Report of Management

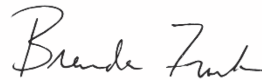
The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Yankee Farm Credit, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been audited by independent auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2018 Annual Report of Yankee Farm Credit, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Paul B. Franklin
Chairperson of the Board



Brenda K. Frank
President and Chief Executive Officer

Pamela A. Simek
Senior Vice President and Chief Financial Officer

March 6, 2019

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America, and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2018. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2018, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2018.

Brenda K. Frank
President and Chief Executive Officer
Yankee Farm Credit, ACA

Pamela A. Simek
Senior Vice President and Chief Financial Officer
Yankee Farm Credit, ACA

March 6, 2019

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2018	2017	2016	2015	2014
Balance Sheet Data					
Cash	**$ 90**	$ 13	$ 4,161	$ 4,210	$ 1,182
Loans	**523,745**	511,930	480,625	449,000	433,339
Allowance for loan losses	**(6,279)**	(5,941)	(5,793)	(5,123)	(5,283)
Net loans	**517,466**	505,989	474,832	443,877	428,056
Equity investments in other Farm Credit institutions	**21,531**	19,940	18,307	16,913	15,983
Other assets	**12,104**	11,311	10,606	9,453	8,810
Total assets	**$ 551,191**	$ 537,253	$ 507,906	$ 474,453	$ 454,031
Notes payable to CoBank, ACB	**$ 431,926**	$ 423,158	$ 399,144	$ 372,830	$ 356,885
Accrued interest payable and other liabilities with maturities of less than one year	**10,711**	10,726	9,344	6,634	7,473
Total liabilities	**442,637**	433,884	408,488	379,464	364,358
Capital stock and participation certificates	**1,098**	1,126	1,092	1,093	1,082
Unallocated retained earnings	**108,718**	103,521	99,887	95,709	90,347
Accumulated other comprehensive income (loss)	**(1,262)**	(1,278)	(1,561)	(1,813)	(1,756)
Total members' equity	**108,554**	103,369	99,418	94,989	89,673
Total liabilities and members' equity	**$ 551,191**	$ 537,253	$ 507,906	$ 474,453	$ 454,031
Statement of Income Data					
Net interest income	**$ 19,084**	$ 17,363	$ 16,307	$ 15,135	$ 14,690
Provision for (reversal of allowance for) loan losses	**296**	300	674	(139)	109
Noninterest income (expense), net	**(5,643)**	(7,158)	(6,340)	(5,050)	(4,521)
Net income	**$ 13,145**	$ 9,905	$ 9,293	$ 10,224	$ 10,060
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.5%**	2.0%	1.9%	2.3%	2.4%
Total members' equity	**12.3%**	9.7%	9.5%	11.0%	11.5%
Net interest income as a percentage of average earning assets	**3.8%**	3.6%	3.6%	3.6%	3.6%
Net (chargeoffs) recoveries to average loans	**0.01%**	0.03%	0.00%	0.01%	0.00%
Total members' equity to total assets	**19.7%**	19.2%	19.6%	20.0%	19.8%
Debt to members' equity (:1)	**4.1**	4.2	4.1	4.0	4.1
Allowance for loan losses to loans	**1.2%**	1.2%	1.2%	1.1%	1.2%
Permanent capital ratio	**18.5%**	18.8%	18.9%	19.6%	19.4%
Total surplus ratio	*	*	18.7%	19.3%	19.2%
Core surplus ratio	*	*	18.7%	19.3%	19.2%
Common equity tier 1 capital ratio	**18.5%**	18.5%	*	*	*
Tier 1 capital ratio	**18.5%**	18.5%	*	*	*
Total regulatory capital ratio	**19.7%**	19.8%	*	*	*
Tier 1 leverage ratio	**17.8%**	17.6%	*	*	*
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**19.8%**	18.6%	*	*	*
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 7,949**	$ 6,271	$ 5,115	$ 4,862	$ 4,641

** Not applicable due to changes in regulatory capital requirements effective January 1, 2017.*

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

(dollars in thousands, except as noted)

FORWARD LOOKING STATEMENTS

This annual report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to: weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income; economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors; changes in United States government support of the agricultural industry; political, legal, regulatory and economic conditions and developments in the United States and abroad; and actions taken by the Federal Reserve System in implementing monetary policy.

RESULTS OF OPERATIONS

Net income in 2018 was $13.145 million, an increase of $3.240 million (32.7%) from 2017.

The most significant factors contributing to increased net income in 2018 were:

- Net interest income was $1.721 million more in 2018.
- Patronage refunds from other Farm Credit Institutions were $811 thousand higher in 2018. This included an unexpected mid-year patronage refund from CoBank ACB, the Association's funding bank.
- Other noninterest income, excluding patronage refunds from other Farm Credit Institutions, was $543 thousand higher in 2018. This is primarily due to an increase in loan fees and an insurance return of premiums from the Farm Credit System Insurance Corporation (FCSIC). These gains were partially offset by slightly lower income related to financially related services.
- Other noninterest expenses were $161 thousand lower than in 2017, primarily due to decreased costs related to lower FCSIC premiums and data processing (which is included in other operating expenses). This was partially offset by increases in salaries and benefits expense, as well as purchased services (which is also included in other operating expenses).
- The provision for loan losses was $4 thousand lower in 2018. Updated methodology factors offset increases in loan volume and slightly lower credit quality, contributing to this lower provision for credit losses.

The return on average assets (ROA) was 2.5% in 2018 as compared to 2.0% in 2017 and 1.9% in 2016. The return on average members' equity (ROE) was 12.3% in 2018 as compared to 9.7% in 2017 and 9.5% in 2016.

The major changes in the components of net income are shown in the following table:

Effect on net income increase (decrease)	2018 vs. 2017	2017 vs. 2016
Net interest income	$ 1,721	$ 1,056
Provision for loan losses	4	327
Patronage refunds from other Farm Credit Institutions	811	230
Other noninterest income, exclusive of patronage refunds from other Farm Credit Institutions	543	(96)
Other noninterest expense	161	(905)
Total increase (decrease) in net income	$ 3,240	$ 612

Net interest income

In 2018, net interest income was $19.084 million, an increase of $1.721 million (9.9%) from 2017. The following table shows the principal components of net interest income before the provision for loan losses. Interest earning assets consist of accrual loans, and interest bearing liabilities consist of the note payable to CoBank.

	2018	2017	2016
Interest income on interest earning assets	$ 28,234	$ 23,200	$ 19,707
Interest expense on interest bearing liabilities	9,579	6,219	3,612
Subtotal	18,655	16,981	16,095
Interest income on nonaccrual loans	429	382	212
Net interest income before the provision for loan losses	$ 19,084	$ 17,363	$ 16,307

The "subtotal" above can be analyzed in terms of changes in volumes and rates on interest earning assets and interest bearing liabilities. The following table summarizes the applicable volumes and rates. All numbers are averages for the year.

	2018	2017	2016
Volumes:			
Interest earning assets	$ 501,484	$ 476,291	$ 452,903
Interest bearing liabilities	417,423	395,057	371,396
Loanable equity	$ 84,061	$ 81,234	$ 81,507
Rates:			
Interest earning assets	5.64%	4.87%	4.35%
Interest bearing liabilities	2.30%	1.57%	0.97%
Interest rate spread	3.34%	3.30%	3.38%

The following table shows the effects of the above changes in volumes and rates on net interest income:

Effect on net interest income* increase(decrease)	2018 vs. 2017	2017 vs. 2016
Due to changes in volumes	$ 890	$ 777
Due to changes in interest rates	784	109
Total increase in net interest income*	$ 1,674	$ 886

considering interest earning assets & interest bearing liabilities only

Net interest margin (net interest income as a percent of average earning assets) was 3.8% in 2018, as compared to 3.6% in 2017 and 3.6% in 2016.

Provision for loan losses

The 2018 provision for loan losses of $296 thousand compares to a net provision of $384 thousand in 2017 and a net provision reversal of $711 thousand in 2016. The decrease in the net provision in 2018 was primarily due to updated methodology factors, which offset the increase in loan volume and slightly lower credit quality.

Patronage refunds from other Farm Credit Institutions

Patronage refunds from other Farm Credit Institutions consisted primarily of patronage from our funding bank, CoBank, ACB. Patronage refunds from CoBank consisted of the following:

	2018	2017	2016
Patronage refunds on the Association's note payable to CoBank	$ 1,883	$ 1,775	$ 1,671
Patronage refunds on participation loans sold to CoBank	2,046	1,316	1,190
Total	$ 3,929	$ 3,091	$ 2,861

See Note 4 to the Consolidated Financial Statements, "Investments" for additional information about the patronage relationship between the Association and CoBank.

Other noninterest income, exclusive of patronage refunds from other Farm Credit Institutions

In 2018, this category increased by $543 thousand (35.2%) as compared to the prior year. During 2018, a refund from FCSIC in the amount of $346 thousand was received, which is the primary cause of the increase. FCSIC administers the Farm Credit Insurance Fund (Fund). The Fund is required by statute to maintain a secure base amount equal to 2% of the System's insured debt. When the Fund exceeds that base, FCSIC may refund excess amounts. See Note 1(A) to the Consolidated Financial Statements, "Organization and Operations" for additional information on FCSIC and the Fund. In 2017 and 2016, we did not receive refunds from the Fund.

Additionally under this category loan fees increased $72.

Other noninterest expense

In 2018, this category decreased by $161 thousand (1.4%). This was primarily due to the $176 thousand decrease in FCSIC premiums paid, and decrease of data processing of $154 thousand. This was offset by increases in salaries and benefits of $71 thousand and purchased services of $58 thousand.

Provision for income taxes

The provision for income taxes consisted of the following:

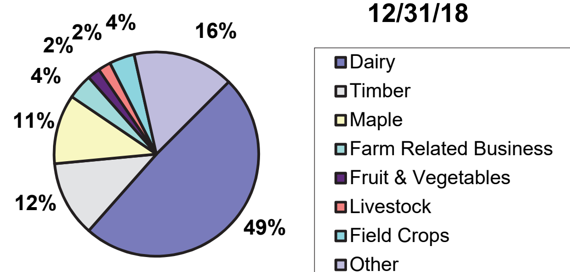
	2018	2017	2016
Provision for income taxes	$ 3	$ 3	$ 3

See Note 12 to the Consolidated Financial Statements, "Income Taxes," for more detail.

LOAN PORTFOLIO

Total loans outstanding were $523.7 million at December 31, 2018, an increase of $11.8 million (2.3%) over the prior year-end. The increase in loan volume was primarily due to new loan originations as well as increased participations purchased for the purpose of portfolio diversification, and year-end advances on existing commitments. Average loan balance in 2018 was $506.9 million, which was $25.5 million (5.3%) higher than in 2017. In 2017, year-end loans outstanding increased by $31.3 million (6.5%) from year-end 2016, while average loan balance for the year increased by $28.5 million (6.3%).

The loan portfolio continues to be primarily concentrated in the dairy industry, with 49% of loans invested in dairy businesses at December 31, 2018. The second largest concentration is timber, with 12% of the loan portfolio. Loans to maple represent 11% of the loan portfolio, while farm related businesses represents 4% of the portfolio. Field crops made up 4% and fruits and nuts made up 2%. The remaining 16% of the loan portfolio includes rural homeowners and a variety of other miscellaneous agricultural operations, as well as most of the purchased participation loans, with no single category comprising more than 3% of the loan portfolio.



Included in loans are purchased participation loans of $42.3 million (8.1% of the portfolio). These loans are primarily categorized as marketing and processing ($13.1 million), which is included in the industry category other, dairy ($8.8 million) and farm related business ($9.9 million). The remaining balance of participation loans are in timber ($2.6 million), which is included in the corresponding category above, and various other categories ($8.0 million) which are included in the other industry category. Purchased participation loan volume increased $6.9 million (19%) in 2018 as referenced above.

At December 31, 2017, the two most significant industry concentrations were dairy (51%) and timber (12%). Loans to maple represented 10% of the loan portfolio, farm related businesses (6%), fruit & vegetables (4%) and livestock (3%).

See Note 3 to the Consolidated Financial Statements, "Loans and Allowance for Loan Losses," for additional information about the Association's loan portfolio, including the volume of loans to each of the above-mentioned industries.

The dairy industry experienced slightly lower prices in 2018 following slightly higher prices in 2017 and lower prices in 2016. The outlook for 2019 is for slightly increasing prices.

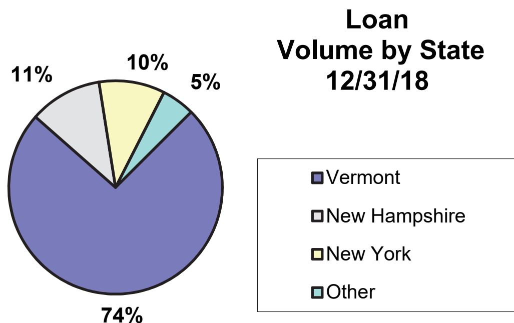
Average Milk Prices

Year	Avg. Price	Change From Prior Year
2018	$16.13	(8%)
2017	17.52	10%
2016	15.86	(9%)
2015	17.46	(28%)
2014	24.34	21%
2013	20.15	9%
2012	18.54	(9%)
2011	20.42	21%

(Prices quoted are the Federal Order 1 statistical uniform price for milk delivered to Boston, in $/cwt. Average prices for the year are the December-November prices, reflecting payments received by farmers in January-December. The "premium" referenced above is the Milk Income Loss Contract, which expired September 2014).

The increasing milk prices have been accompanied by a slight increase in the cost of farm inputs, particularly purchased feed. The composite Feed Index published by the USDA was 98 for 2018 (January – November), up 3% from 95 in 2017 (revised).

Our loan portfolio is geographically diversified throughout our assigned territory, which consists of all of Vermont, four counties in western New Hampshire, and two counties in northeastern New York. As of December 31, 2018, approximately 74% of our loan volume was with Vermont borrowers, 11% with New Hampshire borrowers, and 10% with New York borrowers.



There are several ways to examine the quality of the Association's loan portfolio. One measure of loan quality is to consider the level of "high risk assets." High risk assets include the following:

- Nonaccrual loans. These are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The Association does not record interest income on these loans on an accrual basis. Delinquent loans will generally be classified as nonaccrual when they become 90 days past due.
- Accrual loans 90 days or more past due. These are loans on which the Association is recording interest on an accrual basis, even though they are severely past due. Such loans are adequately secured and in the process of collection.
- Accrual troubled debt restructured (TDR) loans. These are loans on which the Association is recording interest on an accrual basis, but the Association has made a monetary concession to the borrower, such as a below-market interest rate or a reduction in principal or interest owed.
- Other property owned (OPO). This is property formerly owned by a borrower and typically offered as security for a loan, but now owned by the Association as the result of a default on the loan. Other property owned is usually acquired by the Association through a foreclosure action, a deed in lieu of foreclosure, or other legal action.

All loans that do not fall into one of these categories are considered performing loans.

The following table shows performing loans and high risk assets. By this measure, loan quality declined slightly in 2018.

