shown in the first table above. These factors were offset by a decrease of \$82 thousand as a result of a slightly lower average interest rate spread.

There was a provision for credit losses of \$299 thousand through the third quarter of 2017, as compared to a provision for credit losses of \$458 thousand for the same period in 2016.

Other income increased by \$316 thousand (9%) in 2017 as compared to 2016. This increase resulted primarily from an increase of \$303 in patronage refunds from CoBank.

Other expense increased by \$754 thousand (10%) in 2017 as compared to 2016. Salaries and employee benefits increased \$640 thousand (15%), and other expenses (which include purchased services) increased \$150 thousand (9%). These increases are primarily due to costs related to enhanced risk management practices and the conversion to a new information technology platform.

### Loan Portfolio and Financial Condition

Loans originated by the Association decreased by \$42.5 million (6%) from year-end. Loans purchased increased by \$7.0 million (34%) from year-end, and participations sold decreased by \$34.8 million (12%). Loans held by the Association decreased by \$0.7 million (less than 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 2017. Federal Order 1 prices for the third quarter of 2017 averaged \$17.96/cwt, up \$1.23/cwt (7%) from the second quarter of 2017, and up \$1.89/cwt (12%) from the third quarter of 2016. The change in prices received for dairy products has been accompanied by a slight decrease (as compared to the prior quarter and the same quarter in 2016) in the cost of farm inputs, particularly purchased feed. The composite Feed Index published by the USDA was 96 for the first two months (July and August) of the third quarter of 2017, down slightly from the second quarter of 2017, and down 7% from the third quarter of 2016. (Feed Index = 100 for 2011)

Loan quality worsened slightly but remained strong through the third quarter of 2017. Loans graded Substandard or lower were 3.2% of total loans at September 30, 2017, 0.4% worsened from year-end. High risk assets comprised 1.0% of loans and related assets at September 30, 2017, 0.2% improved from year-end. (High risk assets include nonaccrual loans, accrual troubled debt restructured loans, loans delinquent 90 days or more but not yet classified as nonaccrual, and other property owned.) Repayment performance remained satisfactory. Loans (both accrual and nonaccrual) delinquent 30 days or more were 1.4% at September 30, 2017, up 0.01% from year-end. The 12-month rolling average for this statistic was 1.5% at September 30, 2017, up 0.2% from year-end. There was one charge-off of \$5 thousand and recoveries of \$5 thousand in the first three quarters of 2017. There were charge-offs of \$1 thousand, and recoveries of \$10 thousand in the first three quarters of 2016.

As discussed in the 2016 Annual Report to Shareholders, the Association declared a patronage distribution of \$5.115 million based on 2016 earnings, 100% in cash. This was paid on March 22, 2017.

Members' equity as a percentage of assets was 20.5% at September 30, 2017, as compared to 19.6% at year-end.

On March 10, 2016, the FCA adopted final rules (the New Capital Regulations) relating to regulatory capital requirements for Associations and System banks. The New Capital Regulations took effect January 1, 2017. The stated objectives of the New Capital Regulations are as follows:

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

- To modernize capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill the System's mission as a government-sponsored enterprise;
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System;
- To make System regulatory capital requirements more transparent; and
- To meet certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

The New Capital Regulations, among other things, replace existing core surplus and total surplus requirements with common equity tier 1 (CET1), tier 1 and total regulatory capital (tier 1 plus tier 2) risk-based capital ratio requirements. The New Capital Regulations also add a tier 1 leverage ratio for all System institutions, which replaces the existing net collateral ratio for System banks.

The New Capital Regulations establish a capital cushion (capital conservation buffer) for CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations establish a leverage capital cushion (leverage buffer) above the tier 1 leverage ratio requirement. The below regulatory minimums reflect the inclusion of these various buffers.

