



Yankee Farm Credit, ACA

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**CONSOLIDATED FINANCIAL STATEMENTS
THIRD QUARTER ENDED SEPTEMBER 30, 2009**

November 4, 2009

Dear Shareholder:

Enclosed are the Association's consolidated financial statements for the third 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**

Third Quarter Ended September 30, 2009

(Dollars in thousands, except as noted)

(Unaudited)

Results of Operations: Third Quarter

Net income for the third quarter of 2009 was \$1.485 million, up \$410 thousand (38%) from net income of \$1.075 million in the third quarter of 2008.

Net interest income before the provision for loan losses was up \$644 thousand (30%) in 2009 as compared to 2008. The following table shows the components of this increase:

<u>Changes in net interest income due to:</u>	
Changes in volumes of accrual loans & debt	\$ 277
Changes in interest rates on accrual loans & debt	262
Changes in interest income on nonaccrual loans	(3)
Changes in interest rate swap income	106
Other adjustments	2
Total change in net interest income	<u>\$ 644</u>

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

	Three Months Ended Sept 30,	
	2009	2008
Average accrual loan volume	\$ 333,868	\$ 291,591
Average interest rate on loans	4.15%	5.14%
Average interest rate spread	2.88%	2.27%

Average loan volume was higher in 2009, and this contributed an increase of \$277 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 \$262 thousand and was primarily due to the higher average interest rate spread.

There was a provision for loan losses of \$366 thousand in the third quarter of 2009, as compared to a provision for loan losses of \$40 thousand in the third quarter of 2008.

Other income increased by \$130 thousand (29%) in 2009 as compared to 2008. This was primarily due to an increase of \$56 thousand (18%) in the accrual for patronage refunds from CoBank in 2009, as well as an increase of \$45 thousand (45%) in fees for financial services in 2009.

Other expense increased by \$38 thousand (3%) in 2009 as compared to 2008. Salaries and employee benefits, a major component of other expense, increased by \$109 thousand (14%).

Results of Operations: Year-to-Date

Net income through the third quarter of 2009 was \$4.008 million, up \$3 thousand from net income of \$4.005 million through the third quarter of 2008.

There was a provision for loan losses of \$1.104 million through the third quarter of 2009, as compared to a net reversal to the provision for loan losses of \$164 thousand for the same period in 2008.

Management's Discussion & Analysis (cont.)

Net interest income before the provision for loan losses was up \$1.259 million (19%) in 2009 as compared to 2008. The following table shows the components of this increase:

<u>Changes in net interest income due to:</u>		
Changes in volumes of accrual loans & debt	\$	697
Changes in interest rates on accrual loans & debt		247
Changes in interest income on nonaccrual loans		25
Changes in interest rate swap income		302
Other adjustments		<u>(12)</u>
Total change in net interest income	\$	<u><u>1,259</u></u>

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

	Nine Months Ended Sept 30,	
	2009	2008
Average accrual loan volume	\$ 326,649	\$ 290,303
Average interest rate on loans	4.14%	5.55%
Average interest rate spread	2.82%	2.40%

Average loan volume was higher in 2009, contributing an increase of \$697 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 \$247 thousand, and was primarily due to the higher average interest rate spread. Swap income contributed to higher net interest income with an increase of \$302 thousand.

Other income increased by \$321 thousand (20%) in 2009 as compared to 2008. This was primarily due to an increase of \$151 thousand (16%) in the accrual for patronage refunds from CoBank for first three 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 \$135 thousand (26%) in 2009 as compared to 2008.

Other expense increased by \$309 thousand (7%) in 2009 as compared to 2008. Salaries and employee benefits expense increased by \$300 thousand (13%). The Farm Credit Insurance Fund premium increased by \$99 thousand (33%).

Loan Portfolio and Financial Condition

Loans originated by the Association increased by \$13.6 million (4%) from year-end. Loans purchased decreased by \$2.4 million (16%) from year-end, and participations sold decreased by \$9.3 million (21%). Loans held by the Association increased by \$20.6 million (6%) from year-end.