	December 31,		
	2018	**2017**	**2016**
Performing loans	98.3%	99.1%	98.8%
High risk assets	1.1%	0.9%	1.2%
Nonaccrual loans	1.0%	0.0%	0.0%
Loans 90+ days past due	0.0%	0.0%	0.0%
Accrual TDR loans*	0.7%	0.0%	0.0%
OPO	0.0%	0.0%	0.0%
Total high risk assets	1.1%	0.9%	1.2%
Total loans + OPO	100.0%	100.0%	100.0%

Percentages based on volume.
*rounds to zero in 2017 and 2016

Another measure of loan quality is to consider the credit classification of loans according to the Uniform Classification System. By this measure, loan quality declined in 2018. The following table includes all loans (including nonaccrual loans), but not other property owned (of which the Association has none).

	December 31,		
Credit Classification:	**2018**	**2017**	**2016**
Acceptable	84.9%	89.8%	93.1%
OAEM*	9.7%	6.8%	4.1%
Substandard	5.3%	3.3%	2.8%
Doubtful	0.1%	0.1%	0.0%
Loss	0%	0%	0%
Total loans	100.00%	100.00%	100.00%

Percentages based on volume.
*Other Assets Especially Mentioned

Two additional measures of loan quality are the delinquency rate and loan charge-offs. The average delinquency rate for the year increased during 2018 but was below our internal goals. There were less than $1 thousand in charge-offs and recoveries totaling $42 thousand in 2018.

	2018	2017	2016
Loans 30 days or more past due (as % of total loans)			
At December 31	1.9%	1.5%	1.3%
Average for the year	1.8%	1.5%	1.3%
Net loan charge-offs (recoveries)			
Amount	($42)	$152	$4
As % of average loans	0.01%	0.03%	0.00%

Percentages based on volume.

Taking all of these measures together, loan quality declined in 2018. Despite the decline, overall loan quality at December 31, 2018 was at a satisfactory level and met all regulatory minimums.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses at year-end was $6.279 million, as compared to $5.941 million in 2017, and $5.793 million in 2016. The $338 thousand increase in the allowance in 2018 consists of a $296 thousand provision for the allowance for loan losses and net recoveries of $42 thousand.

See Note 3 to the Consolidated Financial Statements, “Loans and Allowance for Loan Losses,” for additional information about the allowance for loan losses, including a summary of activity in the account.

FUNDING SOURCES, LIQUIDITY AND INTEREST RATE RISK

The Association obtains funds by borrowing from CoBank on a revolving line of credit. The funding relationship with CoBank is governed by a General Financing Agreement (GFA). At December 31, 2018, the Association’s Borrowing Base ratio was 87.4%, as compared to 86.8% and 86.3% at December 31, 2017 and 2016, respectively. Because the funding relationship with CoBank provides sufficient liquidity, the Association does not maintain large balances in cash or other liquid investments.

The Association attempts to limit interest rate risk by matching the interest rate characteristics of its debt with the interest rate characteristics of its loans. The Association offers both variable and fixed rate loans. At the end of 2018, the accrual loan portfolio consisted of approximately 79% variable rate loans and 21% fixed rate loans. The interest rate charged to the Association on debt used to fund the fixed rate loans is itself a fixed rate, which limits interest rate risk on that portion of the portfolio. The interest rate charged to the Association on the remaining debt is a variable rate, but the Association has the ability to change the variable rate charged to borrowers as needed.

The Association funds approximately 83% of its loans with debt as described above. The remaining 17% is funded with equity. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds.

At December 31, 2018, the weighted average rate of interest charged to the Association by CoBank was 2.63%.

MISSION RELATED INVESTMENTS

The Farm Credit Act states that the mission of the Farm Credit System is “to provide for an adequate and flexible flow of money into rural areas.” To further this mission to serve rural America, the System has initiated mission related programs and other mission related investments approved by the Farm Credit Administration (FCA). The Association has invested in one mission related investment program.

In 2011, the Association invested in FarmStart, LLP. FarmStart, LLP is a collaborative initiative with Farm Credit East and CoBank to make investments in startup farming operations (starter farmers). The goal of FarmStart is to provide working capital to help startup farmers establish a positive business and credit history during the early phases of their business careers. Within five years, recipients should be positioned to graduate to a conventional loan.

At December 31, 2018, the Association’s net investment in this program was $463 thousand, with 31 FarmStart investments made through that same date.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) consists of the effect of Financial Accounting Standards Board (FASB) guidance on pensions and post-retirement health care. The guidance requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through other comprehensive income.

The components of accumulated other comprehensive income (loss) is detailed below:

	December 31,		
	2018	2017	2016
Pension	(1,174)	(1,178)	(1,496)
Post-Retirement Healthcare	(88)	(100)	(65)
Total Accumulated Other Comprehensive (Loss)	$ (1,262)	$ (1,278)	$ (1,561)

CAPITAL RESOURCES

Members’ equity was 19.7% of assets at December 31, 2018, as compared to 19.2% and 19.6% at the end of 2017 and 2016, respectively.

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA

regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

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

- 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, replaced existing core surplus and total surplus requirements with common equity tier 1 (CET1), tier 1 and total capital (tier 1 plus tier 2) risk-based capital ratio requirements. The New Capital Regulations also added a tier 1 leverage ratio for all System institutions, which replaced the existing net collateral ratio for System banks. In addition, the New Capital Regulations established a capital conservation buffer and a leverage buffer and enhanced the sensitivity of risk weightings. The revisions to the risk-weightings included alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

The New Capital Regulations set the following minimum risk-based requirements:

- A CET1 capital ratio of 4.5 percent;
- A tier 1 capital ratio (CET1 capital plus additional tier 1 capital) of 6 percent; and
- A total capital ratio (tier 1 capital plus tier 2) of 8 percent.

The New Capital Regulations also set a minimum tier 1 leverage ratio (tier 1 capital divided by total assets) of 4 percent, of which at least 1.5 percent must consist of unallocated retained earnings (URE) and URE equivalents, which are nonqualified allocated equities with certain characteristics of URE.

The New Capital Regulations established a capital cushion (capital conservation buffer) of 2.5 percent above the risk-based CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations established a leverage capital cushion (leverage buffer) of 1 percent above the tier 1 leverage ratio requirement. If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The New Capital Regulations established a three-year phase-in of the capital conservation buffer beginning January 1, 2017. There is no phase-in of the leverage buffer.

As shown in the following table, at December 31, 2018, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions and retire equities.

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2018	2017
Risk-adjusted ratios:					
CET1 Capital	4.5%	1.25%	5.75%	18.45%	18.52%
Tier 1 Capital	6.0%	1.25%	7.25%	18.45%	18.52%
Total Capital	8.0%	1.25%	9.25%	19.70%	19.77%
Permanent Capital	7.0%	0.0%	7.0%	18.47%	18.81%
Non-risk-adjusted ratios:					
Tier 1 Leverage	4.0%	1.0%	5.0%	17.84%	17.63%
URE and UREE Leverage	1.5%	0.0%	1.5%	19.82%	18.58%

** The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020. Risk-adjusted ratio minimums will increase 0.625% each year until fully phased in. There is no phase-in period for the tier 1 leverage ratio.*

The following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014
Permanent Capital Ratio	7.00%	18.9%	19.6%	19.4%
Total Surplus Ratio	7.00%	18.7%	19.3%	19.2%
Core Surplus Ratio	3.50%	18.7%	19.3%	19.2%

The minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2018, we met all goals.

See Note 7 to the Consolidated Financial Statements, "Members' Equity," for additional information about the Association's capitalization policies, equities, and regulatory capitalization requirements.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at target earnings levels, and increasing surplus for reasonable reserves.

The Association declared two patronage distributions in 2018. The total patronage distribution declared related to 2018 operations was $7.949 million. The first, a special mid-year patronage, was declared in August 2018 in the amount of $1.848 million, based on a series of non-recurring events that boosted earnings for the Association. The mid-year patronage was paid in 100% cash in October of 2018. The Association also declared a year end patronage distribution of $6.101 million based on 2018 standard earnings, to be distributed 100% in cash in April 2019.

The increase in patronage distribution in 2018 to $7.949 million, up from $6.721 million in the previous year, was due in part to the 30bps special mid-year patronage paid in October 2018.

The increase in patronage distribution in 2017 to $6.721 million, up from $5.115 million in 2016, was due to the increase in loan volume as well as an increase in patronage rate.

The patronage rate was 130bps for 2018 and 115bps for 2017 and 100 bps in 2016.

CHANGE IN INFORMATION TECHNOLOGY

As of January 1, 2018, the Association successfully converted the Information Technology provider from Farm Credit Financial Partners (FPI) to AgFirst Farm Credit Bank. This conversion impacted nearly all elements of the Association's reporting and operations.

In August 2016, the Board of Directors voted to change the Association's provider of Information Technology from Farm Credit Financial Partners (FPI) to AgFirst Farm Credit Bank. Significant expenditures were made throughout 2017 to facilitate the conversion efforts from one provider to the other. Information security, accuracy and data validation were all significant elements of the conversion plan. In addition to moving all data elements, information pathways were created between AgFirst Farm Credit Bank and the Association's funding bank, CoBank, ACB. The Association's source of funds was not impacted in this effort.

REGULATORY MATTERS

On May 10, 2018, the Farm Credit Administration adopted a final rule that amends the regulations governing investments of System banks and associations. The final rule strengthens eligibility criteria for the investments the banks may purchase and hold. It also implements Section 939A of the Dodd-Frank Act by removing references to and requirements for credit ratings and substitutes the eligibility requirement with other appropriate standards of credit worthiness. In addition, it grants associations greater flexibility regarding the risk management purposes for investments and limits the type and amount of investments that an association may hold. Only securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the U.S. government or its agencies are eligible for association risk management purposes. An association may purchase and hold investments not to exceed 10 percent of its 90-day average daily balance of outstanding loans on the last business day of the quarter. The final rule became effective January 1, 2019.

Farm Bill

The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law on December 20, 2018. This new Farm Bill will govern an array of federal farm and food programs, including commodity price support payments, farm credit, conservation programs, research, rural development and foreign and domestic food programs for five years through 2023. The new Farm Bill continues to provide support for crop insurance and commodity support programs, strengthen livestock disaster programs, and provides dairy producers with an updated voluntary margin protection program that will provide additional risk management options to dairy operations.

The Farm Bill also clarifies and updates the Insurance Corporation's authorities to act as conservator or receiver of a System institution. The Congressional Conference Committee report states that Congress intends "for the authorities of the Corporation to be functionally equivalent to the parallel authorities of the Federal Deposit Insurance Corporation." In addition, the Farm Bill provides, among other authorities, the Insurance Corporation with the authority to organize, and the Farm Credit Administration to charter, a System bridge bank, which has all the powers of a System bank with a maximum life span of five years.

Many provisions of the Farm Bill will require the United States Department of Agriculture to develop rules and procedures to fully implement these authorities. The timing for the issuance of those rules is uncertain.

LIBOR TRANSITION

On July 27, 2017, the United Kingdom Financial Conduct Authority (the Conduct Authority) announced that it will no longer persuade or compel such banks to submit rates for the calculation of the LIBOR rates after 2021. The Conduct Authority regulates the panel banks that submit quotes for the purpose of calculating LIBOR to the Intercontinental Exchange

(ICE) Benchmark Administration (the entity that is responsible for calculating LIBOR). Accordingly, it is uncertain whether the ICE Benchmark Administration will continue to quote LIBOR after 2021. Furthermore, in the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York. Specifically, the ARRC has proposed the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR and the Federal Reserve Bank of New York began publishing SOFR in April of 2018. SOFR is based on a broad segment of the overnight Treasury repurchase market and is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

At this time, it is not possible to predict, among other uncertainties, whether (i) LIBOR will be discontinued, (ii) the effect of any changes to the methodology for calculating LIBOR, or (iii) any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom, in the United States or elsewhere. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR based instruments, including certain of the Systemwide Debt Securities, System borrowings, loans, investments, derivatives, other System assets and liabilities and preferred stock that are indexed to LIBOR. Accordingly, reform of, or the replacement or disappearance of, LIBOR and the proposed regulation of LIBOR and other "benchmarks" may adversely affect the rates of interest the System pays on its Systemwide Debt Securities (including changes to their value and liquidity, return, and usefulness for intended purpose), on other borrowings and preferred stock, as well as the value of and return on loans and investments and the value and effectiveness of derivatives. This could adversely affect the System's cash flows. Moreover, if LIBOR is replaced, System institutions will need to take steps to restructure their debt and derivatives, which could adversely affect operations.

The System institutions are currently evaluating the potential impact of the eventual replacement of the LIBOR benchmark interest rate, including the possibility of using SOFR as the alternative to LIBOR. While each system institution is required by the regulator to have a transition plan, the transition from LIBOR to SOFR is expected to be complex and to include the development of term and credit adjustments to minimize, to the extent possible, discrepancies between LIBOR and SOFR. Accordingly, the transition may introduce additional basis risk for market participants, including when an alternative index, e.g., SOFR, exists in conjunction with LIBOR. There can be no guarantee that SOFR will become the dominant alternative to U.S. dollar LIBOR or that SOFR will be widely used. In addition, other alternatives may or may not be developed with additional complications.

Changes in LIBOR may result in interest rates and/or payments that are higher or lower than, or that do not otherwise correlate over time with, the interest rates and/or payments that would have been associated with LIBOR-based Systemwide Debt Securities, or loans or investments that are based on LIBOR, which may increase or decrease the payments to be made on such LIBOR-based Systemwide Debt Securities, or loans or investments that are based on LIBOR.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) but have not yet been adopted:

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to a CECL model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.	• The Association has begun implementation efforts by establishing a cross-discipline governance structure and will implement a third-party model. The Association is currently identifying key interpretive issues and assessing processes against the new guidance to determine what modifications may be required. • The Association expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association's portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date. • The Association expects to adopt the guidance in first quarter 2021.

<table>
<tr><th colspan="2">ASU 2016-02 – Leases (Topic 842)</th></tr>
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Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments.
Lessor accounting activities are largely unchanged from existing lease accounting.
The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification.
Also, expands qualitative and quantitative disclosures of leasing arrangements.
Requires adoption using a modified cumulative-effect approach wherein the guidance is applied to all periods presented. A recent amendment provides an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.

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The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees.
The Association completed its evaluation of leasing contracts and activities and developed its methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of lease payments. There will not be a material change to the timing of expense recognition.
Given the limited changes to lessor accounting, there were no material changes to recognition or measurement for the Association.
The Association will need to provide additional disclosure information as a result of adopting the Update.
The Association will adopt the guidance in first quarter 2019 using the optional modified retrospective method and practical expedients for transition.
Upon adoption, the Association will record a cumulative-effect adjustment of approximately $13 thousand. In addition, a Right of Use Asset in the amount of $269 thousand and Lease Liability in the amount of $273 thousand will be recorded.

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YANKEE FARM CREDIT, ACA

DIRECTORS AND SENIOR OFFICERS

The Association has a board of 12 directors. Nine directors are elected by and from the voting members of the Association. The nine elected directors select two additional types of directors:

- An Outside Director may not be a member of the Association.
- The Appointed Director must be a member of the Association.

