Yankee Farm Credit, ACA

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CONSOLIDATED FINANCIAL STATEMENTS
SECOND QUARTER ENDED JUNE 30, 2009

July 30, 2009

Dear Shareholder:

Enclosed are the Association's consolidated financial statements for the second quarter of 2009. These statements should be read in conjunction with the 2008 Annual Report to Shareholders.

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

As a shareholder, your investment in the Association is materially affected by the financial condition and results of operations of CoBank, ACB. CoBank's annual and quarterly reports are available at no charge from any of our offices. Our office locations are listed at the end of this report.

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

Sincerely,

Paul E. Gingue
Chairperson

George S. Putnam
President and CEO

Pamela A. Simek
Controller

YANKEE FARM CREDIT, ACA

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

Second Quarter Ended June 30, 2009
(Dollars in thousands, except as noted)
(Unaudited)

Results of Operations: Second Quarter

Net income for the second quarter of 2009 was $1.092 million, down $1 thousand from net income of $1.093 million in the second quarter of 2008.

There was a provision for loan losses of $524 thousand in the second quarter of 2009, as compared to a reversal to the provision for loan losses of $25 thousand in the second quarter of 2008.

Net interest income before the provision for loan losses was up $547 thousand (26%) in 2009 as compared to 2008. The following table shows the components of this increase:

Changes in net interest income due to:		
Changes in volumes of accrual loans & debt	$	227
Changes in interest rates on accrual loans & debt		210
Changes in interest income on nonaccrual loans		28
Changes in interest rate swap income		99
Other adjustments		(17)
Total change in net interest income	$	547

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

	Three Months Ended June 30, 2009		2008	
Average accrual loan volume	$	321,780	$	285,784
Average interest rate on loans		4.15%		5.22%
Average interest rate spread		2.84%		2.28%

Average loan volume was higher in 2009, and this contributed an increase of $227 thousand to the total change in net interest income, as shown in the first table above. The average interest rate spread was higher in 2009, while the general level of interest rates was lower. A lower level of interest rates generally contributes to lower net interest income, all other factors being equal. As shown in the first table above, the net effect of changes in interest rates on net interest income was an increase of $210 thousand and was primarily due to the higher interest rate spread.

Other income increased by $101 thousand (20%) in 2009 as compared to 2008. This was primarily due to an increase of $54 thousand (18%) in the accrual for patronage refunds from CoBank in 2009, as well as an increase of $37 thousand (21%) in fees for financial services in 2009.

Other expense increased by $100 thousand (7%) in 2009 as compared to 2008. Salaries and employee benefits, a major component of other expense, increased by $88 thousand (12%).

Results of Operations: Year-to-Date

Net income through the second quarter of 2009 was $2.523 million, down $407 thousand (14%) from net income of $2.930 million through the second quarter of 2008.

There was a provision for loan losses of $738 thousand through the second quarter of 2009, as compared to a reversal to the provision for loan losses of $204 thousand for the same period in 2008.

Net interest income before the provision for loan losses was up $615 thousand (14%) in 2009 as compared to 2008. The following table shows the components of this increase:

Changes in net interest income due to:		
Changes in volumes of accrual loans & debt	$	420
Changes in interest rates on accrual loans & debt		(11)
Changes in interest income on nonaccrual loans		28
Changes in interest rate swap income		196
Other adjustments		(18)
Total change in net interest income	$	615

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

	Six Months Ended June 30, 2009		2008	
Average accrual loan volume	$	322,979	$	289,652
Average interest rate on loans		4.15%		5.77%
Average interest rate spread		2.81%		2.47%

Average loan volume was higher in 2009, contributing an increase of $420 thousand to the total change in net interest income, as shown in the first table above. The average interest rate spread was higher in 2009, while the general level of interest rates was lower. A lower level of interest rates contributes to lower net interest income, all other factors being equal. As shown in the first table above, the net effect of changes in interest rates on net interest income was a decrease of $11 thousand.

Other income increased by $190 thousand (17%) in 2009 as compared to 2008. This was primarily due to an increase of $95 thousand (15%) in the accrual for patronage refunds from CoBank for first two quarters of 2009 as compared to the same period in 2008. Another contributing factor to the increase in other income was fees for financial services, which increased $89 thousand (22%) in 2009 as compared to 2008.