The loan portfolio continues to be concentrated in the dairy industry. Farm prices for dairy products increased slightly in the third quarter of 2009. Federal Order 1 prices for the third quarter of 2009 averaged \$12.09/cwt, up \$0.15/cwt (1%) from the second quarter of 2009, but down \$7.80/cwt (39%) from the third 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 a decrease in the cost of farm inputs, particularly purchased feed. The composite Feed Index published by the USDA was 187 for the third quarter of 2009, down 3% from the second quarter of 2009, and down 12% from the third quarter of 2008. (Feed Index = 100 for 1990-1992)

Loan quality worsened but still remained strong through the third quarter of 2009. Loans graded Substandard or lower were 3.9% of total loans at September 30, 2009, up 1.7% from year-end. High risk assets comprised 1.4% of loans and related assets at September 30, 2009, up 0.9% 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 0.8% at September 30, 2009, up 0.3% from year-end. The 12-month rolling average for this statistic was 0.5% at September

Management's Discussion & Analysis (cont.)

30, 2009, up 0.1% from year-end. There were no charge-offs or recoveries in the first three quarters of 2009, as compared to no charge-offs and recoveries of \$16 thousand in the first three 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 19.1% at September 30, 2009 as compared to 19.6% at year-end. The Association's permanent capital ratio was 17.8% at September 30, 2009, down 1.4% from year-end.

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

YANKEE FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEET
(Unaudited)

	September 30, 2009	December 31, 2008
	(in thousands)	
<u>ASSETS</u>		
Loans originated by the Association	\$ 368,172	\$ 354,583
Plus loans purchased	12,320	14,671
Less participations sold	<u>34,166</u>	<u>43,493</u>
Loans held by the Association	346,326	325,761
Less allowance for loan losses	<u>2,862</u>	<u>1,758</u>
Net loans	343,464	324,003
Cash	891	1,770
Accrued interest receivable	1,178	1,007
Patronage refunds due from CoBank, ACB	1,108	1,411
Investment in CoBank, ACB	11,900	11,779
Mission related investment	456	401
Premises and equipment, less accumulated depreciation	1,045	1,070
Other assets	<u>2,297</u>	<u>2,063</u>
Total assets	<u>\$ 362,339</u>	<u>\$ 343,504</u>
<u>LIABILITIES</u>		
Note payable to CoBank, ACB	\$ 288,601	\$ 271,461
Patronage distribution payable	2,122	2,790
Other liabilities	<u>2,402</u>	<u>1,771</u>
Total liabilities	<u>293,125</u>	<u>276,022</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	986	939
Unallocated surplus	69,499	67,613
Accumulated other comprehensive income	<u>(1,271)</u>	<u>(1,070)</u>
Total members' equity	69,214	67,482
Total liabilities and members' equity	<u>\$ 362,339</u>	<u>\$ 343,504</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in thousands)			
<u>INTEREST INCOME</u>				
Loans	\$ 3,493	\$ 3,756	\$ 10,163	\$ 12,077
Total interest income	<u>3,493</u>	<u>3,756</u>	<u>10,163</u>	<u>12,077</u>
<u>INTEREST EXPENSE</u>				
Note payable to CoBank, ACB	720	1,627	2,273	5,446
Total interest expense	<u>720</u>	<u>1,627</u>	<u>2,273</u>	<u>5,446</u>
Net interest income	2,773	2,129	7,890	6,631
Provision for loan losses	366	40	1,104	(164)
Net interest income after provision for loan losses	<u>2,407</u>	<u>2,089</u>	<u>6,786</u>	<u>6,795</u>
<u>OTHER INCOME</u>				
Patronage refunds from CoBank, ACB	375	319	1,117	966
Fees for financial services	145	100	646	511
Loan fees and other income	53	24	127	92
Total other income	<u>573</u>	<u>443</u>	<u>1,890</u>	<u>1,569</u>
<u>OTHER EXPENSE</u>				
Salaries and employee benefits	873	764	2,589	2,289
Occupancy and equipment	71	77	237	225
Farm Credit Insurance Fund premium	139	78	398	299
Fees paid to Farm Credit Financial Partners, Inc.	231	241	692	724
Other expenses	178	294	741	811
Total other expense	<u>1,492</u>	<u>1,454</u>	<u>4,657</u>	<u>4,348</u>
Income before income taxes	1,488	1,078	4,019	4,016
Provision for income taxes	3	3	11	11
Net income	<u>\$ 1,485</u>	<u>\$ 1,075</u>	<u>\$ 4,008</u>	<u>\$ 4,005</u>