In addition to the nine Elected Directors, there are two Outside Directors and one Appointed Director.
The nine Elected Directors are elected by region:

Region	No. of Directors	Territory
1	3	NY: Clinton, Essex VT: Chittenden, Franklin, Grand Isle
2	3	NH: Coos, Grafton VT: Caledonia, Essex, Lamoille, Orange, Orleans, Washington
3	3	NH: Cheshire, Sullivan VT: Addison, Bennington, Rutland, Windham, Windsor

Paul B. Franklin, Chairperson (Region 3)

Paul B. Franklin, age 66, has served as a director since 2011. His current term expires in 2020. Mr. Franklin grew up on a small dairy farm in Plainfield, New Hampshire. After graduating from the University of New Hampshire, Mr. Franklin and his wife Nancy started a pick-your-own (PYO) strawberry operation. Forty years later, with the enlisted help of their three children, they own and operate Riverview Farm in Plainfield, New Hampshire, a 45-acre fruit and vegetable operation specializing in PYO apples, blueberries, raspberries, and pumpkins. Mr. Franklin manages field operations and cider pressing, and Mrs. Franklin, with the help of daughter Amy, oversees the retail barn, PYO, and school tours. In addition, they own a 170-acre wood lot managed for timber and firewood production, recreation, and wildlife habitat. For 22 years, Mr. Franklin was a member and Chairman of the New Hampshire Board of Tax and Land Appeals, serving as tax administrative judge. Currently, he is Treasurer of the New Hampshire Fruit Growers Association, a Director of the New Hampshire Statewide Program of Action to Conserve our Environment, and the Plainfield Town and School Moderator.

Alan J. Bourbeau (Region 1)
Alan J. Bourbeau, age 58, has served as a director since 2007. His current term expires in 2019. Mr. Bourbeau owns and operates a third-generation farm located on Pond Road in Swanton, Vermont. Mr. Bourbeau and his wife Kimberly have been married for 36 years and have three children and five grandchildren. Mr. Bourbeau and his two sons operate Bourbeau & Sons, Inc., which has a 260 cow milking herd and raises all its own replacement livestock. In 2007, the Bourbeau family built a sugarhouse and expanded the sugar woods to 35,000 taps. In addition to managing Bourbeau & Sons, Inc., Bourbeau Farm LLP, and Greens Corners Maple Products, LLC, Mr. and Mrs. Bourbeau buy and sell 700,000 to 1,000,000 pounds of syrup per year from other maple producers. Mr. Bourbeau currently serves as St. Albans Cooperative Creamery Chair of the Audit Committee and Director on the Nominating Committee. He also has served nine years with the Swanton Planning Commission (seven as Chairman); 18 years as Franklin County Field Days Director.

Thomas J. Colgan (Appointed Director)
Thomas J. Colgan, age 65, was appointed as a director in 2012. His current term expires in 2021. Since 1997, Mr. Colgan has served as President and CEO of Wagner Forest Management, Ltd., a timber management company headquartered in Lyme, New Hampshire. He previously worked for Scott Paper Company in Maine. Mr. Colgan holds multiple degrees from Duke University, including a M.S. in Forestry. He serves as a senior officer of Wagner Forest Management, Ltd. (a forest management company that serves as the manager for Bayroot, LLC, Wagner Energy, LLC, and Yankee Forest, LLC); Wagner Wind Energy III, LLC, an electrical generation company; and Mirage Flats Holding, LLC, a real estate holding company. Mr. Colgan as serves on the Boards of Directors of North Country Procurement, a biomass procurement organization based in Rumney, New Hampshire; and the National Alliance of Forest Owners, a trade association. Mr. Colgan is also a member of the Town of Lyme Conservation Commission. While Yankee's second largest industry concentration is the timber industry, the association has not previously had a director from this industry. Mr. Colgan is the Association's first appointed director, and the first director to represent the timber industry.

Bryan E. Davis (Region 2)
Bryan E. Davis, age 63, has served as a director since 2010. His current term expires 2019. He and his wife Susan have owned and operated Grand View Farm in Derby Line, Vermont since 1978. He recently sold his herd of 135 milkers in 2017 and the heifers in the spring of 2018. They now rent the tillable land to a neighbor. They have a small maple operation where they tap and boil the sap from 4500 trees. In June he accepted a job offer from Monroe Tractor, based in New York. He travels around Vermont, Northern New Hampshire and N.E. New York announcing Monroe Tractor's expansion to Vermont. Mr. Davis holds an A.S. in Forestry Management and Land Surveying from Paul Smiths College. He served on the board of directors for the St. Albans Cooperative Creamery for 22 years where he held officer

positions of secretary and treasurer. He was chairman of the Quality Committee, and served on the equity and audit committees at the Co-op. He is the former chairman of the New England Dairy Promotion Board, and past director of The United Dairy Industry Association, both of which are involved in dairy promotion. Additionally, Mr. Davis is Chair of the Derby School Board; member and past President of the Orleans County Farm Bureau; 40 year member of the Elks Club; and member of the Orleans County Sugarmakers and the Vermont Sugarmakers Association. They are enjoying their 4 grandchildren and feel very fortunate that they all live in the Town of Derby.

Kenneth F. Deon (Outside Director)
Kenneth F. Deon, 63, has served as a director since 2016. His current term expires in 2019. Mr. Deon grew up in Plattsburgh, New York and graduated from SUNY Plattsburgh. His career as a CPA was primarily at KPMG, which included managing partner of the offices in Burlington, Vermont; Albany, New York; and West Palm Beach, Florida. Mr. Deon has over 30 years of experience providing audit and advisory services to clients in a number of industries, primarily focused in operations, processes, and technical accounting assistance, including business combinations, regulatory accounting, and financial reporting. His audit experience includes IPO/SEC and Sarbanes-Oxley regulatory requirements. He also was an Adjunct Professor of Accounting at Union Graduate School and at Saint Michael’s College. He currently lives in Greer, South Carolina.

Dr. Rocki-Lee DeWitt (Outside Director)
Dr. Rocki-Lee DeWitt, age 62, has served as a director since 2004. Her current term expires in 2019. She received her Ph.D. in Strategic Management from Columbia University and M.S. in Agricultural Economics from the Ohio State University. Dr. DeWitt is Professor of Management at the School of Business Administration at the University of Vermont. She conducts research on strategies for sustaining family and closely-held businesses and has served as a business advisor to multiple family businesses. She is a member of the Academy of Management and the editorial board of Family Business Review. She is a member of the Board of Directors of the Greater Burlington Industrial Council, an economic development organization. Dr. DeWitt has been previously employed as Dean of the School of Business Administration at the University of Vermont, Associate Dean of Professional Master’s Programs at the Pennsylvania State University, and as an agricultural parts sales manager with Case-IH. Raised on a dairy farm in Accord, New York, Dr. DeWitt was a 4-H member for ten years. Dr. DeWitt and her spouse, Josephine Herrera, reside in Charlotte, Vermont.

David Folino (Region 3)
David Folino, age 63, has served as a director since 2018. His current term expires in 2021.He grew up in Essex Junction, graduated from UVM and later earned his MBA from Rensselaer Polytechnic Institute, (RPI). As a kid he worked on dairy farms in Chittenden County. In 1979, after graduating from UVM, he started a small sugaring operation with no experience, 100 battered buckets and a vintage evaporator. Like a lot of sugar makers, his hobby kept growing and eventually turned into a small business. In the meantime, he spent the next 20 years in the publishing industry, working as a marketing director, general manager and co-owner. In the late 1990s his publishing business was creating some of the earliest electronic books. These concise books focused on business management skills. In 2003 he had an opportunity to sell his share of the publishing business and expand his maple business. Currently, he and his wife Sue own and operate a 15,500 tap maple sugaring business in Starksboro Vermont. They focus on efficiency, frugality and direct marketing. Mr. Folino also teaches classes to other sugar makers on maple economics and management, and serves on several other agricultural boards and committees.

Craig Giroux (Region 1)
Craig Giroux, age 58, has served as a director since 2018. His current term expires in 2021. He has been a member of Farm Credit since 1984 when he and his brother Willie became shareholders, with their father Roger, in Giroux's Poultry Farm. The Giroux's are a fourth generation family farm that has operated the poultry farm in Chazy, New York since 1960. Giroux's Poultry currently has 2 million laying hens, which include both traditional caged and cage free production. They market their eggs throughout New York and New England. Mr. Giroux is also a partner in Giroux Grain Farms, which grows corn on 7,000 acres of crop land in Clinton County New York. In 2010 the family purchased Chazy Orchards which has 1,000 acres of apple orchards. Mr. Giroux serves on the board of directors of United Egg Producers and Egg Clearinghouse Inc. He also currently is a member of the Chazy Central School Board of Education, the Town of Chazy Planning Board, the Chazy Youth Hockey board, and the advisory board for St. Anne's Shrine in Isle La Motte, Vermont. He is married with five children. He has a B.S. in Business Administration from State University of New York at Plattsburgh.

Celeste Kane-Stebbins (Region 1)
Celeste Kane-Stebbins, age 63, has served as a director since 2008. Ms. Kane-Stebbins grew up on the family dairy farm in Sheldon, Vermont. She and her husband, Gregory, became Farm Credit members in 1976 when they financed their West Enosburg dairy farm with a loan from the Federal Land Bank of Springfield. In 1993 they purchased her parent’s farm and added a neighboring farm in 2003. They also lease 2 additional farms for cropland. She and Greg established Stebbinshire Farms, Inc. in 2010; Mrs. Kane-Stebbins serves as Secretary/Treasurer and her primary responsibilities include bookkeeping, payroll, and tax preparation. Stebbinshire Farms employs 5 full-time employees, including two of their sons, and 4 part-time employees. The dairy milks approximately 375 head and raises all replacements in addition to producing maple syrup from 10,000 taps and selling logs and firewood. Mrs. Kane-Stebbins recently retired from her full-time job as Director of Quality and Risk Management at Copley Hospital in Morrisville, Vermont but continues to work part-time as their Project Specialist. She earned a B.S. from the University of Vermont and a M.S. from the University of Phoenix. She and Greg have 4 children and were recently blessed with their 8th grandchild. They are currently in the process of transitioning the corporation to their son, Sean, and his wife, Sarah. She currently serves on Board of Directors of Franklin County Farm Bureau and of the Enosburg Development Economic Development Corporation.

Bradley N. Maxwell (Region 2)
Bradley N. Maxwell, age 63, has served as a director since 2012. His current term expires in 2021. Mr. Maxwell grew up in Coventry, Vermont, on the dairy farm that his parents started in 1959. He currently owns and operates Maxwells’ Neighborhood Farm, LLC and Neighborhood Equities, LLC with his brothers, son and nephew. Mr. Maxwell and his family have been with Yankee Farm Credit for three generations. Over the years, the farm has grown from a 120-cow dairy to the current herd of 800 milking cows and 700 head of young stock. Ever-expanding and diversifying, Neighborhood Energy, LLC’s methane digester began operation in late 2008. Its newest ventures are a small

sugaring operation and a greenhouse. Mr. Maxwell and his wife Jean have four children. Their oldest son, Matthew, began working on the farm as a full time employee in 2007. Neighborhood Farm employs seven other full-time employees. In addition to his work on the farm, Mr. Maxwell has been an integral part of the local and agricultural communities over the past 30 years, including coaching elementary and high school basketball, serving on the Coventry Selectboard, and serving as a delegate on the New England Dairy Promotion Board.

Rene M. Saenger (Region 3)
Rene Saenger, age 61, has served as a director since 2015. Her current term expires in 2019. Ms. Saenger has been a member of Farm Credit since 1983 when she and her husband, Paul, purchased their first farm in Weybridge, Vermont. In 1988, the Saengers moved to Shoreham and for the next 26 years operated Cream Hill Farm, a 1600 acre, 1600 head capacity beef feeding facility. From 2001 to 2014, she was responsible for the day to day management of Cream Hill Farm. In April 2014, the real estate containing the improvements and infrastructure for feeding cattle were sold to a young farmer. Ms. Saenger retains approximately 1000 acres of agricultural land, which is leased to neighboring farms. Ms. Saenger has a B.S. in Agriculture from the University of Illinois and holds a 100 Ton Master Captain's license. From 1986 to 1992, she owned and operated Farm Management Services, a forage analysis lab. Ms. Saenger currently volunteers at Neat Repeats in Middlebury, Vermont and works at Middlebury Indoor Tennis.

Kyle Thygesen (Region 2)
Kyle Thygesen, age 45, has served as a director since 2017. His current term expires in 2020. He has been very involved in many aspects of Vermont's agricultural industry since moving back to Vermont with his wife Jennifer in 2000. In 2003, Mr. Thygesen became a member of Yankee Farm Credit with the purchase of their dairy farm in Tunbridge. From then to today, he, his wife Jennifer and son Keenan own and operate the Farmstead at Falls Hill, LLC. From 2007 to 2011 their business included an organic dairy farm nationally recognized for their milk quality, genetics and organic management practices. In December 2011, they sold their herd to a beginning farmer, and have since focused on marketing, developing and breeding a small number of high quality registered dairy cattle for show, while also managing an organic hay business. They have developed nine All-American or All-Canadian nominations over the past several years. In 2013 a Guernsey cow they boarded was awarded the Grand Champion cow at World Dairy Expo. Their Ayrshire aged cow was Honorable Mention Grand Champion at World Dairy Expo that year as well. Currently, Mr. Thygesen is the Director for Milk Sourcing and Procurement for Stonyfield Organic, the nation's largest organic yogurt company. In his role, Mr. Thygesen manages all of the milk that Stonyfield purchases from cooperatives and milk sourced through their direct milk supply program. Since 2014 Stonyfield has grown the supply from 0 to 31 farm relationships throughout New England. Through this program eight farms started brand new operations, six generational transfer plans were completed and now a robust supply program is in place. This has been achieved through collaborative efforts with producers and industry service providers. He enjoys working to serve the agricultural industry and develop its present and future generations. He is active in volunteer work for 4-H and FFA. He and his wife Jennifer were awarded the 2017 Ed Gould Memorial award by Vermont 4-H for their work with their 4-H club and support of the state dairy program.

BOARD COMMITTEES

The Board of Directors has established five standing committees. Each committee is governed by a formal charter. The directors serving on each committee as of December 31, 2018 are indicated on page 50.

Audit Committee
The purpose of this committee is to assist the Board in fulfilling its fiduciary and oversight responsibilities for the financial reporting process, the system of internal controls, the audit process, and the Association's process for monitoring compliance with laws, regulations, policies, standards of conduct, and public responsibilities. No member-director of this committee also serves on the Executive Committee.

The Audit Committee consists of six directors, who met five times in 2018 in person. Mr. Kenneth Deon is Chairperson.

Compensation Committee
The purpose of this Committee is to review the compensation policies and plans for the President/CEO, senior officers and all other employees. The Committee approves the overall compensation plan for senior officers. The Committee reviews the performance of the President/CEO and recommends to the full Board appropriate compensation for the President/CEO.