Other expense increased by $270 thousand (9%) in 2009 as compared to 2008. Salaries and employee benefits expense increased by $191 thousand (13%). The Farm Credit Insurance Fund premium increased by $38 thousand (17%).

Loan Portfolio and Financial Condition

Loans originated by the Association increased by $0.9 million from year-end. Loans purchased decreased by $0.4 million (3%) from year-end, and participations sold decreased by $4.3 million (10%). Loans held by the Association increased by $4.9 million (1%) from year-end.

The loan portfolio continues to be concentrated in the dairy industry. Farm prices for dairy products decreased in the second quarter of 2009. Federal Order 1 prices for the second quarter of 2009 averaged $11.94/cwt, down $1.71/cwt (13%) from the first quarter of 2009, and down $6.27/cwt (34%) from the second quarter of 2008. (Prices quoted do not include the effect of the Milk Income Loss Contract (MILC or MILCX) program, which began December 1, 2001.) The change in prices received for dairy products has been accompanied by an increase (from the first quarter of 2009) in the cost of farm inputs, particularly purchased feed. The composite Feed Index published by the USDA was 191 for the second quarter of 2009, up 2% from the first quarter of 2009, but down 3% from the second quarter of 2008. (Feed Index = 100 for 1990-1992)

Loan quality worsened slightly but still remained strong through the second quarter of 2009. Loans graded Substandard or lower were 3.1% of total loans at June 30, 2009, up 0.9% from year-end. High risk assets comprised 1.3% of loans and related assets at June 30, 2009, up 0.8% from year-end. (High risk assets include nonaccrual loans, accrual restructured loans, loans delinquent 90 days or more but not yet classified as nonaccrual, and other property owned.) Repayment performance remained satisfactory. Accrual loans delinquent 30 days or more were 0.1% at June 30, 2009, down 0.4% from year-end. The 12-month rolling average for this statistic was 0.4% at June 30, 2009, unchanged from year-end. There were no charge-offs or recoveries in the first two quarters of 2009, as compared to no charge-offs and recoveries of $16 thousand in the first two quarters of 2008.

As discussed in the 2008 Annual Report to Shareholders, the Association declared a patronage distribution of $2.790 million based on 2008 earnings, 100% in cash. This was paid on March 25, 2009.

Members' equity as a percentage of assets was 19.7% at June 30, 2009 as compared to 19.6% at year-end. The Association's permanent capital ratio was 18.2% at June 30, 2009, down 1.0% from year-end.

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

YANKEE FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEET
(Unaudited)

	June 30, 2009	December 31, 2008
	(in thousands)	
ASSETS		
Loans originated by the Association	$ 355,503	$ 354,583
Plus loans purchased	14,268	14,671
Less participations sold	39,147	43,493
Loans held by the Association	330,624	325,761
Less allowance for loan losses	2,496	1,758
Net loans	328,128	324,003
Cash	1,723	1,770
Accrued interest receivable	841	1,007
Patronage refunds due from CoBank, ACB	733	1,411
Investment in CoBank, ACB	11,900	11,779
Mission related investment	401	401
Premises and equipment, less accumulated depreciation	1,086	1,070
Other assets	1,942	2,063
Total assets	$ 346,754	$ 343,504
LIABILITIES		
Note payable to CoBank, ACB	$ 274,408	$ 271,461
Patronage distribution payable	1,401	2,790
Other liabilities	2,485	1,771
Total liabilities	278,294	276,022
MEMBERS' EQUITY		
Capital stock and participation certificates	965	939
Unallocated surplus	68,735	67,613
Accumulated other comprehensive income	(1,240)	(1,070)
Total members' equity	68,460	67,482
Total liabilities and members' equity	$ 346,754	$ 343,504