	Value At		Regulatory Minimum	Internal Minimum	2017 Goal Range
	September 30, 2017	December 31, 2016			
Permanent capital ratio	19.2%	18.9%	7.0%	15.0%	17.5% - 19.5%
CET 1	18.9%	n/a	7.0%	14.5%	16.5% - 18.5%
Tier 1 capital	18.9%	n/a	8.5%	14.5%	16.5% - 18.5%
Total regulatory capital	20.1%	n/a	10.5%	16.0%	18.0% - 20.0%
Tier 1 leverage	17.9%	n/a	5.0%	14.0%	16.0% - 18.0%

The ratios at September 30, 2017, as indicated above, are not indicative of the full year.

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, 2017	December 31, 2016
	(in thousands)	
<b><u>ASSETS</u></b>		
Loans originated by the Association	\$ 706,841	\$ 749,390
Plus participations purchased	27,634	20,632
Less participations sold	<u>254,598</u>	<u>289,397</u>
Loans held by the Association	479,877	480,625
Less allowance for loan losses	<u>6,098</u>	<u>5,793</u>
Net loans	473,779	474,832
Cash	1,146	4,161
Accrued interest receivable	1,967	1,620
Patronage refunds due from CoBank, ACB	3,475	4,203
Investment in CoBank, ACB	18,648	18,014
Mission related investment	413	301
Premises and equipment, less accumulated depreciation	3,668	3,637
Other assets	991	1,138
Total assets	<u>\$ 504,087</u>	<u>\$ 507,906</u>
<b><u>LIABILITIES</u></b>		
Note payable to CoBank, ACB	\$ 393,202	\$ 399,144
Patronage distribution payable	4,103	5,115
Reserve for unfunded commitments	124	129
Other liabilities	<u>3,454</u>	<u>4,100</u>
Total liabilities	<u>400,883</u>	<u>408,488</u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	1,118	1,092
Unallocated surplus	103,647	99,887
Accumulated other comprehensive (loss)	<u>(1,561)</u>	<u>(1,561)</u>
Total members' equity	103,204	99,418
Total liabilities and members' equity	<u>\$ 504,087</u>	<u>\$ 507,906</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 6,071	\$ 4,978	\$ 17,389	\$ 14,875
Total interest income	6,071	4,978	17,389	14,875
<b><u>INTEREST EXPENSE</u></b>				
Note payable to CoBank, ACB	1,680	918	4,429	2,591
Total interest expense	1,680	918	4,429	2,591
Net interest income	4,391	4,060	12,960	12,284
Provision for credit losses	100	213	299	458
Net interest income after provision for credit losses	4,291	3,847	12,661	11,826
<b><u>OTHER INCOME</u></b>				
Patronage refunds from CoBank, ACB	884	737	2,428	2,125
Fees for financial services	231	240	1,234	1,233
Loan fees and other income	24	17	93	81
Total other income	1,139	994	3,755	3,439
<b><u>OTHER EXPENSE</u></b>				
Salaries and employee benefits	1,655	1,477	4,933	4,293
Occupancy and equipment	134	134	371	369
Farm Credit Insurance Fund premium	125	142	376	428
Fees paid to Farm Credit Financial Partners, Inc.	329	324	987	973
Other expenses	551	600	1,874	1,724
Total other expense	2,794	2,677	8,541	7,787
Income before income taxes	2,636	2,164	7,875	7,478
Provision for income taxes	4	5	12	13
Net income	\$ 2,632	\$ 2,159	\$ 7,863	\$ 7,465
<b><u>OTHER COMPREHENSIVE INCOME</u></b>				
OCI related to pension liabilities	-	-	-	-
Comprehensive income	\$ 2,632	\$ 2,159	\$ 7,863	\$ 7,465