The Compensation Committee consists of five directors, who met two times in 2018 in person. Mr. Tom Colgan is Chairperson.

Executive Committee
The purpose of this committee is to approve or deny credit in specific situations. The committee is further charged with making decisions on non-credit issues as directed by the Board. No member-director of this committee also serves on the Audit Committee.

The Executive Committee consists of five directors, who did not meet in 2018. Ms. Celeste Kane-Stebbins is Chairperson.

Membership/Governance Committee
The purpose of this Committee is to oversee the Board nomination and election process, the Board self-evaluation process, as well as director conduct, compensation, qualifications and development, performance, and governance practices. Additionally, this Committee will consider membership issues, including Young, Beginning and Small farmer issues, the determination of scholarship awards, and member/applicant appeals of adverse credit decisions.

The Membership/Governance Committee consists of five directors, who met two times in 2018 in person. Ms. Rene Saenger is Chairperson.

Strategy and Risk Management Committee
The purpose of this committee is to assist the Board in fulfilling its oversight responsibilities for the strategic planning and enterprise-wide risk management programs of the Association. The Committee will aid the full Board in understanding the Association's risk profile and the transference of risk management best practices into the Association's forward-looking strategic planning process.

The Strategy and Risk Management Committee consists of five directors, who met four times in 2018 in person. Dr. Rocki-Lee DeWitt is Chairperson.

SENIOR OFFICERS

Brenda K. Frank (President and CEO)
Brenda K. Frank, age 47, has been employed by the Association since September 2016. Ms. Frank's 27 years of experience in agriculture commenced with managing the family farm in Minnesota. Subsequently, at Syngenta, she worked in sales and IT. At Cargill, she managed marketing and agronomy. For 10 years prior to joining the Association, she directed Farm Credit Canada's Western Provinces commercial lending and point-of-sale functions, as well as worked closely with the Board of Directors to create long-term business strategy and develop enterprise risk management and corporate planning processes. Ms. Frank holds a M.B.A. from the University of Maryland and a B.S. in Soil Science from the University of Minnesota. She is a Chartered Director from McMasters University in Canada and continues in the study and advancement of effective corporate governance.

Pamela A. Simek (Senior Vice President/Chief Financial Officer)
Pamela A. Simek, age 60, has been employed by the Association since 1995 when she was hired as an Administrative Assistant in the Williston office. In 1997, she became Assistant Treasurer and Personnel Coordinator. In 2003, Ms. Simek assumed the position of Controller and moved to the Middlebury, Vermont office. In June 2014, she was named Acting Chief Financial Officer and Corporate Treasurer. In November 2014 she assumed the position of Senior Vice President/Chief Financial Officer. Prior to working for the Association, Ms. Simek worked as a legal office administrator in Burlington, Vermont. Ms. Simek holds a B.S. in Accounting and a B.A. in History from Trinity College. In 2010, she graduated from the Farm Credit Council Services Leadership Development Program Level 1, and in 2013 attended the Gettysburg Leadership Experience.

Kenneth R. Button (Senior Vice President)
Kenneth R. Button, age 65, has been employed by the Association (or one of its predecessors) since 1978. He was hired as a Loan Officer in the Middlebury office, and became the Branch Manager in 1986. In August 2006, he became a Senior Vice President. Prior to working for the Association, Mr. Button worked for the Farmers Home Administration. Mr. Button holds a B.S. in Agriculture from the University of Vermont. In 2007, he graduated from the Farm Credit Council Services Leadership Development Program Level 2.

Michael K. Farmer (Senior Vice President/Chief Operating Officer)
Michael K. Farmer, age 51, has been employed by the Association (or one of its predecessors) since 1989. He was hired as a Loan Officer in the White River Junction, Vermont office and moved to St. Albans as a Senior Loan Officer in 1998. He became the Branch Manager in 2006 and in 2011 became a Senior Vice President and Regional Manager. In 2014, he was promoted to Chief Systems Officer and relocated to the Williston office. In 2017 he was promoted to Chief Operating Officer. Mr. Farmer holds a B.S. in Agricultural Economics from the University of Vermont. In 2012, he graduated from the American Bankers Association's Stonier Graduate School of Banking. In 2007, he graduated from the Farm Credit Council Services Leadership Development Program Level 2.

James E. Mills, Jr., (Vice President, Strategy, Risk & Audit)
Jim Mills, Jr., age 48, has been employed by the Association since March 2016. He has primary responsibility for the implementation of an enterprise risk management program and its alignment with the Association's strategic initiatives, as well as internal audit. He is the Association's liaison with external reviewers, auditors, and regulators. Mr. Mills works primarily out of the Williston office. Prior to joining the Association, Mr. Mills spent 15 years with Bombardier, Inc. and seven years with JPMorgan, holding several risk management, corporate governance, and credit administration roles. Mr. Mills holds a B.S. in Business Administration, with concentrations in Finance and Management Information Systems, from the University of Vermont.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

A. Director Compensation

Directors are compensated at a flat daily rate for attendance at Board meetings and other activities authorized by the Board. Through June 26, 2018, the rate was $450 per day ($500 per day for the Chairperson at meetings at which he/she presided and $500 per day for the Chairperson of the Audit Committee at meetings where he/she presided). Directors also received an annual retainer of $3,500 ($4,500 for the Chairperson) in 2018. Per Board Policy dated June 27, 2018, the rate was $550 per day ($650 per day for the Chairperson at meetings at which he/she presided, and $650 per day for the Chairperson of the Audit Committee at meetings where he/she presided). Directors will receive an annual retainer of $4,000 ($5,000 for the Chairperson) and are paid for participating in telephone conference calls. There were seven Board meetings held during 2018. Other activities attended by Directors included, but were not limited to: Association committee meetings, national directors' meetings, and national training sessions. Compensation paid to directors in 2018 was:

	Days Served		
Director	Board Meetings	Other Activities	Compensation
Alan J. Bourbeau	7	2.5	10,050
Thomas J. Colgan	7	3.5	12.375
Bryan E. Davis	7	4.5	11,425
Kenneth F. Deon	6	5	15,275
Rocki-Lee DeWitt	7	6	12,375
David Folino**	5	4	14,525
Paul B. Franklin	7	5	18.625
Craig Giroux**	5	2	10,450
Rocklyn A. Giroux*	2	0.5	1.350
Celeste Kane-Stebbins	7	6	19,075
Bradley N. Maxwell	7	3	11.450
Rene Saenger	7	8.5	16.255
Stephen Taylor*	2	1.5	2.700
Kyle Thygesen	7	0.5	8,550
Total	83	52.5	$164,480

Term expired in 2018* * Elected in 2018*

Additional detail regarding director compensation paid for committee services (included in the table prior) is as follows:

	Committee				
Director	Audit	Strategy & Risk	Compensation	Executive	Membership/ Governance
Bourbeau	450	1,275	550		
Colgan		1,725	1,000		
Davis	2,100				1,000
Deon	2,950				
DeWitt	2,550	1,725			
Folino	1,550				1,000
Franklin			1,000		
Giroux, C			550		1,000
Giroux, R		450			
Kane-Stebbins		1,725			1,000
Maxwell	2,100		450		
Saenger	2,550		450		1,000
Taylor	450		450		
Thygesen			550		
Total	$14,700	$6,900	$5,000		$5,000

B. Senior Officer Compensation

The following tables show the total compensation paid by the Association in each of the last three years to the CEO(s) and to the senior officers as a group (excluding the CEOs). George S. Putnam held the position of President and CEO until December 23, 2016. Brenda K. Frank held the position of Interim President and CEO, transitioning to President and CEO effective December 23, 2016. Disclosure of the total compensation paid during the last fiscal year to any senior officer included in the aggregate is available to shareholders on request.

	2018	2017	2016	2016
CEO	Brenda K. Frank	Brenda K. Frank	Brenda K. Frank	George S. Putnam
Salary	$300,000	$300,000	$76,154	$268,000
Bonus	–	10,000	25,000	–
Deferred/perquisites	–	–	35,000	–
Other	2,538	3,650	615	7,080
Total	$302,538	$313,650	$136,769	$275,080

Senior Officers*	2018	2017	2016
Number in group	Five	Six	Six
Salary	$726,841	$839,742	$796,137
Bonus	10,000	38,488	–
Deferred/perquisites	–	–	–
Other	13,812	26,420	23,355
Total	$750,653	$904,650	$819,492

**Includes senior officers and top salaried employees, but not the CEOs.*

Senior officers are paid under the same salary administration program as all other employees. Generally, each employee is paid in accordance with the responsibilities of his or her position, and the performance of the employee in that position. Each employee's salary level is generally reviewed annually. There are no special incentive or bonus programs for senior officers, nor are senior officers covered by employment agreements, except as described below.

The amounts identified as bonuses in the above CEO table reflect unique bonuses that were awarded to the CEOs only and are not guaranteed in any year. Bonus and deferred/perquisites amounts in 2016 for Ms. Frank reflect relocation incentives.

The amounts identified as bonuses for senior officers reflect end of the year bonuses given to all employees and are not guaranteed in any year. Additionally, the bonus amounts for senior officers may include the value of service awards. These bonuses are not incentive based awards.

The amounts listed in the Other categories above are the value of the personal usage of the assigned company cars, as described below.

Ms. Frank was hired effective September 30, 2016, and is employed as President and CEO under terms of an employment agreement through December 31, 2021.

C. Travel, Subsistence and Other Related Expenses

The Association's travel policy provides that directors and employees will be reimbursed for reasonable out-of-pocket expenses while traveling on official Association business. Business use of a personal automobile is reimbursed at the IRS standard mileage rate. Some employees are assigned a company car. A copy of the Association's travel policy is available to shareholders on request. The total amount of reimbursement for training, travel, subsistence and related expenses for all directors as a group was $85,797, $81,588, and $79,287 in 2018, 2017, and 2016 respectively.

TRANSACTIONS AND LOANS WITH DIRECTORS AND SENIOR OFFICERS

The Association abides by all policies and procedures of CoBank, ACB and the Farm Credit Administration pursuant to transactions and loans with directors and senior officers of the Association.

A. Transactions Other Than Loans

The Association had no transactions other than loans with any directors or senior officers, their immediate family members, or any organizations with which they are affiliated, which are required to be disclosed in this section.

B. Loans

Loans to directors and senior officers, their immediate family members, or any organizations with which directors and senior officers are affiliated, were made in the ordinary course of business and on the same terms, including interest rate, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectability.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

There were no matters which came to the attention of management or the Board of Directors regarding involvement of current directors or senior officers in specified legal proceedings which are required to be disclosed in this section.

RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS

There were no disagreements with our independent public accountants, PricewaterhouseCoopers, LLP (PwC) on any matter of accounting principles or financial statement disclosures during this period. In 2018, the Association paid PwC a fee of $79,600 for audit services and a fee of $17,200 for tax services.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers, LLP dated March 6, 2019, and the report of management, which appear in this Annual Report are incorporated herein by reference.

Copies of the Association's annual and quarterly reports are available upon request free of charge by calling 1-800-639-3053 or writing Pamela A. Simek, CFO, Yankee Farm Credit, ACA, 289 Hurricane Lane, Suite 102, Williston, VT 05495, or on our website, ***www.yankeefarmcredit.com***. The Annual Report is available on the website within 75 days after the end of the fiscal year, and is distributed to shareholders within 90 days after the end of the fiscal year. The Quarterly Report is available on the website within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

YANKEE FARM CREDIT, ACA
CERTIFICATION STATEMENT
FOR 2018 ANNUAL REPORT

The Board of Directors and management are responsible for the consolidated financial statements and other information in this Annual Report. This responsibility includes the preparation of the consolidated statements in accordance with accounting principles generally accepted in the United States of America, appropriate with the circumstances and consistently applied. This responsibility also includes the fairness of the estimates and judgments required, and the reliability of the underlying data.

The steps taken to meet this responsibility include maintaining a system of internal controls, providing for the training of personnel, promulgating written policies and procedures and, in general, seeking to create an atmosphere conducive to proper reporting and ethical behavior.

The Audit Committee of the Board of Directors is assigned the task of assisting the Board in fulfilling its oversight responsibilities. The Audit Committee is comprised of Kenneth Deon, Bryan Davis, Rocki-Lee DeWitt, David Folino, Bradley Maxwell and Rene Saenger. None of the committee members is an officer or employee of the Association. The Audit Committee meets periodically with the internal auditor and the independent auditors, both with and without management present. These consolidated financial statements were prepared under the oversight of the Audit Committee.

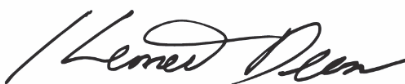
On the basis of the above-mentioned and other controls, policies, and independent reviews, the Board and management believe that the responsibility described in the first paragraph has been fulfilled in all material respects.

The Audit Committee has reviewed and discussed these audited financial statements with both management and the independent auditors. The Audit Committee has discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 114, “The Auditor’s Communication with Those Charged with Governance.” The Audit Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, “Independence Discussions with Audit Committees.” The Audit Committee has discussed, and confirmed, with those same auditors their independent status.

