



Yankee Farm Credit, ACA

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**CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER ENDED MARCH 31, 2013**

May 7, 2013

Dear Shareholder:

Enclosed are the Association's consolidated financial statements for the first quarter of 2013. These statements should be read in conjunction with the 2012 Annual Report to Shareholders.

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

Copies of the Association's annual and quarterly reports are available to members at no charge from any of our local offices or by accessing the Association's website at www.yankeeaca.com. The Association's annual reports are available 75 days after year end, and quarterly reports are available 40 days after the end of each calendar quarter. As a shareholder, your investment in the Association is materially affected by the financial condition and results of operations of CoBank, ACB. CoBank's annual and quarterly reports are available at no charge from any of our offices. Our office locations are listed at the end of this report.

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

Sincerely,

Rocklyn A. Giroux
Chairperson, Board of Directors

George S. Putnam
President and CEO

Rocki-Lee DeWitt
Chairperson, Audit Committee

Greg M. LeDuc
Chief Financial Officer

YANKEE FARM CREDIT, ACA

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

First Quarter Ended March 31, 2013

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

Results of Operations: First Quarter

Net income for the first quarter of 2013 was \$2.258 million, up \$195 thousand (9%) from net income of \$2.063 million in the first quarter of 2012.

Net interest income before the provision for credit losses was up \$323 thousand (11%) in 2013 as compared to 2012. 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	\$ 361
Changes in interest rates on accrual loans & debt	(34)
Changes in interest income on nonaccrual loans	12
Changes in interest rate swap income	(10)
Other adjustments	(6)
Total change in net interest income	<u>\$ 323</u>

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

	Three Months Ended March 31,	
	2013	2012
Average accrual loan volume	\$ 375,757	\$ 332,847
Average interest rate on loans	4.16%	4.27%
Average interest rate spread	3.42%	3.42%

Average loan volume was higher in 2013, and this contributed an increase of \$361 thousand to the total change in net interest income as shown in the first table above. This increase to net interest income was offset by a decrease in average interest rate spread of \$34 thousand and swap interest income of \$10 thousand as shown in the first table above.

There was a provision for credit losses of \$16 thousand in the first quarter of 2013, as compared to a reversal to the provision for credit losses of \$76 thousand in the first quarter of 2012.

Other income increased by \$97 thousand (14%) in 2013 as compared to 2012. Fees for financial services and Patronage refunds from CoBank increased by \$95 thousand.

Other expense increased by \$133 thousand (8%) in 2013 as compared to 2012. Salaries and employee benefits increased by \$62 thousand.

Loan Portfolio and Financial Condition

Loans originated by the Association decreased by \$16.4 million (4%) from year-end. Loans purchased increased by \$188 thousand (1%) from year-end, and participations sold decreased by \$6.7 million (10%). Loans held by the Association decreased by \$9.6 million (2%) from year-end.

The loan portfolio continues to be concentrated in the dairy industry. Farm prices for dairy products decreased in the first quarter of 2013. Federal Order 1 prices for the first quarter of 2013 averaged \$19.94/cwt, down \$0.59/cwt (3%) from the fourth quarter of 2012, but up \$0.93/cwt (5%) from the first quarter of 2012. (Prices quoted do not include the effect of the Milk Income Loss Contract (MILC) 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 275 for the first quarter of 2013, down 3% from the fourth quarter of 2012, but up 20% from the first quarter of 2012. (Feed Index = 100 for 1990-1992)

Management's Discussion & Analysis (cont.)

Loan quality stayed strong through the first quarter of 2013. Loans graded Substandard or lower were 4.4% of total loans at March 31, 2013, 0.1% improved from year-end. High risk assets comprised 1.4% of loans and related assets at March 31, 2013, no change from year-end. (High risk assets include nonaccrual loans, troubled debt restructured loans, loans delinquent 90 days or more but not yet classified as nonaccrual, and other property owned.) Repayment performance remained satisfactory. Loans (both accrual and nonaccrual) delinquent 30 days or more were 0.6% at March 31, 2013, unchanged from year-end. The 12-month rolling average for this statistic was 0.9% at March 31, 2013, 0.1% improved from year-end. There were no charge-offs, but recoveries of \$7 thousand in the first quarter of 2013. There were no charge-offs, but recoveries of \$6 thousand in the first quarter of 2012.