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

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

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
	(in thousands)			
Balance at December 31, 2015	\$ 1,093	\$ 95,709	\$ (1,813)	\$ 94,989
Comprehensive income				
Net income	-	7,465	-	7,465
Other comprehensive income				
Change in pension liabilities	-	-	-	-
Total comprehensive income	<u>-</u>	<u>7,465</u>	<u>-</u>	<u>7,465</u>
Capital stock/PCs issued	104	-	-	104
Capital stock/PCs retired	(100)	-	-	(100)
Patronage distribution accrued				
Cash	-	(3,817)	-	(3,817)
Adjustment for rounding	-	-	-	-
Balance at September 30, 2016	<u>\$ 1,097</u>	<u>\$ 99,357</u>	<u>\$ (1,813)</u>	<u>\$ 98,641</u>
Balance at December 31, 2016	\$ 1,092	\$ 99,887	\$ (1,561)	\$ 99,418
Comprehensive income				
Net income	-	7,863	-	7,863
Other comprehensive income				
Change in pension liabilities	-	-	-	-
Total comprehensive income	<u>-</u>	<u>7,863</u>	<u>-</u>	<u>7,863</u>
Capital stock/PCs issued	91	-	-	91
Capital stock/PCs retired	(65)	-	-	(65)
Patronage distribution accrued				
Cash	-	(4,103)	-	(4,103)
Adjustment for rounding	-	-	-	-
Balance at September 30, 2017	<u>\$ 1,118</u>	<u>\$ 103,647</u>	<u>\$ (1,561)</u>	<u>\$ 103,204</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, 2017

(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, 2016 are contained in the 2016 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2016 as contained in the 2016 Annual Report to Stockholders.

In the opinion of management, the 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, 2017. Descriptions of the significant accounting policies are included in the 2016 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In August 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance becomes effective for interim and annual periods beginning after December 15, 2018. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In March 2017, the FASB issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition but could change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.



In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

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. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

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

A summary of loans follows:

	Value at	
	September 30, 2017	December 31, 2016
Long-term farm mortgage	\$ 221,286	\$ 206,714
Country home	1,826	1,898
Farm related business	26,056	27,992
Production and intermediate term	457,673	512,786
Total loan originated by the Association	706,841	749,390
Plus participations purchased	27,634	20,632
Less participations sold	254,598	289,397
Loans held by the Association	<u>\$ 479,877</u>	<u>\$ 480,625</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, 2017		December 31, 2016	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Long-term farm mortgage	\$ 20,470	\$ 12,142	\$ 13,980	\$ 11,423
Farm related business	6,243	1,166	6,264	1,564
Production and intermediate term	921	241,290	388	276,410
Total	<u>\$ 27,634</u>	<u>\$ 254,598</u>	<u>\$ 20,632</u>	<u>\$ 289,397</u>

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

	Value at	
	September 30, 2017	December 31, 2016
<u>Nonaccrual Loans:</u>		
Long-term farm mortgage	\$ 650	\$ 737
Farm related business	90	111
Production and intermediate term	3,643	4,766
Total nonaccrual loans	<u>\$ 4,383</u>	<u>\$ 5,614</u>
<u>Accrual Troubled Debt Restructured Loans:</u>		
Long-term farm mortgage	\$ 79	\$ 94
Total troubled debt restructured loans	<u>\$ 79</u>	<u>\$ 94</u>
<u>Accrual Loans 90 Days or More Past Due</u>		
Long-term farm mortgage	\$ 234	\$ -
Production and intermediate term	15	-
Total accrual loans 90 days or more past due	<u>\$ 249</u>	<u>\$ -</u>
Total impaired assets	<u>\$ 4,711</u>	<u>\$ 5,708</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 three new TDR loans through the period ending September 30, 2017 and no new TDR loans through the period ending December 31, 2016.

There were no additional commitments to lend additional funds to members whose loans were classified at TDRs at September 30, 2017. There were no additional commitments to lend additional funds to members whose loans were classified as TDRs at December 31, 2016.