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

Paul B. Franklin
Chairperson, Board of Directors

Brenda K. Frank
President and CEO



Kenneth Deon
Chairperson, Audit Committee

Pamela A. Simek
SVP/Chief Financial Officer

March 6, 2019

Report of Independent Auditors

To the Board of Directors and Management of
Yankee Farm Credit, ACA

We have audited the accompanying consolidated financial statements of Yankee Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2018, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Yankee Farm Credit, ACA and its subsidiaries as of December 31, 2018, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Fort Lauderdale, Florida
March 6, 2019

PricewaterhouseCoopers LLP, 401 East Las Olas Blvd., Fort Lauderdale, FL 33301
(954) 764-7111, F: (954) 525-4453, www.pwc.com/us

Yankee Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2018	2017	2016
Assets			
Cash	**$ 90**	$ 13	$ 4,161
Loans	**523,745**	511,930	480,625
Allowance for loan losses	**(6,279)**	(5,941)	(5,793)
Net loans	**517,466**	505,989	474,832
Other investments	**463**	369	301
Accrued interest receivable	**2,346**	2,013	1,620
Equity investments in other Farm Credit institutions	**21,531**	19,940	18,307
Premises and equipment, net	**3,500**	3,655	3,637
Accounts receivable	**5,057**	4,545	4,355
Other assets	**738**	729	693
Total assets	**$ 551,191**	$ 537,253	$ 507,906
Liabilities			
Notes payable to CoBank, ACB	**$ 431,926**	$ 423,158	$ 399,144
Accrued interest payable	**944**	647	376
Patronage refunds payable	**6,099**	6,271	5,115
Accounts payable	**2,236**	2,233	2,204
Other liabilities	**1,432**	1,575	1,649
Total liabilities	**442,637**	433,884	408,488
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**1,098**	1,126	1,092
Unallocated retained earnings	**108,718**	103,521	99,887
Accumulated other comprehensive income (loss)	**(1,262)**	(1,278)	(1,561)
Total members' equity	**108,554**	103,369	99,418
Total liabilities and members' equity	**$ 551,191**	$ 537,253	$ 507,906

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

Yankee Farm Credit, ACA

Consolidated Statements of Income

(dollars in thousands)	For the year ended December 31, 2018	2017	2016
Interest Income			
Loans	**$ 28,663**	$ 23,581	$ 19,919
Interest Expense			
Notes payable to CoBank, ACB	**9,579**	6,218	3,612
Net interest income	**19,084**	17,363	16,307
Provision for loan losses	**296**	300	674
Net interest income after provision for loan losses	**18,788**	17,063	15,633
Noninterest Income			
Loan fees	**126**	54	51
Fees for financially related services	**1,597**	1,601	1,655
Lease income	**6**	6	—
Patronage refunds from other Farm Credit institutions	**3,950**	3,139	2,903
Gains (losses) on sales of premises and equipment, net	**3**	34	69
Gains (losses) on other transactions	**(7)**	(161)	(46)
Insurance Fund refund	**346**	—	—
Other noninterest income	**15**	9	4
Total noninterest income	**6,036**	4,682	4,636
Noninterest Expense			
Salaries and employee benefits	**6,868**	6,797	6,148
Occupancy and equipment	**545**	492	502
Insurance Fund premiums	**339**	515	544
Other operating expenses	**3,924**	4,033	3,779
Total noninterest expense	**11,676**	11,837	10,973
Income before income taxes	**13,148**	9,908	9,296
Provision (benefit) for income taxes	**3**	3	3
Net income	**$ 13,145**	$ 9,905	$ 9,293

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

Yankee Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2018	2017	2016
Net income	**$ 13,145**	$ 9,905	$ 9,293
Other comprehensive income net of tax			
Employee benefit plans adjustments	**16**	283	252
Comprehensive income	**$ 13,161**	$ 10,188	$ 9,545

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2015	$ 1,093	$ 95,709	$ (1,813)	$ 94,989
Comprehensive income		9,293	252	9,545
Capital stock/participation certificates issued/(retired), net	(1)			(1)
Patronage distribution				
Cash		(5,115)		(5,115)
Balance at December 31, 2016	$ 1,092	$ 99,887	$ (1,561)	$ 99,418
Comprehensive income		9,905	283	10,188
Capital stock/participation certificates issued/(retired), net	34			34
Patronage distribution				
Cash		(6,271)		(6,271)
Balance at December 31, 2017	$ 1,126	$ 103,521	$ (1,278)	$ 103,369
Comprehensive income		**13,145**	**16**	**13,161**
Capital stock/participation certificates issued/(retired), net	**(28)**			**(28)**
Patronage distribution				
Cash		**(7,949)**		**(7,949)**
Adjustment for rounding		**1**		**1**
Balance at December 31, 2018	**$ 1,098**	**$ 108,718**	**$ (1,262)**	**$ 108,554**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2018	2017	2016
Cash flows from operating activities:			
Net income	**$ 13,145**	$ 9,905	$ 9,293
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**333**	317	297
Provision for loan losses	**296**	300	674
Noncash patronage distribution	**(666)**	(634)	(435)
(Gains) losses on sales of premises and equipment, net	**(3)**	(34)	(69)
(Gains) losses on other transactions	**7**	161	46
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**(333)**	(393)	(136)
(Increase) decrease in accounts receivable	**(512)**	(190)	(937)
(Increase) decrease in other assets	**(9)**	(36)	52
Increase (decrease) in accrued interest payable	**297**	271	127
Increase (decrease) in accounts payable	**3**	29	781
Increase (decrease) in other liabilities	**(134)**	48	1,756
Total adjustments	**(721)**	(161)	2,156
Net cash provided by (used in) operating activities	**12,424**	9,744	11,449
Cash flows from investing activities:			
Net (increase) decrease in loans	**(11,773)**	(31,457)	(31,629)
(Increase) decrease in equity investments in other Farm Credit institutions	**(925)**	(999)	(959)
Purchases of other investments	**(94)**	(68)	—
Proceeds from maturities of or principal payments received on other investments	**—**	—	6
Purchases of premises and equipment	**(194)**	(378)	(488)
Proceeds from sales of premises and equipment	**19**	77	121
Net cash provided by (used in) investing activities	**(12,967)**	(32,825)	(32,949)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to CoBank, ACB net	**8,768**	24,014	26,314
Capital stock and participation certificates issued/(retired), net	**(28)**	34	(1)
Patronage refunds and dividends paid	**(8,120)**	(5,115)	(4,862)
Net cash provided by (used in) financing activities	**620**	18,933	21,451
Net increase (decrease) in cash	**77**	(4,148)	(49)
Cash, beginning of period	**13**	4,161	4,210
Cash, end of period	**$ 90**	$ 13	$ 4,161
Supplemental schedule of non-cash activities:			
Estimated cash dividends or patronage distributions declared or payable	**$ 7,949**	$ 6,271	$ 5,115
Employee benefit plans adjustments (Note 7)	**(16)**	(283)	(252)
Supplemental information:			
Interest paid	**9,282**	5,947	3,485
Taxes (refunded) paid, net	**1**	—	—

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Yankee Farm Credit, ACA (agricultural credit association) and its subsidiaries, Yankee Farm Credit, PCA (production credit association) and Yankee Farm Credit, FLCA (federal land credit association), collectively called "the Association", are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of the State of Vermont; Cheshire, Coos, Grafton and Sullivan counties in the State of New Hampshire; and Clinton and Essex counties in the State of New York.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The System is comprised of three Farm Credit Banks, one Agricultural Credit Bank and 69 associations.

CoBank, ACB (funding bank or the "Bank"), and its related associations are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. The CoBank District consists of CoBank, 22 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA).

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans and the PCA makes short- and intermediate-term loans for agricultural production or operating purposes. The FLCA is exempt from federal and state income tax. The ACA and PCA are taxable. This annual report presents the Association and its subsidiaries on a consolidated basis.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and Associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank is required to pay premiums, which may be passed on to the Associations, into the Insurance Fund based on its average outstanding insured debt adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments until the assets in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate Insured Debt or such other percentage of the Insured Debt as the Insurance Corporation, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, as necessary to maintain the Insurance Fund at the 2.0 percent level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions. The Bank passes this premium expense and the return of excess funds as applicable through to each Association based on the Association's average adjusted note payable with the Bank.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be provided by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents and farm-related businesses.

The Association also offers credit life insurance, multi-peril crop and crop hail insurance, and provides additional services to borrowers such as bookkeeping; farm accounting software; tax return preparation and tax planning; fee appraisals; consulting; and leasing.

Farm Credit Financial Partners, Inc. (FPI) is an entity that provided to the Association accounting, information technology, and other services. The Association terminated the service agreement with FPI as of December 31, 2017 and beginning January 1, 2018, entered into a service agreement with AgFirst Farm Credit Bank (AgFirst), headquartered in Columbia, South Carolina. AgFirst is contracted to provide accounting, information technology, and other services to the Association.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying consolidated financial statements include the accounts of the ACA, PCA and FLCA.

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or total members' equity of prior years.

A. **Cash:** Cash represents cash on hand and on deposit at banks.

B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount may be deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full. A formal restructuring may also cure a past due status.

Loans are generally classified as nonaccrual when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, payments are applied against the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments received in cash may be recognized as interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified "doubtful" or "loss." Loans are charged off at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The Association considers the following factors, among others, when determining the allowance for loan losses:

- Changes in credit risk classifications
- Changes in collateral values
- Changes in risk concentrations
- Changes in weather-related conditions
- Changes in economic conditions

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable

market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Association uses a two-dimensional loan rating model based on internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the 14 categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans intended for sale are carried at the lower of cost or fair value. The Association holds no loans for sale.

D. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) from Other Property Owned, Net in the Consolidated Statements of Income. The Association did not have any OPO for the year presented.

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized. Premises and equipment are evaluated for impairment whenever events or circumstances indicate that the carrying value of the asset may not be recoverable.

From time to time, assets classified as premises and equipment are transferred to held for sale for various reasons. These assets are carried in Other Assets at the lower of the recorded investment in the asset or fair value less estimated cost to sell based upon the property's appraised value at the date of transfer. Any write-down of property held for sale is recorded as a loss in the period identified.

F. **Investments:** The Association may hold investments as described below.

Equity Investments in Other Farm Credit System Institutions
Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Investment Income
Dividends from Investments in Other Farm Credit Institutions are generally recorded as patronage income and included in Noninterest Income.

Mission Related Investments
The Association may hold investments in accordance with mission related investment programs approved by the FCA. These programs allow the Association to make investments that further the System's mission to serve rural America. The investment is reported using the equity accounting method with realized gains or losses recognized in current operations.

G. **Employee Benefit Plans:** Employees are eligible to participate in a deferred compensation plan. A certain percentage of employee contributions is matched by the Association. Costs for this plan are expensed as funded.

The Association also provides a non-contributory defined contribution retirement plan for employees. Costs for this plan are expensed as funded.

Certain former employees of the Association (retirees and vested former employees) participate in a defined benefit retirement plan. The "Projected Unit Credit" actuarial method is used for financial reporting purposes and the "Entry-Age Normal Cost" method is used for funding purposes.

Additional information may be found in Note 9.

H. **Other Comprehensive Income(Loss)**: Other comprehensive income refers to revenue, expense, gains and losses that under GAAP are recorded as an element of members' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income(loss) refers to the balance of these transactions. The Association records other comprehensive income(loss) associated with the pension retirement plan.

I. **Income Taxes:** The Association evaluates tax positions taken in previous and current years according to FASB guidance. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to, an entity's status, including its status as a pass-through entity or tax-exempt entity.

The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the expected patronage program, which reduces taxable earnings.

J. **Due from CoBank:** The Association records patronage refunds from the Bank and certain District Associations when such patronage refunds are declared.

K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also 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. It prescribes three levels of inputs that may be used to measure fair value.

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing. The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist.

A number of methodologies may be employed to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, and certain derivatives, investment securities and other financial instruments. Inputs to these valuations can involve estimates and assumptions that require a substantial degree of judgment. Some of the assumptions used include, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on results of operations.

Additional information may be found in Note 8.

L. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on

management's assessment of the customer's creditworthiness.

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party.

M. **Revenue Recognition:** The Association generates income from multiple sources.

Financial Instruments
The largest source of revenue for the Association is Interest Income. Interest income is recognized on an accrual basis driven by nondiscretionary formulas based on written contracts, such as loan agreements or securities contracts. Credit-related fees, including letter of credit fees, finance charges and other fees are recognized in Noninterest Income when earned. Other types of noninterest revenues, such as service charges, professional services and broker fees, are accrued and recognized into income as services are provided and the amount of fees earned is reasonably determinable.

Contracts with Customers
In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance, which became effective January 1, 2018, changed the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance also included expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB issued several additional updates that generally provided clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606.

The Association maintains contracts with customers to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. The Association does not generally incur costs to obtain contracts. As most of the contracts are to provide access to expertise or system capacity that the Association maintains, there are no material incremental costs to fulfill these contracts that should be capitalized.

Transition Information

- The Association identified ancillary revenues affected by this Update and adopted the guidance on January 1, 2018.
- The amendments were applied using the modified retrospective approach.
- The Association elected to only apply the guidance to contracts that were not completed at the date of initial application.
- Subtopics 610-20 on gains and losses from the derecognition of nonfinancial assets, and 340-40 on other assets and deferred costs-contracts with customers were adopted using the same transition options.
- Adoption did not have an impact on the Association's financial condition or results of operations.

Gains and Losses from Nonfinancial Assets
Any gains or losses on sales of Premises and Equipment and OPO are included as part of Noninterest Income. These gains and losses are recognized, and the nonfinancial asset is derecognized, when the Association has entered into a valid contract with a noncustomer and transferred control of the asset. If the criteria to meet the definition of a contract have not been met, the Association does not derecognize the nonfinancial asset and any consideration received is recognized as a liability. If the criteria for a contract are subsequently met, or if the consideration received is or becomes nonrefundable, a gain or loss may be recognized at that time.

N. **Accounting Standards Updates (ASUs):** In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Association believes this will not impact the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14 Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this Update remove disclosures that are no longer

considered cost beneficial, clarify the specific requirements of certain disclosures, and add new disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the FASB's efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements. The amendments are effective for fiscal years ending after December 15, 2020, for public business entities. Early adoption is permitted for all entities. The Association is in the process of evaluating the new standards, but does not believe it will have a material impact.

In August 2018, the FASB issued ASU 2018-13 Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments are part of the FASB's disclosure framework project. The project's objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. The amendments remove, modify or add certain disclosures contained in the financial statement footnotes related to fair value. Additionally, the guidance is intended to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Entities may early adopt the provisions in whole upon issuance or may early adopt any removed or modified disclosures upon issuance and delay adoption of the additional disclosures until their effective date. The Association has adopted the removed disclosures effective with the 2018 Annual Report.

In July 2018, the FASB issued ASU 2018-09 Codification Improvements. The amendments affect a wide variety of Topics in the Codification. They apply to all reporting entities within the scope of the affected accounting guidance. The Board has an ongoing project on its agenda about improvements to clarify the Codification or to correct unintended application of guidance. Those items generally are not expected to have a significant effect on current accounting practice. The transition and effective date guidance is based on the facts and circumstances of each amendment.

In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. The Association notes this did not have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also support more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The ASU was effective January 1, 2018 for the Association. The amendments were applied prospectively. Adoption of the guidance in 2018 had no impact on the statements of financial condition and results of operations of the Association.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association is in the process of evaluating what effects the guidance may have on the statements of consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update, and subsequent clarifying guidance issued, requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. The Association adopted the new standard effective January 1, 2019. The Association recorded a cumulative-effect adjustment of approximately $13 thousand. In addition, a Right of Use Asset in the amount of $269 thousand and Lease Liability in the amount of $273 thousand was recorded.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Update, and subsequent clarifying guidance issued, was intended to improve the recognition and measurement of financial instruments.

The new guidance makes targeted improvements to existing GAAP.

Transition Information

- The Association identified investment securities affected by this Update and adopted the guidance on January 1, 2018.
- The amendments related to equity securities without readily determinable fair values were applied prospectively to equity investments that existed as of the date of adoption.
- Application of the amendments did not require a cumulative effect adjustment.
- Adoption did not have an impact on the Association's financial condition or results of operations.
- The new standard did result in changes to certain disclosures.