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

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

	Capital Stock and Participation Certificates	Surplus		Accumulated Other Comprehensive Income	Total Members' Equity
		Allocated	Unallocated (in thousands)		
Balance at December 31, 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	<u>906</u>	<u>-</u>	<u>65,852</u>	<u>(367)</u>	<u>66,391</u>
Comprehensive income					
Net income	-	-	4,005	-	4,005
Other comprehensive income					
Net unrealized gains (losses) on interest rate swaps	-	-	-	16	<u>16</u>
Total comprehensive income					<u>4,021</u>
Capital stock/PCs issued	115	-	-	-	115
Capital stock/PCs retired	(100)	-	-	-	(100)
Patronage distribution accrued					
Cash	-	-	(1,856)	-	(1,856)
Adjustment for Rounding	1	-	-	(1)	-
Balance at September 30, 2008	<u>\$ 922</u>	<u>\$ -</u>	<u>\$ 68,001</u>	<u>\$ (352)</u>	<u>\$ 68,571</u>
Balance at December 31, 2008	\$ 939	\$ -	\$ 67,613	\$ (1,070)	\$ 67,482
Comprehensive income					
Net income	-	-	4,008	-	4,008
Other comprehensive income					
Net unrealized gains (losses) on interest rate swaps	-	-	-	(201)	<u>(201)</u>
Total comprehensive income					<u>3,807</u>
Capital stock/PCs issued	126	-	-	-	126
Capital stock/PCs retired	(79)	-	-	-	(79)
Patronage distribution accrued					
Cash	-	-	(2,122)	-	(2,122)
Balance at September 30, 2009	<u>\$ 986</u>	<u>\$ -</u>	<u>\$ 69,499</u>	<u>\$ (1,271)</u>	<u>\$ 69,214</u>

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

YANKEE FARM CREDIT, ACA

Notes To Consolidated Financial Statements

Third Quarter Ended September 30, 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 third 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 nine month period ended September 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 Sept 30,	
	2009	2008
Balance at beginning of quarter	\$ 2,496	\$ 772
Provision for loan losses	366	40
Charge-offs	-	-
Recoveries	-	-
Balance at end of quarter	<u>\$ 2,862</u>	<u>\$ 812</u>

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.

	Sept 30,	
	2009	2008
Impaired loans with related allowance	\$ 4,561	\$ 223
Impaired loans with no related allowance	181	447
Total impaired loans	<u>\$ 4,742</u>	<u>\$ 670</u>
Allowance on impaired loans	<u>\$ 474</u>	<u>\$ 12</u>

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

	Three Months Ended Sept 30,	
	2009	2008
Average impaired loans	\$ 4,446	\$ 718
Interest income recognized on impaired loans	4	14

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 three quarters of 2009 is approximately \$2.122 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 third quarter of 2009 for patronage distribution payable of \$2.122 million. The corresponding interim accrual at the end of the third quarter of 2008 for patronage distribution payable was \$1.856 million (also 100% cash).

The Association's regulatory capital ratios were:

	Value At		Regulatory Minimum
	September 30, 2009	December 31, 2008	
Core surplus ratio	17.3%	18.7%	3.5%
Total surplus ratio	17.5%	18.9%	7.0%
Permanent capital ratio	17.8%	19.2%	7.0%

Additionally, the Association's internal permanent capital ratio goal for 2009 is 18.3%. The ratio at September 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 three 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 September 30, 2009 are summarized below:

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
<u>Assets:</u>			
Interest Rate Swaps	\$ -	\$ 515	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 515</u>	<u>\$ -</u>

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

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
<u>Assets:</u>			
Nonaccrual loans	\$ -	\$ -	\$ 4,476
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,476</u>

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

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:

	Value at	
	Sept 30, 2009	Dec 31, 2008
<u>Balance sheet:</u>		
Accrued interest receivable	\$ 26	\$ 19
Accrued interest payable (included in other liabilities)	-	-
Positive fair values (included in other assets)	515	666
Negative fair values (included in other liabilities)	-	-
Accumulated other comprehensive income	428	629
	<u>Three Months Ended Sept 30,</u>	
	2009	2008
<u>Income statement:</u>		
(Decreased) increased interest expense	\$ (172)	\$ (66)
<u>Other comprehensive income:</u>		
Net unrealized gains (losses) on Interest rate swaps	\$ (33)	\$ 1

NOTE 7 – Subsequent Events

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

**YANKEE FARM CREDIT, ACA
OFFICE LOCATIONS**

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