As discussed in the 2012 Annual Report to Shareholders, the Association declared a patronage distribution of \$4.918 million based on 2012 earnings, 100% in cash. This was paid on March 25, 2013.

Members' equity as a percentage of assets was 20.7% at March 31, 2013 as compared to 19.8% at year-end. The Association's permanent capital ratio was 19.4% at March 31, 2013, down 0.5% 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)

	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
<u>ASSETS</u>		
Loans originated by the Association	\$ 416,796	\$ 433,223
Plus loans purchased	18,615	18,427
Less participations sold	<u>59,890</u>	<u>66,550</u>
Loans held by the Association	375,521	385,100
Less allowance for loan losses	<u>4,870</u>	<u>4,788</u>
Net loans	370,651	380,312
Cash	910	2,522
Accrued interest receivable	1,226	1,072
Patronage refunds due from CoBank, ACB	487	1,833
Investment in CoBank, ACB	13,722	13,583
Mission related investment	750	751
Premises and equipment, less accumulated depreciation	1,057	1,022
Other assets	<u>1,509</u>	<u>1,459</u>
Total assets	<u>\$ 390,312</u>	<u>\$ 402,554</u>
<u>LIABILITIES</u>		
Note payable to CoBank, ACB	\$ 306,633	\$ 316,179
Patronage distribution payable	1,072	4,918
Reserve for unfunded commitments	191	251
Other liabilities	<u>1,618</u>	<u>1,595</u>
Total liabilities	<u>309,514</u>	<u>322,943</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	1,031	1,030
Unallocated surplus	81,737	80,551
Accumulated other comprehensive income	<u>(1,970)</u>	<u>(1,970)</u>
Total members' equity	80,798	79,611
Total liabilities and members' equity	<u>\$ 390,312</u>	<u>\$ 402,554</u>

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

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

	Three Months Ended	
	March 31,	
	2013	2012
	(in thousands)	
<u>INTEREST INCOME</u>		
Loans	\$ 3,869	\$ 3,537
Total interest income	<u>3,869</u>	<u>3,537</u>
<u>INTEREST EXPENSE</u>		
Note payable to CoBank, ACB	565	556
Total interest expense	<u>565</u>	<u>556</u>
Net interest income	3,304	2,981
Provision for credit losses	16	(76)
Net interest income after provision for credit losses	<u>3,288</u>	<u>3,057</u>
<u>OTHER INCOME</u>		
Patronage refunds from CoBank, ACB	490	412
Fees for financial services	307	290
Loan fees and other income	16	14
Total other income	<u>813</u>	<u>716</u>
<u>OTHER EXPENSE</u>		
Salaries and employee benefits	1,118	1,056
Occupancy and equipment	102	89
Farm Credit Insurance Fund premium	58	30
Fees paid to Farm Credit Financial Partners, Inc.	248	238
Other expenses	313	293
Total other expense	<u>1,839</u>	<u>1,706</u>
Income before income taxes	2,262	2,067
Provision for income taxes	4	4
Net income	<u>\$ 2,258</u>	<u>\$ 2,063</u>
<u>OTHER COMPREHENSIVE (LOSS) INCOME</u>		
OCI related to swaps	-	(10)
OCI related to minimum pension liability	-	-
Comprehensive income	<u>\$ 2,258</u>	<u>\$ 2,053</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, 2011	\$ 993	\$ -	\$ 76,798	\$ (1,975)	\$ 75,816
Comprehensive income					
Net income	-	-	2,063	-	2,063
Other comprehensive income					
Net unrealized gains (losses) on interest rate swaps	-	-	-	(10)	(10)
Change in minimum pension liability	-	-	-	-	-
Total comprehensive income	<u>-</u>	<u>-</u>	<u>2,063</u>	<u>(10)</u>	<u>2,053</u>
Capital stock/PCs issued	40	-	-	-	40
Capital stock/PCs retired	(39)	-	-	-	(39)
Patronage distribution accrued					
Cash	-	-	(848)	-	(848)
Balance at March 31, 2012	<u>\$ 994</u>	<u>\$ -</u>	<u>\$ 78,013</u>	<u>\$ (1,985)</u>	<u>\$ 77,022</u>
Balance at December 31, 2012	\$ 1,030	\$ -	\$ 80,551	\$ (1,970)	\$ 79,611
Comprehensive income					
Net income	-	-	2,258	-	2,258
Other comprehensive income					
Net unrealized gains (losses) on interest rate swaps	-	-	-	-	-
Change in minimum pension liability	-	-	-	-	-
Total comprehensive income	<u>-</u>	<u>-</u>	<u>2,258</u>	<u>-</u>	<u>2,258</u>
Capital stock/PCs issued	36	-	-	-	36
Capital stock/PCs retired	(35)	-	-	-	(35)
Patronage distribution accrued					
Cash	-	-	(1,072)	-	(1,072)
Adjustment for rounding	-	-	-	-	-
Balance at March 31, 2013	<u>\$ 1,031</u>	<u>\$ -</u>	<u>\$ 81,737</u>	<u>\$ (1,970)</u>	<u>\$ 80,798</u>