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
		(in thousands)		
INTEREST INCOME				
Loans	$ 3,353	$ 3,722	$ 6,670	$ 8,321
Total interest income	3,353	3,722	6,670	8,321
INTEREST EXPENSE				
Note payable to CoBank, ACB	725	1,641	1,553	3,819
Total interest expense	725	1,641	1,553	3,819
Net interest income	2,628	2,081	5,117	4,502
Provision for loan losses	524	(25)	738	(204)
Net interest income after provision for loan losses	2,104	2,106	4,379	4,706
OTHER INCOME				
Patronage refunds from CoBank, ACB	355	301	742	647
Fees for financial services	210	173	501	412
Loan fees and other income	43	33	74	68
Total other income	608	507	1,317	1,127
OTHER EXPENSE				
Salaries and employee benefits	853	765	1,716	1,525
Occupancy and equipment	71	71	165	148
Farm Credit Insurance Fund premium	114	110	259	221
Fees paid to Farm Credit Financial Partners, Inc.	231	241	461	483
Other expenses	347	329	564	518
Total other expense	1,616	1,516	3,165	2,895
Income before income taxes	1,096	1,097	2,531	2,938
Provision for income taxes	4	4	8	8
Net income	$ 1,092	$ 1,093	$ 2,523	$ 2,930

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

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

	Capital Stock and Participation Certificates	Surplus: Allocated	Surplus: Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
			(in thousands)		
Balance at December 31, 2007	$ 906	$ -	$ 65,852	$ (375)	$ 66,383
Adjustment to beginning balance due to FAS No. 158 measurement date change	-	-	-	8	8
Balance at January 1, 2008	906	-	65,852	(367)	66,391
Comprehensive income					
Net income	-	-	2,930	-	2,930
Other comprehensive income					
Net unrealized gains (losses) on interest rate swaps	-	-	-	14	14
Total comprehensive income					2,944
Capital stock/PCs issued	76	-	-	-	76
Capital stock/PCs retired	(72)	-	-	-	(72)
Patronage distribution accrued					
Cash	-	-	(1,238)	-	(1,238)
Balance at June 30, 2008	$ 910	$ -	$ 67,544	$ (353)	$ 68,101
Balance at December 31, 2008	$ 939	$ -	$ 67,613	$ (1,070)	$ 67,482
Comprehensive income					
Net income	-	-	2,523	-	2,523
Other comprehensive income	-	-	-	-	-
Net unrealized gains (losses) on interest rate swaps	-	-	-	(170)	(170)
Total comprehensive income					2,353
Capital stock/PCs issued	85	-	-	-	85
Capital stock/PCs retired	(59)	-	-	-	(59)
Patronage distribution accrued					
Cash	-	-	(1,401)	-	(1,401)
Balance at June 30, 2009	$ 965	$ -	$ 68,735	$ (1,240)	$ 68,460

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

YANKEE FARM CREDIT, ACA

Notes To Consolidated Financial Statements

Second Quarter Ended June 30, 2009
(Dollars in thousands, except as noted)
(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Yankee Farm Credit, ACA (the Association) is a member-owned cooperative within the Farm Credit System. A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2008 are contained in the 2008 Annual Report to Shareholders. These unaudited second quarter 2009 financial statements should be read in conjunction with the 2008 Annual Report to Shareholders.

Effective January 1, 2009, the Association adopted Statement of Financial Accounting Standards (SFAS) No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 161 states that an entity with derivative instruments shall disclose information to enable users of the financial statements to understand:

- How and why an entity uses derivative instruments;
- How derivative instruments and related hedged items are accounted for under this Statement and related interpretations;
- How derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flow.

The adoption of this Standard did not have an impact on the financial statements; however, the derivative instruments disclosures have been expanded in accordance with SFAS No. 161.

Effective January 1, 2009, the Association adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157, "Fair Value Measurements," for nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures but did not have an impact on our financial condition or results of operations.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This Standard, which includes a required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles and prevailing practices within the banking industry. The results of operations for the six month period ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 - ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	Three Months Ended June 30,	
	2009	2008
Balance at beginning of quarter	$ 1,971	$ 797
Provision for loan losses	524	(25)
Charge-offs	-	-
Recoveries	-	-
Rounding Adjustment	1	-
Balance at end of quarter	$ 2,496	$ 772

The following table presents information concerning impaired loans as of quarter-end. The Association defines impaired loans to be nonaccrual loans plus accrual restructured loans.