Note 3 — Loans and Allowance for Loan Losses

For a description of the Association's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2, subsection B.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (see further discussion in Note 2, subsection B) and a separate scale addressing estimated loss percentage in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

The Association's loan portfolio, which includes purchased interests in loans, has been segmented by the following loan types as defined by the FCA:

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31,		
	2018	2017	2016
Real estate mortgage	$ 231,021	$ 217,434	$ 202,637
Production and intermediate-term	208,247	221,398	215,440
Loans to cooperatives	7,735	5,902	3,503
Processing and marketing	37,280	31,830	23,669
Farm-related business	37,199	32,884	32,697
Power and water/waste disposal	670	707	781
Rural residential real estate	1,593	1,775	1,898
Total loans	$ 523,745	$ 511,930	$ 480,625

A substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland, income-producing property, such as crops and livestock, and receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent, if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination, advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following tables present the principal balance of participation loans at periods ended:

	December 31, 2018							
	Within CoBank District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,196	$ 27,731	$ 38	$ –	$ –	$ –	$ 9,234	$ 27,731
Production and intermediate-term	1,681	235,670	–	–	–	–	1,681	235,670
Loans to cooperatives	7,740	–	–	–	–	–	7,740	–
Processing and marketing	13,081	41,663	–	–	–	–	13,081	41,663
Farm-related business	9,915	–	–	–	–	–	9,915	–
Power and water/waste disposal	670	–	–	–	–	–	670	–
Total	$ 42,283	$ 305,064	$ 38	$ –	$ –	$ –	$ 42,321	$ 305,064

	December 31, 2017							
	Within CoBank District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 5,743	$ 13,714	$ –	$ –	$ –	$ –	$ 5,743	$ 13,714
Production and intermediate-term	772	290,458	–	–	–	–	772	290,458
Loans to cooperatives	5,902	–	–	–	–	–	5,902	–
Processing and marketing	14,526	26,370	–	–	–	–	14,526	26,370
Farm-related business	7,814	1,178	–	–	–	–	7,814	1,178
Power and water/waste disposal	707	–	–	–	–	–	707	–
Total	$ 35.464	$ 331,720	$ –	$ –	$ –	$ –	$ 35,464	$ 331,720

	December 31, 2016							
	Within CoBank District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 99	$ 257	$ –	$ –	$ –	$ –	$ 99	$ 257
Production and intermediate-term	388	263,397	–	–	–	–	388	263,397
Loans to cooperatives	3,503		–	–	–	–	3,503	
Processing and marketing	9,597	24,179	–	–	–	–	9,597	24,179
Farm-related business	6,264	1,564	–	–	–	–	6,264	1,564
Power and water/waste disposal	781	–	–	–	–	–	781	–
Total	$ 20,632	$ 289,397	$ –	$ –	$ –	$ –	$ 20,632	$ 289,397

A significant source of liquidity for the Association is the repayment of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

	December 31, 2018			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 4,558	$ 4,282	$ 222,181	$ 231,021
Production and intermediate term	23,102	61,964	123,181	208,247
Loans to cooperatives	–	7,735	–	7,735
Processing and marketing	9,245	6,883	21,152	37,280
Farm-related business	10,943	10,907	15,349	37,199
Power and water/waste disposal	–	–	670	670
Rural residential real estate	–	95	1,498	1,593
Total loans	$ 47,848	$ 91,866	$ 384,031	$ 523,745
Percentage	9.14%	17.54%	73.32%	100.00%

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

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:

	December 31,		
	2018	2017	2016
Real estate mortgage:			
Acceptable	79.72%	87.55%	91.10%
OAEM	13.39	8.43	6.00
Substandard/doubtful/loss	6.89	4.02	2.90
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	84.99%	89.24%	93.77%
OAEM	9.37	7.17	3.32
Substandard/doubtful/loss	5.64	3.59	2.91
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	98.92%	98.88%	100.00%
OAEM	–	1.12	–
Substandard/doubtful/loss	1.08	–	–
	100.00%	100.00%	100.00%

	December 31,		
	2018	2017	2016
Farm-related business:			
Acceptable	99.12%	97.16%	96.20%
OAEM	0.22	0.26	0.30
Substandard/doubtful/loss	0.66	2.58	3.50
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	86.62%	87.47%	87.81%
OAEM	13.38	12.53	12.19
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	84.90%	89.76%	93.10%
OAEM	9.69	6.81	4.10
Substandard/doubtful/loss	5.41	3.43	2.80
	100.00%	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest as of:

	December 31, 2018				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 1,095	$ 680	$ 1,775	$ 230,322	$ 232,097
Production and intermediate-term	1,281	4,107	5,388	203,870	209,258
Loans to cooperatives	–	–	–	7,761	7,761
Processing and marketing	–	–	–	37,341	37,341
Farm-related business	2,105	173	2,278	35,079	37,357
Power and water/waste disposal	–	–	–	677	677
Rural residential real estate	–	–	–	1,600	1,600
Total	$ 4,481	$ 4,960	$ 9,441	$ 516,650	$ 526,091

	December 31, 2017				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 1,810	$ 939	$ 2,749	$ 215,559	$ 218,308
Production and intermediate-term	630	3,728	4,358	217,976	222,334
Loans to cooperatives	–	–	–	5,920	5,920
Processing and marketing	–	–	–	31,906	31,906
Farm-related business	526	141	667	32,315	32,982
Power and water/waste disposal	–	–	–	712	712
Rural residential real estate	–	–	–	1,781	1,781
Total	$ 2,966	$ 4,808	$ 7,774	$ 506,169	$ 513,943

	December 31, 2016				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 613	$ 96	$ 709	$ 191,916	$ 192,625
Production and intermediate-term	110	117	227	226,711	226,938
Loans to cooperatives	–	–	–	3,516	3,516
Processing and marketing	–	–	–	23,708	23,708
Farm-related business	733	4,760	5,493	27,275	32,768
Power and water/waste disposal	–	–	–	786	786
Rural residential real estate	–	–	–	1,904	1,904
Total	$ 1,456	$ 4,973	$ 6,429	$ 475,816	$ 482,245

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

	December 31,		
	2018	2017	2016
Nonaccrual loans:			
Real estate mortgage	$ 1,085	$ 915	$ 737
Production and intermediate-term	4,168	3,460	4,766
Farm-related business	226	202	111
Total	$ 5,479	$ 4,577	$ 5,614
Accruing restructured loans:			
Real estate mortgage	$ 2,196	$ 77	$ 94
Production and intermediate-term	1,308	–	–
Total	$ 3,504	$ 77	$ 94
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 8,983	$ 4,654	$ 5,708
Other property owned	–	–	–
Total nonperforming assets	$ 8,983	$ 4,654	$ 5,708
Nonaccrual loans as a percentage of total loans	1.05%	0.89%	1.16%
Nonperforming assets as a percentage of total loans and other property owned	1.72%	0.91%	1.19%
Nonperforming assets as a percentage of capital	8.28%	4.50%	5.74%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

	December 31,		
	2018	2017	2016
Impaired nonaccrual loans:			
Current as to principal and interest	$ 519	$ 559	$ 636
Past due	4,960	4,018	4,978
Total	$ 5,479	$ 4,577	$ 5,614
Impaired accrual loans:			
Restructured	$ 3,504	$ 77	$ 94
90 days or more past due	–	–	–
Total	$ 3,504	$ 77	$ 94
Total impaired loans	$ 8,983	$ 4,654	$ 5,708
Additional commitments to lend	$ 3	$ –	$ -

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	December 31, 2018			Year Ended December 31, 2018	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 1,085	$ 1,921	$ 55	$ 829	$ 52
Production and intermediate-term	4,168	4,678	251	3,183	200
Farm-related business	226	251	34	172	11
Total	$ 5,479	$ 6,850	$ 340	$ 4,184	$ 263
With no related allowance for credit losses:					
Real estate mortgage	$ 2,196	$ 2,190	$ –	$ 1,676	$ 105
Production and intermediate-term	1,308	1,332	–	999	62
Farm-related business	–	–	–	–	–
Total	$ 3,504	$ 3,522	$ –	$ 2,675	$ 167
Total:					
Real estate mortgage	$ 3,281	$ 4,111	$ 55	$ 2,505	$ 157
Production and intermediate-term	5,476	6,010	251	4,182	262
Farm-related business	226	251	34	172	11
Total	$ 8,983	$ 10,372	$ 340	$ 6,859	$ 430

	December 31, 2017			Year Ended December 31, 2017	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 992	$ 1,718	$ 118	$ 1,086	$ 25
Production and intermediate-term	3,460	3,869	186	4,196	–
Farm-related business	202	258	109	201	1
Total	$ 4,654	$ 5,845	$ 413	$ 5,483	$ 26
With no related allowance for credit losses:					
Real estate mortgage	$ –	$ 48	$ –	$ 26	$ 4
Production and intermediate-term	–	206	–	137	17
Farm-related business	–	–	–	8	354
Total	$ –	$ 254	$ –	$ 171	$ 375
Total:					
Real estate mortgage	$ 992	$ 1,766	$ 118	$ 1,112	$ 29
Production and intermediate-term	3,460	4,075	186	4,333	17
Farm-related business	202	258	109	209	355
Total	$ 4,654	$ 6,099	$ 413	$ 5,654	$ 401

	December 31, 2016			Year Ended December 31, 2016	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 756	$ 1,414	$ 58	$ 884	$ 8
Production and intermediate-term	4,807	4,971	244	4,827	13
Farm-related business	145	251	23	186	161
Rural residential real estate	–	–	–	–	–
Total	$ 5,708	$ 6,636	$ 325	$ 5,897	$ 182
With no related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	–	342	–	–	30
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$	$ 342	$	$	$ 30
Total:					
Real estate mortgage	$ 756	$ 1,414	$ 58	$ 884	$ 8
Production and intermediate-term	4,807	5,313	244	4,827	43
Farm-related business	145	251	23	186	161
Rural residential real estate	–	–	–	–	–
Total	$ 5,708	$ 6,978	$ 325	$ 5,897	$ 212

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Power and water/waste disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2017	$ 2,902	$ 2,705	$ 326	$ –	$ 8	$ 5,941
Charge-offs	–	–	–	–	–	–
Recoveries	21	21	–	–	–	42
Provision for loan losses	346	(8)	(42)	1	(1)	296
Balance at December 31, 2018	$ 3,269	$ 2,718	$ 284	$ 1	$ 7	$ 6,279
Balance at December 31, 2016	$ 2,691	$ 2,824	$ 269	$ –	$ 9	$ 5,793
Charge-offs	(21)	(147)	–	–	–	(168)
Recoveries	–	11	5	–	–	16
Provision for loan losses	232	17	52	–	(1)	300
Balance at December 31, 2017	$ 2,902	$ 2,705	$ 326	$ –	$ 8	$ 5,941
Balance at December 31, 2015	$ 2,380	$ 2,409	$ 324	$ –	$ 10	$ 5,123
Charge-offs	–	(13)	(1)	–	–	(14)
Recoveries	–	10	–	–	–	10
Provision for loan losses	311	418	(54)	–	(1)	674
Balance at December 31, 2016	$ 2,691	$ 2,824	$ 269	$ –	$ 9	$ 5,793
Allowance on loans evaluated for impairment:						
Individually	$ 55	$ 251	$ 34	$ –	$ –	$ 340
Collectively	3,214	2,467	250	1	7	5,939
Balance at December 31, 2018	$ 3,269	$ 2,718	$ 284	$ 1	$ 7	$ 6,279
Individually	$ 118	$ 186	$ 109	$ –	$ –	$ 413
Collectively	2,784	2,519	217	–	8	5,528
Balance at December 31, 2017	$ 2,902	$ 2,705	$ 326	$ –	$ 8	$ 5,941
Individually	$ 58	$ 244	$ 23	$ –	$ –	$ 325
Collectively	2,633	2,580	246	–	9	5,468
Balance at December 31, 2016	$ 2,691	$ 2,824	$ 269	$ –	$ 9	$ 5,793
Recorded investment in loans evaluated for impairment:						
Individually	$ 3,129	$ 5,480	$ 226	$ –	$ –	$ 8,835
Collectively	228,968	203,778	82,233	677	1,600	517,256
Balance at December 31, 2018	$ 232,097	$ 209,258	$ 82,459	$ 677	$ 1,600	$ 526,091
Individually	$ 992	$ 3,437	$ 225	$ –	$ –	$ 4,654
Collectively	217,316	218,897	70,583	712	1,781	509,289
Balance at December 31, 2017	$ 218,308	$ 222,334	$ 70,808	$ 712	$ 1,781	$ 513,943
Individually	$ 756	$ 4,807	$ 145	$ –	$ –	$ 5,708
Collectively	191,869	222,131	59,847	786	1,904	476,537
Balance at December 31, 2016	$ 192,625	$ 226,938	$ 59,992	$ 786	$ 1,904	$ 482,245

**Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

	Year Ended December 31, 2018				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 2,214	$ 239	$ 2,453	
Production and intermediate-term	136	1,440	239	1,815	
Farm-related business	47	–	–	47	
Total	$ 183	$ 3,654	$ 478	$ 4,315	
Post-modification:					
Real estate mortgage	$ –	$ 2,214	$ 239	$ 2,453	$ –
Production and intermediate-term	136	1,440	239	1,815	–
Farm-related business	47	–	–	47	–
Total	$ 183	$ 3,654	$ 478	$ 4,315	$ –

Outstanding Recorded Investment	Year Ended December 31, 2017 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 1,292	$ –	$ 1,292	
Production and intermediate-term	–	222	–	222	
Total	$ –	$ 1,514	$ –	$ 1,514	
Post-modification:					
Real estate mortgage	$ –	$ 1,486	$ –	$ 1,486	$ –
Production and intermediate-term	–	222	–	222	–
Total	$ –	$ 1,708	$ –	$ 1,708	$ –

Outstanding Recorded Investment	Year Ended December 31, 2016 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	$ –	$ –	$ –	$ –	
Rural residential real estate	–	–	–	–	
Total	$ –	$ –	$ –	$ –	
Post-modification:					
Production and intermediate-term	$ –	$ –	$ –	$ –	$ –
Rural residential real estate	–	–	–	–	–
Total	$ –	$ –	$ –	$ –	$ –

Interest concessions may include interest forgiveness or interest deferment. Principal concessions may include principal forgiveness, principal deferment, or maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents outstanding recorded investment for TDRs that occurred during the calendar year shown, and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

Defaulted troubled debt restructurings	Year Ended December 31, 2018	2017	2016
Real estate mortgage	$ 241	$ –	$ –
Production and intermediate-term	161	–	–
Total	$ 402	$ –	$ –

The following table provides information at period end on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table:

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2018	2017	2016	2018	2017	2016
Real estate mortgage	$ 2,869	$ 703	$ 94	$ 673	$ 626	$ –
Production and intermediate-term	1,547	–	–	239	–	–
Farm-related business	45	–	–	45	–	–
Total Loans	$ 4,461	$ 703	$ 94	$ 957	$ 626	$ –
Additional commitments to lend	$ 3	$ –	$ –			

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions

The Association's equity investment in CoBank, ACB is in the form of Class A stock with a par value of $100 per share. The Association is required to invest in CoBank for two purposes. First, the Association is required to invest in CoBank to capitalize the Association's loan from CoBank. The capitalization requirement for this purpose is 4 percent of the average borrowings for the current year. For 2018, the required investment in CoBank for this purpose was $16.744 million and the actual investment was $16.744 million. When the Association's investment is more than the required amount, CoBank adjusts the interest rate to the Association to compensate for any capital excess of the required amount. As the capitalization requirement is measured at year-end, the interest rate adjustment will be effective in the subsequent year.