The following table provides information on outstanding loans restructured in troubled debt restructurings (including accrued interest) period end:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Long-term farm mortgage	\$ 645	\$ 94	\$ 566	\$ -
Production and intermediate term	41	-	41	-
Total	<u>\$ 686</u>	<u>\$ 94</u>	<u>\$ 607</u>	<u>\$ -</u>

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

The following table provides an age analysis of past due loans (including accrued interest) as of September 30, 2017:

	Past Due		
	30 – 89 Days	≥ 90 Days	Total
Long-term farm mortgage	\$ 1,714	\$ 255	\$ 1,969
Farm related business	706	90	796
Production and intermediate term	535	3,618	4,153
Total loans past due	<u>\$ 2,955</u>	<u>\$ 3,963</u>	<u>\$ 6,918</u>

There were two loans 90 days or more past due but still classified as accrual at September 30, 2017.

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, 2017	December 31, 2016
Long-term farm mortgage		
Acceptable	38.5%	36.2%
OAEM*	3.6%	2.5%
Substandard/doubtful	1.6%	1.2%
	<u>43.7%</u>	<u>39.9%</u>
Country home		
Acceptable	0.3%	0.3%
OAEM*	0.1%	0.1%
Substandard/doubtful	0.0%	0.0%
	<u>0.4%</u>	<u>0.4%</u>
Farm related business		
Acceptable	13.1%	12.3%
OAEM*	0.1%	0.0%
Substandard/doubtful	0.2%	0.3%
	<u>13.4%</u>	<u>12.6%</u>
Production and intermediate term		
Acceptable	38.1%	44.3%
OAEM*	3.0%	1.5%
Substandard/doubtful	1.4%	1.3%
	<u>42.5%</u>	<u>47.1%</u>
Total Loans		
Acceptable	90.0%	93.1%
OAEM*	6.8%	4.1%
Substandard/doubtful	3.2%	2.8%
	<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, 2017		
	Recorded Investment	Unpaid Principal Balance*	Related Allowance
<b>Impaired Loans with a related allowance for loan losses:</b>			
Long-term farm mortgage	\$ 963	\$ 1,668	\$ 45
Farm related business	114	155	34
Production and intermediate term	3,634	4,053	287
Total	<u>\$ 4,711</u>	<u>\$ 5,876</u>	<u>\$ 366</u>
<b>Impaired Loans with no related allowance for loan losses:</b>			
Long-term farm mortgage	\$ -	\$ 19	\$ -
Production and intermediate term	-	-	-
Total	<u>\$ -</u>	<u>\$ 19</u>	<u>\$ -</u>
<b>Total Impaired Loans:</b>			
Long-term farm mortgage	\$ 963	\$ 1,687	\$ 45
Farm related business	114	155	34
Production and intermediate term	3,634	4,053	287
Total	<u>\$ 4,711</u>	<u>\$ 5,895</u>	<u>\$ 366</u>

	At December 31, 2016		
	Recorded Investment	Unpaid Principal Balance*	Related Allowance
<b>Impaired Loans with a related allowance for loan losses:</b>			
Long-term farm mortgage	\$ 756	\$ 1,414	\$ 58
Farm related business	145	251	23
Production and intermediate term	4,807	4,971	244
Total	<u>\$ 5,708</u>	<u>\$ 6,636</u>	<u>\$ 325</u>
<b>Impaired Loans with no related allowance for loan losses:</b>			
Long-term farm mortgage	\$ -	\$ -	\$ -
Production and intermediate term	-	342	-
Total	<u>\$ -</u>	<u>\$ 342</u>	<u>\$ -</u>
<b>Total Impaired Loans:</b>			
Long-term farm mortgage	\$ 756	\$ 1,414	\$ 58
Farm related business	145	251	23
Production and intermediate term	4,807	5,313	244
Total	<u>\$ 5,708</u>	<u>\$ 6,978</u>	<u>\$ 325</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, 2017		September 30, 2016	
	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	\$ 979	\$ 16	\$ 1,202	\$ 7
Farm related business	90	-	135	-
Production and intermediate term	4,201	1	287	6
Total	<u>\$ 5,270</u>	<u>\$ 17</u>	<u>\$ 1,624</u>	<u>\$ 13</u>
<b>Impaired Loans with no related allowance for loan losses:</b>				
Long-term farm mortgage	\$ -	\$ -	\$ -	\$ -
Farm related business	-	-	-	-
Production and intermediate term	5	-	-	-
Total	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Impaired Loans:</b>				
Long-term farm mortgage	\$ 979	\$ 16	\$ 1,202	\$ 7
Farm related business	90	-	135	-
Production and intermediate term	4,206	1	287	6
Total	<u>\$ 5,275</u>	<u>\$ 17</u>	<u>\$ 1,624</u>	<u>\$ 13</u>