	June 30,	
	2009	2008
Impaired loans with related allowance	$ 4,132	$ 227
Impaired loans with no related allowance	184	682
Total impaired loans	$ 4,316	$ 909
Allowance on impaired loans	$ 339	$ 12

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

	Three Months Ended June 30,	
	2009	2008
Average impaired loans	$ 4,369	$ 725
Interest income recognized on impaired loans	34	9

NOTE 3 - CAPITAL

Please see the 2008 Annual Report to Shareholders, particularly Note 7 to the Financial Statements, for a description of the Association's capitalization policies. The Association's requirement for purchased equities (stock and participation certificates) is presently the legal minimum of 2.0% of the loan with a cap of $1 thousand.

The patronage distribution for 2008 was $2.790 million and was distributed 100% in cash on March 25, 2009. A patronage distribution program is also in effect for 2009. The amount of the patronage distribution for 2009 will depend on financial results for the year as a whole and is therefore not known with certainty at this time. However, management estimates that the patronage distribution attributable to the first two quarters of 2009 is approximately $1.401 million. Management believes it is probable that the 2009 patronage distribution will be paid 100% in cash. Therefore, the accompanying financial statements show an interim accrual at the end of the second quarter of 2009 for patronage distribution payable of $1.401 million. The corresponding interim accrual at the end of the second quarter of 2008 for patronage distribution payable was $1.238 million (also 100% cash).

The Association's regulatory capital ratios were:

	Value At		
	June 30, 2009	December 31, 2008	Regulatory Minimum
Core surplus ratio	17.7%	18.7%	3.5%
Total surplus ratio	17.9%	18.9%	7.0%
Permanent capital ratio	18.2%	19.2%	7.0%

Additionally, the Association's internal permanent capital ratio goal for 2009 is 18.3%. The ratio at June 30, 2009, as indicated above, is not indicative of the full year.

NOTE 4 - INCOME TAXES

Please see the 2008 Annual Report to Shareholders, particularly Note 8 to the Financial Statements, for a description of the Association's deferred tax assets and liabilities and the corresponding valuation allowance. There were no significant changes in the composition or valuation of tax assets/liabilities during the first two quarters of 2009.

NOTE 5 – FAIR VALUE MEASUREMENTS

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. Please see the 2008 Annual Report to Shareholders, particularly Note 2K and Note 11 to the Financial Statements, for a more complete description.

Assets measured at a fair value on a recurring basis at June 30, 2009 are summarized below:

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets:			
Interest Rate Swaps	$ -	$ 514	$ -
Total Assets	$ -	$ 514	$ -

Assets measured at a fair value on a non-recurring basis at June 30, 2009 are summarized below:

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets:			
Nonaccrual loans	$ -	$ -	$ 4,050
Total Assets	$ -	$ -	$ 4,050

There were no liabilities measured at fair value on a recurring or non-recurring basis at June 30, 2009.

As more fully discussed in Note 2K and Note 11 of the 2008 Annual Report to Shareholders, SFAS No. 157 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Associations' assets.

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

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

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

Effective January 1, 2009, the Association adopted SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

The Association enters into derivative financial instruments known as "received fixed" interest rate swaps. The counterparty to the Association's swaps is CoBank. Please see the 2008 Annual Report to Shareholders, particularly Note 2J and Note 15 to the Financial Statements, for a more complete description.

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

	June 30,			
	2009		2008	
Balance sheet:				
Accrued interest receivable	$	29	$	13
Accrued interest payable (included in other liabilities)		-		-
Positive fair values (included in other assets)		514		218
Negative fair values (included in other liabilities)		-		53
Accumulated other comprehensive income		459		166

	Three Months Ended June 30,			
	2009		2008	
Income statement:				
(Decreased) increased interest expense	$	(148)	$	49
Other comprehensive income:				
Net unrealized gains (losses) on Interest rate swaps	$	(139)	$	(239)

NOTE 7 – Subsequent Events

The Association has evaluated subsequent events through July 7, 2009, which is the date the financial statements were available to be issued.

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