Second, the Association is required to invest in CoBank to capitalize any participation loans sold to CoBank. In 2018, the capitalization requirement for this purpose was 8 percent of the previous ten years' average participations sold. For 2018, the required investment in CoBank for this purpose was $8.683 million and the actual investment was $4.480 million. When the Association's investment is less than the required amount, CoBank pays a portion of the patronage refunds to the Association in the form of stock. Currently, CoBank pays the refunds 75 percent in cash and 25 percent in stock.

The noncash patronage refund received by the Association was $666 thousand, $634 thousand, and $436 thousand in 2018, 2017, and 2016 respectively.

CoBank's capital plan is evaluated annually by CoBank's board and management and is subject to change. CoBank may require the holders of stock to subscribe for such additional capital as may be needed to meet its capital requirements or its joint and several liability under the Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

The Association owned 0.6% of the issued stock of CoBank on December 31, 2018. As of that date, CoBank's assets totaled $139.0 billion and members' equity totaled $9.5 billion. CoBank earned net income of $1.2 billion during 2018. In addition, the Association had an investment of $307 thousand related to other Farm Credit institutions at December 31, 2018.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2018	2017	2016
Land	$ 558	$ 545	$ 545
Buildings and improvements	3,138	3,152	3,058
Furniture and equipment	1,426	1,473	1,389
	5,122	5,170	4,992
Less: accumulated depreciation	1,622	1,515	1,355
Total	$ 3,500	$ 3,655	$ 3,637

In October 2016, the previous office and land owned by the Association in Newport, Vermont was sold. The price received for the property was $75 thousand. Book value of the property at the time of the sales was $13 thousand. The Association realized a gain of $62 thousand which was included in the Consolidated Statements of Income in Gains on Sales of Premises and Equipment for that year.

In August 2016, the Association purchased the building it previously leased in Chazy, NY. The purchase price paid by the Association for the building and land was $140 thousand and is included in the table above.

Note 6 — Debt

Notes Payable to CoBank

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets, and is governed by a General Financing Agreement. The GFA and promissory note are subject to periodic renewals in the normal course of business. The Association believes it was in compliance with the terms and conditions of the GFA as of December 31, 2018. The interest rate is periodically adjusted by CoBank. The average interest rate was 2.30 percent, 1.90 percent, and 1.21 percent at December 31, 2018, 2017, and 2016, respectively.

CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2018, the Association's note payable was within the specified limitations.

Note 7 — Members' Equity

The Association's capitalization policies are specified in the Bylaws (Article VIII) and the Capitalization Plan. The Capitalization Plan is subject to change by the Board of Directors at any time, and is normally updated annually. Copies of the Association's Bylaws and Capitalization Plan are available to members upon request.

A more detailed description of the Association's capitalization policies, equities, and regulatory capitalization requirements and restrictions is provided below.

A. **Protected Borrower Equity:** The Association had no protected borrower equity outstanding as of December 31, 2018.

B. **Capital Stock and Participation Certificates:** Capitalization bylaws allow stock requirements to range from the lesser of $1 thousand or 2 percent of the amount of the loan (minimum legal requirement) to 10 percent of the loan. The Board of Directors has the authority to change the minimum required stock level of a member as long as the change is within this range. Currently, the Association has a stock requirement of the lesser of $1 thousand or 2 percent of the amount of the borrower's combined loan volume.

   The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates. All stock and participation certificates are retired at the discretion of the Association's Board of Directors after considering the Capitalization Plan as well as regulatory and other requirements.

   Each owner or joint owner of Class B stock is entitled to a single vote, while Class B participation certificates provide no voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock.

   At December 31, 2018, the Association had 204,967 shares of Class B stock outstanding at a par value of $5 per share, and 14,536 shares of Class B participation certificates outstanding at a par value of $5 per share.

C. **Regulatory Capitalization Requirements and Restrictions:** An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

There are currently no prohibitions in place that would prevent the Association from retiring stock, distributing earnings, or paying dividends per the statutory and regulatory restrictions, and the Association has no reason to believe any such restrictions may apply in the future.

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations 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. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The URE and UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios which were effective January 1, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2018	2017
Risk-adjusted ratios:					
CET1 Capital	4.5%	1.25%	5.75%	18.45%	18.52%
Tier 1 Capital	6.0%	1.25%	7.25%	18.45%	18.52%
Total Capital	8.0%	1.25%	9.25%	19.70%	19.77%
Permanent Capital	7.0%	0.0%	7.0%	18.47%	18.81%
Non-risk-adjusted ratios:					
Tier 1 Leverage	4.0%	1.0%	5.0%	17.84%	17.63%
URE and UREE Leverage	1.5%	0.0%	1.5%	19.82%	18.58%

** The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020. Risk-adjusted ratio minimums will increase 0.625% each year until fully phased in. There is no phase-in period for the tier 1 leverage ratio.*

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

D. **Patronage Distributions and Allocated Surplus:** Subject to the Farm Credit Act, and the Association's Bylaws and Capitalization Plan, the Association's Board of Directors may authorize the distribution of Association earnings in the form of a patronage distribution. Patronage distributions are made in the following year and may be made in cash or allocated surplus or any combination, as long as the cash portion is at least 20 percent. Beginning in 2002, patronage distributions have been 100 percent in cash. Earnings not distributed are retained as unallocated surplus.

For December 31, 2018, 2017 and 2016, patronage distribution payable was $6.101 million, $6.271 million and $5.115 million, respectively. In October 2018, the Association paid out $1.848 million in a special mid-year patronage payment. The combined patronage rate was 1.30 percent of the average daily balance of originated loans for 2018, 1.15 percent of the average daily balance originated loans for 2017, and 1.00 percent of the average daily balance of originated loans for 2016.

The Association had no allocated surplus as of December 31, 2018, 2017 and 2016.

E. **Dividends:** Although permitted under Article VIII, Section 890 of the Association's Bylaws, the Association typically does not pay dividends on stock or participation certificates.

F. **Risks Associated With Members' Equity:** Ownership of stock, participation certificates and allocated surplus is subject to certain risks that could result in a partial or complete loss. These risks include excessive levels of loan losses experienced by the Association, losses resulting from contractual and statutory obligations, impairment of ACB stock owned by the Association, losses resulting from adverse judicial decisions or other losses that may arise in the course of business. In the event of such impairment, borrowers would remain liable for the full amount of their loans.

Any losses which result in impairment of capital stock and participation certificates would be allocated to such purchased capital on a pro rata basis. In the case of liquidation or dissolution of the Association, capital stock, participation certificates, and allocated surplus would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets.

G. **Accumulated Other Comprehensive Income/Loss (AOCI):**

Changes in Accumulated Other Comprehensive income(loss) by Component *(a)*

	For the years ended December 31,		
	2018	**2017**	**2016**
Employee Benefit Plans:			
Balance at beginning of period	$ (1,278)	$ (1,561)	$ (1,813)
Other comprehensive income (loss) before reclassificatio	(7)	274	222
Amounts reclassified from AOCI	23	9	30
Net current period OCI	16	283	252
Balance at end of period	$ (1,262)	$ (1,278)	$ (1,561)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	2018	**2017**	**2016**	**Income Statement Line Item**
Employee Benefit Plans:				
Periodic pension costs	$ (23)	$ (9)	$ (30)	See Note 9
Amounts reclassified	$ (23)	$ (9)	$ (30)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits to profit/loss.

Note 8 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

Estimating the fair value of the Association's equity investments in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost.

The classifications of the Association's financial instruments within the fair value hierarchy (See Note 2) are as follows:

Level 1
For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2
The Association had no Level 2 assets and liabilities measured at fair value on a recurring basis.

Level 3
Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. 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.

Notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes 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 notes is equal to the principal payments on the Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

There were no Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the consolidated balance sheet, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 5,139	$ –	$ –	$ 5,139	$ 5,139
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 5,139	$ –	$ –	$ 5,139	$ 5,139
Other Financial Instruments					
Assets:					
Cash	$ 90	$ 90	$ –	$ –	$ 90
Loans	512,327	–	–	523,810	523,810
Other Financial Assets	$ 512,417	$ 90	$ –	$ 523,810	$ 523,900
Liabilities:					
Notes payable to CoBank	$ 431,926	$ –	$ –	$ 429,828	$ 429,828
Other Financial Liabilities	$ 431,926	$ –	$ –	$ 429,828	$ 429,828

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 4,241	$ –	$ –	$ 4,241	$ 4,241
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 4,241	$ –	$ –	$ 4,241	$ 4,241
Other Financial Instruments					
Assets:					
Cash	$ 13	$ 13	$ –	$ –	$ 13
Loans	501,748	–	–	508,349	508,349
Other Financial Assets	$ 501,761	$ 13	$ –	$ 508,349	$ 508,362
Liabilities:					
Notes payable to CoBank	$ 423,158	$ –	$ –	$ 422,552	$ 422,552
Other Financial Liabilities	$ 423,158	$ –	$ –	$ 422,552	$ 422,552

	December 31, 2016				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 5,708	$ –	$ –	$ 5,708	$ 5,708
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 5,708	$ –	$ –	$ 5,708	$ 5,708
Other Financial Instruments					
Assets:					
Cash	$ 4,161	$ 4,161	$ –	$ –	$ 4,161
Loans	469,124	–	–	471,265	471.265
Other Financial Assets	$ 473,285	$ 4,161	$ –	$ 471,265	$ 475,426
Liabilities:					
Notes payable to CoBank, ACB	$ 399,144	$ –	$ –	$ 398,828	$ 398,828
Other Financial Liabilities	$ 399,144	$ –	$ –	$ 398,828	$ 398,828

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 5,139	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

** Ranges for this type of input are not useful because each collateral property is unique.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to CoBank, ACB	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 9 — Employee Benefit Plans

Employee Savings Plan

The Association participates in the CoBank, ACB Employee Savings Plan ("Employee Savings Plan"). The Employee Savings Plan serves five employers in the Farm Credit System, including the Association and CoBank. All active employees of the Association participate in the Employee Savings Plan. The Employee Savings Plan has two components:

Schedule A – Employer Matching Contributions

Under this part of the plan, the Association matches 100 percent of employee contributions up to a maximum employee contribution of 6 percent of salary. Employer contributions charged to expense were approximately $290 thousand, $293 thousand, and $244 thousand in 2018, 2017, and 2016, respectively.

Schedule B – Employer Contributions

Under this part of the plan, the Association contributes a percentage of each employee's salary, based on years of service. Employer contributions charged to expense were $224 thousand, $252 thousand, and $241 thousand in 2018, 2017 and 2016, respectively.

Defined Benefit Plan

Prior to 1998, the Association offered the CoBank, ACB Retirement Plan, a non-contributory multiple employer defined benefit retirement plan (Defined Benefit Plan). No current employees of the Association participate in this plan. The Association continues to participate in this plan only to the extent that it has retirees and vested former employees in the plan. The Defined Benefit Plan serves the same five Farm Credit System employers as the Employee Savings Plan. Benefits are based on years of service and compensation during the highest four consecutive years of employment.

	December 31,		
	2018	2017	2016
Change in Benefit Obligation			
Benefit obligation at beginning of year	$ 1,906	$ 2,045	$ 2,309
Service cost	–	–	–
Interest Cost	68	83	99
Plan amendments	–	–	–
Actuarial (gain)/loss, net	(86)	(1)	(104)
Benefits Paid	(211)	(221)	(259)
Benefit obligation at end of year	$ 1,677	$ 1,906	$ 2,045

	December 31,		
	2018	2017	2016
Change in Plan Assets			
Fair value of plan assets at beginning of year	$ 2,527	$ 2,387	$ 2,505
Actual return(loss) on plan assets	(31)	361	141
Employer contributions	–	–	–
Benefits Paid	(211)	(221)	(259)
Fair value of plan assets at end of year	2,285	2,527	2,387
Funded status	608	621	342
Fourth quarter employer contributions and other	–	–	–
Net amount recognized at end of year	$ 608	$ 621	$ 342

The fair values of the Association's pension plan assets at December 31, 2018, by asset category are as follows:

	Level 1	Level 2	Level 3	NAV*	Total
Cash	$ 5	$ –	$ –	$ –	$ 5
Domestic Equity:					
Large-cap growth funds	360	–	–	395	755
Large-cap equity funds	–	–	–	125	125
Small-cap growth funds	–	–	–	–	–
International:					
International equity fund	194	–	–	–	194
International growth fund	–	–	–	46	46
Fixed Income:					
Total return fund	545	359	–	–	904
Emerging Markets:					
Equity & fixed income Fund	–	–	–	101	101
Opportunities fund	41	–	–		41
Hedge funds	–	–	–	114	114
Fair value of plan assets at end of year	$ 1,145	$ 359	$ –	$ 781	$ 2,285

*Certain investments that are measured at fair value using the net asset value (NAV) per share as a practical expedient have not been classified in the fair value hierarchy. The fair values amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the net assets in the pension plan.

The following tables show the impact of this plan on the consolidated financial statements:

	December 31,		
	2018	2017	2016
Balance sheets:			
Intangible asset (included in other assets)	$ 608	$ 621	$ 342
Pension liability (included in other liabilities)	–	–	–
Accumulated other comprehensive income(loss)	(1,262)	(1,178)	(1,495)

	Year Ended December 31,		
	2018	2017	2016
Statements of income:			
Expense (Benefit) recognized in salaries and employee benefits	$ 17	$ 39	$ 49

The following table sets forth information about the Association's post-retirement health care benefit plan funding status and assumptions used to determine benefits obligations.

	December 31,		
	2018	2017	2016
Benefit obligations	$ 70	$ 76	$ 71
Net liability recognized	70	76	71
Net periodic (income) expense	$ 13	$ (30)	$ (19)

Other
For measurement purposes, a 7.8 percent annual rate of increase in the cost of covered health care benefits was assumed for 2018. The rate was assumed to decrease to 4.5 percent through 2026 and remain at that level thereafter.

Assumptions
We measure plan obligations and annual expense using assumptions designed to reflect future economic conditions. As the bulk of pension benefits will not be paid for many years, the computations of pension expenses and benefits are based on assumptions about discount rates, estimates of annual increases in compensation levels and expected rates of return on plan assets.

The weighted-average rate assumptions used in the measurement of the Association's benefit obligations are as follows:

	December 31,		
	2018	2017	2016
Discount rate	4.45%	3.75%	4.30%
Rate of compensation increase (qualified plans only)	3.60%	3.60%	4.75%

The weighted average rate assumptions used in the measurement of our net periodic benefit cost are as follows:

	December 31,		
	2018	2017	2016
Discount rate	3.75%	4.30%	4.55%
Expected rate of return on plan assets (qualified plans only)	6.00%	6.00%	6.63%
Rate of compensation increase (qualified plans only)	3.60%	4.75%	4.75%

The discount rates are calculated using a spot yield curve method developed by an independent actuary. The approach maps a high-quality bond yield curve to the duration of the plans' liabilities, thus approximating each cash flow of the liability stream to be discounted at an interest rate specifically applicable to its respective period in time.

The expected rate of return on plan assets is based on a review of past and expected future anticipated returns on plan assets. The expected rate of return on plan assets assumption also matches the pension plan's long-term interest rate assumption used for funding purposes.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families, and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rate, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or Other Assets Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board or employment.