	Nine Months Ended			
	September 30, 2017		September 30, 2016	
	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	\$ 1,014	\$ 26	\$ 1,233	\$ 20
Farm related business	92	7	210	161
Production and intermediate term	4,538	353	351	24
Total	<u>\$ 5,644</u>	<u>\$ 386</u>	<u>\$ 1,794</u>	<u>\$ 205</u>
<b>Impaired Loans with no related allowance for loan losses:</b>				
Long-term farm mortgage	\$ 35	\$ -	\$ -	\$ -
Farm related business	1	-	-	-
Production and intermediate term	39	-	1	13
Total	<u>\$ 75</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 13</u>
<b>Total Impaired Loans:</b>				
Long-term farm mortgage	\$ 1,049	\$ 26	\$ 1,233	\$ 20
Farm related business	93	7	210	161
Production and intermediate term	4,577	353	352	37
Total	<u>\$ 5,719</u>	<u>\$ 386</u>	<u>\$ 1,795</u>	<u>\$ 218</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, 2017	\$ 2,827	\$ 9	\$ 228	\$ 2,922	\$ 5,986
Charge-offs	-	-	-	(5)	(5)
Recoveries	-	-	-	-	-
Provision for (reversal of provision for) loan losses	116	-	25	(24)	117
Balance at September 30, 2017	<u>\$ 2,943</u>	<u>\$ 9</u>	<u>\$ 253</u>	<u>\$ 2,893</u>	<u>\$ 6,098</u>
Balance at December 31, 2016	\$ 2,691	\$ 9	\$ 269	\$ 2,824	\$ 5,793
Charge-offs	-	-	-	(5)	(5)
Recoveries	-	-	5	-	5
Provision for (reversal of provision for) loan losses	252	-	(21)	74	305
Balance at September 30, 2017	<u>\$ 2,943</u>	<u>\$ 9</u>	<u>\$ 253</u>	<u>\$ 2,893</u>	<u>\$ 6,098</u>
Ending Balance: individually evaluated for impairment	\$ 45	\$ -	\$ 34	\$ 287	\$ 366
Ending Balance: collectively evaluated for impairment	<u>2,898</u>	<u>9</u>	<u>219</u>	<u>2,606</u>	<u>5,732</u>
Balance at September 30, 2017	<u>\$ 2,943</u>	<u>\$ 9</u>	<u>\$ 253</u>	<u>\$ 2,893</u>	<u>\$ 6,098</u>
Balance at June 30, 2016	\$ 2,464	\$ 10	\$ 294	\$ 2,597	\$ 5,365
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision for (reversal of provision for) loan losses	300	(1)	(15)	(163)	121
Balance at September 30, 2016	<u>\$ 2,764</u>	<u>\$ 9</u>	<u>\$ 279</u>	<u>\$ 2,434</u>	<u>\$ 5,486</u>
Balance at December 31, 2015	\$ 2,380	\$ 10	\$ 324	\$ 2,409	\$ 5,123
Charge-offs	-	-	1	-	1
Recoveries	-	-	-	10	10
Provision for (reversal of provision for) loan losses	384	(1)	(46)	15	352
Balance at September 30, 2016	<u>\$ 2,764</u>	<u>\$ 9</u>	<u>\$ 279</u>	<u>\$ 2,434</u>	<u>\$ 5,486</u>
Ending Balance: individually evaluated for impairment	\$ 55	\$ -	\$ 22	\$ 47	\$ 124
Ending Balance: collectively evaluated for impairment	<u>2,709</u>	<u>9</u>	<u>257</u>	<u>2,387</u>	<u>5,362</u>
Balance at September 30, 2016	<u>\$ 2,764</u>	<u>\$ 9</u>	<u>\$ 279</u>	<u>\$ 2,434</u>	<u>\$ 5,486</u>

	Long-term Farm Mortgage	Country Home	Farm Related Business	Production & Intermediate Term	Total
<b>Recorded Investment in Loans Outstanding:</b>					
At September 30, 2017					
Ending Balance for loans collectively evaluated for impairment	\$ 228,651	\$ 1,826	\$ 31,019	\$ 213,670	\$ 475,166
Ending Balance for loans Individually evaluated for impairment	963	-	114	3,634	4,711
Ending Balance at September 30, 2017	<u>\$ 229,614</u>	<u>\$ 1,826</u>	<u>\$ 31,133</u>	<u>\$ 217,304</u>	<u>\$ 479,877</u>
At December 31, 2016					
Ending Balance for loans collectively evaluated for impairment	\$ 208,515	\$ 1,898	\$ 32,547	\$ 231,957	\$ 474,917
Ending Balance for loans individually evaluated for impairment	756	-	145	4,807	5,708
Ending Balance at December 31, 2016	<u>\$ 209,271</u>	<u>\$ 1,898</u>	<u>\$ 32,692</u>	<u>\$ 236,764</u>	<u>\$ 480,625</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,	
	2017	2016
Provision for loan losses	\$ 304	\$ 354
Provision for unfunded commitments	(5)	104
Total provision for credit losses	<u>\$ 299</u>	<u>\$ 458</u>

### **NOTE 3 - CAPITAL**

Please see the 2016 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 2016 was \$5.115 million and was distributed 100% in cash on March 22, 2017. A patronage distribution program is also in effect for 2017. The amount of the patronage distribution for 2017 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 third quarter of 2017 is approximately \$4.103 million. Management believes it is probable that the 2017 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 2017 for patronage distribution payable of \$4,103 million. The corresponding interim accrual at the end of the third quarter of 2016 for patronage distribution payable was \$3,817 million (also 100% cash).

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

Please see the 2016 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 2017.

#### **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 2016 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 fair value on a recurring basis at September 30, 2017 or at December 31, 2016.

Assets measured at fair value on a non-recurring basis at September 30, 2017 are summarized below:

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
<u>Assets:</u>			
Impaired loans	\$ -	\$ -	\$ 4,359
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,359</u>

Assets measured at a fair value on a non-recurring basis at December 31, 2016 are summarized below:

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
<u>Assets:</u>			
Impaired loans	\$ -	\$ -	\$ 5,708
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,708</u>

There were no liabilities measured at fair value on a recurring or non-recurring basis at September 30, 2017.

As more fully discussed in Note 2L and Note 11 of the 2016 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, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets:</b>				
Loans, net	\$ 473,779	\$ 482,074	\$ 474,832	\$ 476,973
Cash	1,146	1,146	4,161	4,161
Investment in CoBank, ACB	18,648	18,648	18,014	18,014
<b>Financial Liabilities:</b>				
Notes payable to CoBank, ACB	\$ 393,202	\$ 392,894	\$ 399,144	\$ 398,829

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.

*Investment in CoBank, ACB:* Estimating the fair value of the Association's investment in CoBank is not practicable because the stock is not traded. As described in Note 4 of the 2016 Annual Report to Shareholders, the investment is a requirement of borrowing from CoBank and is carried at cost plus allocated equities on the consolidated balance sheets.

*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 3, 2017, 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**

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(800) 545-8374  
(518) 846-7330

Yankee Farm Credit, ACA  
320 Exchange Street  
Middlebury, VT 05753  
(800) 545-1169  
(802) 388-2692

Yankee Farm Credit, ACA  
250 Commerce Way  
Newport, VT 05855 (mailing)  
Derby, VT 05829 (physical)  
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(802) 334-8050

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