Total loans to such persons at December 31, 2018, amounted to $162.775 million. During 2018, $43.978 million of new loans and advances on existing loans were made, and repayments totaled $21.462 million. In the opinion of management, none of these loans outstanding at December 31, 2018, involved more than a normal risk of collectability.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

In the normal course of business, the Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments may include commitments to extend credit or letters of credit.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2018, $88.925 million of commitments to extend credit and no commercial letters of credit were outstanding with a related reserve for unfunded commitments of $214 thousand included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2018, standby letters of credit outstanding totaled $6.917 million with expiration dates ranging from January 1, 2019 to July 1, 2023. The maximum potential amount of future payments that may be required under these guarantees was $6.917 million.

Note 12 — Income Taxes

The provision for income taxes follows:

	Year Ended December 31,		
	2018	2017	2016
Current:			
Federal	$ –	$ –	$ –
State	3	3	3
Deferred:			
Federal	–	–	–
State	–	–	–
Total provision for income taxes	$ 3	$ 3	$ 3

The FLCA subsidiary, which contains primarily long-term real estate mortgage loans, is exempt from income tax.

The following table quantifies the differences between the provision for income taxes and the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income of the Association.

	Year Ended December 31,		
	2018	2017	2016
Federal tax at statutory rate	$ 2,761	$ 3,368	$ 3,160
State tax, net of federal income tax effect	1	2	2
Effect of tax exempt FLCA	(2,427)	(2,778)	(2,122)
Patronage distributions	(1,670)	(2,132)	(1,739)
Change in valuation allowance	1,843	(497)	854
Changes in tax law/rates	–	2,208	–
Other	(505)	(168)	(152)
Total provision for income taxes	$ 3	$ 3	$ 3

Deferred Tax Assets and Liabilities; Valuation Allowance Based on the Association's strategic financial plan, primarily expected future patronage programs and the tax benefits of the FLCA subsidiary, management believes that as of the end of 2018, none of the Association's net deferred tax asset will be realizable in future periods. Accordingly, a valuation allowance is provided against net deferred tax assets since it has been determined that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized.

Deferred tax assets and liabilities in accordance with accounting guidance are comprised of:

	December 31,		
	2018	2017	2016
Allowance for loan losses	$ 882	$ 826	$ 1,102
Deferred compensation and other postretirement benefits	391	367	1,195
Net operating loss	5,770	4,745	4,972
Other	868	933	664
Deferred tax asset	7,911	6,871	7,933
Bank stock patronage after December 31, 1992	57	57	81
Retirement benefits	609	607	743
CoBank, ACB patronage	–	775	1,039
Depreciation	–	30	56
Deferred tax liability	666	1,469	1,919
Subtotal	7,245	5,402	6,014
Less valuation allowance	7,245	5,402	6,014
Net deferred tax asset	$ –	$ –	$ –

The significant change in deferred taxes in 2017 included the revaluation of deferred tax assets and liabilities due to the enactment of federal tax legislation in late December 2017 which, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. In accordance with GAAP, the change to the lower corporate tax rate led to a revaluation in the period of enactment (2017).

The Association did not have any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. No uncertain tax positions were taken by the Association during 2018, 2017 or 2016. The tax years that remain open for federal and major state income tax jurisdictions are 2015 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,888	$ 4,597	$ 4,718	$ 4,881	$ 19,084
Provision for (reversal of allowance for) loan losses	(165)	3	262	196	296
Noninterest income (expense), net	(1,119)	(1,460)	(1,080)	(1,984)	(5,643)
Net income	$ 3,934	$ 3,134	$ 3,376	$ 2,701	$ 13,145

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,068	$ 4,501	$ 4,391	$ 4,403	$ 17,363
Provision for (reversal of allowance for) loan losses	101	86	117	(4)	300
Noninterest income (expense), net	(1,611)	(1,540)	(1,642)	(2,365)	(7,158)
Net income	$ 2,356	$ 2,875	$ 2,632	$ 2,042	$ 9,905

	2016				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,153	$ 4,071	$ 4,060	$ 4,023	$ 16,307
Provision for (reversal of allowance for) loan losses	222	11	121	320	674
Noninterest income (expense), net	(1,281)	(1,403)	(1,780)	(1,876)	(6,340)
Net income	$ 2,650	$ 2,657	$ 2,159	$ 1,827	$ 9,293

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through March 6, 2019, which was the date the financial statements were issued.

YANKEE FARM CREDIT, ACA BORROWER PRIVACY STATEMENT

Your privacy is important to us. We do not sell or trade our borrowers' personal information to marketing companies or information brokers. Since 1972, Farm Credit Administration regulations have governed the disclosure of borrower information. On November 10, 1999, the FCA Board adopted a policy that requires System institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and System institution efforts. In accordance with those regulations, we may disclose your information to others only in the following circumstances:

- Examiners, auditors and reviewers may review loan files.
- We may provide information in certain types of legal or law enforcement proceedings.
- We may share your information with other Farm Credit institutions that you do business with.
- We may be a credit reference for you with other lenders and provide information to a credit bureau or other consumer reporting agency.
- If one of our employees applies to become a licensed real estate appraiser, we may give copies of real estate appraisal reports to the State agency that licenses appraisers when required. We will first remove as much personal information from the appraisal report as possible.
- We may share your information in other circumstances if you consent in writing.

As a member/owner of this Association, your privacy and the security of your personal information are vital to our continued ability to serve your ongoing credit needs.

WHISTLEBLOWER INFORMATION

The Association has engaged third party vendor to provide an anonymous Whistleblower Hotline and web service for submitting reports. It provides for the confidential, anonymous submission of concerns related to accounting, financial reporting, fraud, unethical behavior, auditing matters and other types of improper behavior, by employees, members, directors and vendors of the Association without fear of retribution. Current information regarding how to access our Whistleblower Hotline and service is available on the Association website.

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

Yankee Farm Credit, ACA
250 Commerce Way
Newport, VT 05855
see note
(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) 524-2938

Yankee Farm Credit, ACA
52 Farmvu Drive
White River Jct., VT 05001
(800) 370-3276
(802) 295-3670

Yankee Farm Credit, ACA
Association Headquarters
289 Hurricane Lane, Suite 102
Williston, VT 05495
(800) 639-3053
(802) 879-4700

Note: The mailing address of the Derby office is 250 Commerce Way, Newport, VT 05855.
The physical address is 250 Commerce Way, Derby, VT 05829.

Website: *www.YankeeFarmCredit.com*

YANKEE FARM CREDIT, ACA
YOUNG, BEGINNING AND SMALL FARMERS

Mission Statement: Yankee Farm Credit believes in supporting Young, Beginning and Small (YBS) farmers. They represent the future of farming. The entry of YBS farmers into the industry is critical to the long-term success of agriculture. The Association's Board Policy on Young, Beginning, and Small Farmers provides a mandate to Association management to assure this success.

Young, Beginning and Small farmers are defined as:

Young farmer: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
Beginning farmer: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming, ranching, or aquatic experience as of the loan transaction date.
Small farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products.

The 2012 Census of Agriculture (the most recent available) indicates 9,700 farms are located within the Association's geographic territory (as described in the MD&A on page 6). The following table provides a comparison of data from the 2012 Census of Agriculture with Association data as of year-end 2018. Association Data includes timber operations, the Census Data does not. The 2012 Census data indicates that 39.2% of Young, 29.0% of Beginning, and 28.0% of Small farmers have debt involved with their operations. Census data also indicates that 66.3% of Small farmers have less than $10,000 in annual sales of agricultural products.

	2012 Census Data[1]		Association Data[2] as of 12/31/2018			
	# of Farms	% of Total Farms	# of Loans	% of Total Loan #s	Loan Volume[3] Goal	Loan Volume[3] Actual
Young	1,157	11.9%	415	19.5%	$ 74,100,000	$ 81,683,000
Beginning	3,007	31.0%	602	28.3%	$105,100,000	$114,905,000
Small	8,928	92.0%	664	31.2%	$ 67,300,000	$ 63,721,000

[1]The source of this data is a unique extract of the 2012 Ag Census data performed by the Farm Credit Council and considers both principal and junior operators.
[2]Association Data adjusted to exclude Country Home and Farm Related Business loans.
[3]Volume refers to outstanding gross principal balance, prior to any participations sold.

Quantitative Goals: The Association established loan volume goals for credit to YBS farmers as listed in the table above.

Qualitative Goals: The Association strives to serve as a reliable and consistent provider of sound and constructive credit to YBS farmers. The Association makes every effort to meet the credit needs of YBS farmer applicants. Referrals to and coordination with governmental and private sources such as Farm Service Agency, Vermont Agricultural Credit Corporation, leases and private party financing often play an important role in serving these customers.

The Association is involved in, and supports, a number of activities and programs designed to benefit YBS farmers. The Association is a partner in, and has invested in, FarmStart, LLP. Contributions are made regularly to agriculturally-related organizations such Extension Systems, Young Farm Coalitions, FFA, and 4-H that provide education and experience to our future farmers. The Association awards up to four scholarships each year to family members of customers enrolled in higher education programs, preferentially agricultural programs. Association employees routinely serve in a variety of capacities, e.g., as classroom instructors and mentors, in furtherance of the Association's efforts to assist YBS farmers. YBS farmers also receive discounts on fees for Financial Services, such as tax preparations, payroll processing and records services. In 2018, $6,905 in discounts for these services was given to YBS farmers.

Methodology: The Association employs various measures to ensure that credit and related services offered to YBS farmers are provided in a safe and sound manner in accordance with the Association's risk-bearing capacity. The Association's quality control plan calls for periodic review of certain loans made to YBS farmers.

YANKEE FARM CREDIT, ACA
RELATIONSHIP WITH COBANK, ACB

CoBank, ACB is the funding bank for the Association. A description of the organizational relationship between CoBank and the Association can be found in Note 1 to the Consolidated Financial Statements, “Organization and Operations.”

The Association borrows funds from CoBank. The Association is not permitted to borrow funds from other sources without the permission of CoBank. Information about the borrowing relationship between the Association and CoBank can be found in Note 6 to the Consolidated Financial Statements, “Debt,” and in Management’s Discussion & Analysis (MD&A, the section titled “Funding Sources, Liquidity and Interest Rate Risk”).

In addition to borrowing, the Association also engages in the following transactions with CoBank:

- The Association buys participation loans from CoBank. Participation loans are discussed in Note 3 to the Consolidated Financial Statements, “Loans and Allowance for Loan Losses,” and in the MD&A—the section titled “Loan Portfolio.” (The Association may also buy participation loans from other Farm Credit institutions, in addition to CoBank.)

- The Association sells participation loans to CoBank. Participation loans are discussed in Note 3 to the Consolidated Financial Statements, “Loans and Allowance for Loan Losses,” and in the MD&A—the section titled “Loan Portfolio.” (The Association may also sell participation loans to other Farm Credit institutions, in addition to CoBank.)

CoBank is a cooperative, and the Association invests in CoBank. Information about the Association’s investment in CoBank can be found in Note 4 to the Consolidated Financial Statements, “Investments.”

CoBank may pay patronage refunds to the Association, based on the business that the Association does with CoBank. Patronage refunds from CoBank are discussed in Note 4 to the Consolidated Financial Statements, “Investments” and in the MD&A—the section titled “Patronage refunds from other Farm Credit Institutions”

There are no capital preservation, loss sharing, or financial assistance agreements between the Association and CoBank. CoBank does not have access to the Association’s capital. CoBank and the Association are each responsible for their own interest rate risk.

Shareholders’ investments in the Association may be materially affected by the financial condition and results of operations of CoBank. CoBank’s annual and quarterly reports are available without charge from any of our offices (see page 46 for contact information) or directly from CoBank (see page 49 for contact information).

YANKEE FARM CREDIT, ACA RELATIONSHIP WITH COBANK, ACB (continued)

Contact information for CoBank, ACB:

Springfield Banking Center		**Corporate Headquarters**	
mailing address:	CoBank, ACB 240B South Road Enfield, CT 06082	mailing address:	CoBank, ACB 6340 S. Fiddlers Green Circle Greenwood Village, CO 80111
physical address:	CoBank, ACB 240B South Road Enfield, CT 06082	physical address:	CoBank, ACB 6340 S. Fiddlers Green Circle Greenwood Village, CO 80111
telephone:	(800) 876-3227	telephone:	(800) 542-8072

Website: *www.cobank.com*

CoBank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal. CoBank prepares an electronic version of the Quarterly Report, which is available on the Bank's website within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

INFORMATION ABOUT THE FARM CREDIT SYSTEM

A brief description of the Farm Credit System is contained in Note 1 to the Consolidated Financial Statements, "Organization and Operations." Additional information about the Farm Credit System can be obtained from any of our offices, listed below, or from the Federal Farm Credit Banks Funding Corporation:

Federal Farm Credit Banks Funding Corporation
101 Hudson Street, Suite 3505
Jersey City, NJ 07302

telephone: (201) 200-8131
Website: www.farmcreditfunding.com

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Term Expires 2020

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Term Expires 2019

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Term Expires 2020

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Term Expires 2021

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Term Expires 2021

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(802) 989-9099
Region 3 – Committees 1, 4
Term expires 2019

Kyle Thygesen
104 Falls Hills Road
Tunbridge, VT 05077
(802) 889-5628
Region 2 – Committees 1, 2
Term Expires 2020

Committees as of 12/31/2018
1 – Audit Committee
2 – Compensation Committee
3 – Executive Committee
4 – Membership/Governance Committee
5 – Strategy & Risk Management Committee

YANKEE FARM CREDIT, ACA NOMINATING COMMITTEE

Members

Region #1

Arnold Mercy
2637 South Main St.
Montgomery Center, VT 05471
802-326-4200

Wynn Paradee
2296 Sheldon Rd
Sheldon, VT 05483
802-524-4202

Mark A. Wrisley
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Essex, NY 12936
518-963-4039

Region #2

Paul Gingue
1800 Higgins Hill Rd.
Waterford, VT 05819
802-535-4010

Denis Ward
3037 Littleton Rd.
Monroe, NH 03771
603-638-2282

Patrick Waterbury
397 Vaughan Farms Road
East Thetford, VT 05043
802-359-2919

Region #3

David Ainsworth
86 VT Route 14
South Royalton, VT 05068
H:802-763-8017
C: 802-299-7756

Bruce Bascom
64 Sugarhouse Rd.
Alstead, NH 03602-9801
603-835-6361

William Nop
509 Route 7
Salisbury, VT 05769
802-388-3565

Alternates

Region #1

Andrew Brouillette
3989 VT Route 105
Sheldon, VT 05483
802-933-8845

David Conant
2258 West Main Street
Richmond, VT 05477
802-434-2588

Region #2

Andrew Delabruere
608 Wallace Road
Derby, VT 05829-9742
802-766-2717

Rendell Tullar
268 NH Route 10
Orford, NH 03777
603-353-4860

Region #3

Paul Doton
202 Lakota Rd.
Woodstock, VT 05091
802-457-3292

David Goodhouse
1212 Baileys Mill Rd.
Reading, VT 05062
802-484-5540