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

YANKEE FARM CREDIT, ACA

Notes To Consolidated Financial Statements

First Quarter Ended March 31, 2013
(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, 2012 are contained in the 2012 Annual Report to Shareholders. These unaudited first quarter 2013 financial statements should be read in conjunction with the 2012 Annual Report to Shareholders.

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures.

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

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to generally accepted accounting principles and prevailing practices within the banking industry. The results of operations for the three month period ended March 31, 2013 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows:

	Value at	
	March 31, 2013	December 31, 2012
Long-term farm mortgage	\$ 147,525	\$ 142,467
Country home	2,030	1,813
Farm related business	23,325	25,266
Production and intermediate term	202,641	215,554
Total loans	<u>\$ 375,521</u>	<u>\$ 385,100</u>

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. All of the Association's loan purchases and sales are with other Farm Credit institutions. The following table presents information regarding the balances of participations purchased and sold:

	Value at			
	March 31, 2013		December 31, 2012	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Long-term farm mortgage	\$ 678	\$ 7,021	\$ 215	\$ 7,080
Farm related business	17,533	15,749	17,820	16,242
Production and intermediate term	404	37,120	392	43,228
Total	\$ 18,615	\$ 59,890	\$ 18,427	\$ 66,550

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

	Value at	
	March 31, 2013	December 31, 2012
<u>Nonaccrual Loans:</u>		
Long-term farm mortgage	\$ 3,220	\$ 3,263
Farm related business	848	760
Production and intermediate term	756	908
Total nonaccrual loans	\$ 4,824	\$ 4,931
<u>Troubled Debt Restructured Loans:</u>		
Long-term farm mortgage	\$ 628	\$ 628
Total troubled debt restructured loans	\$ 628	\$ 628
<u>Accrual Loans ≥ 90 Days Past Due:</u>		
Production and intermediate term	\$ -	\$ -
Total accrual loans ≥ 90 days past due	\$ -	\$ -
Total impaired assets	\$ 5,452	\$ 5,559

The following table provides an age analysis of past due loans (including accrued interest) as of March 31, 2013:

	Past Due		
	30 – 89 Days	≥ 90 Days	Total
Long-term farm mortgage	\$ 1,208	\$ 36	\$ 1,244
Farm related business	-	677	677
Production and intermediate term	16	336	352
Total loans past due	\$ 1,224	\$ 1,049	\$ 2,273

There were no loans that were 90 days or more past due but still classified as accrual at March 31, 2013.

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:

	March 31, 2013	December 31, 2012
Long-term farm mortgage		
Acceptable	34.7%	33.4%
OAEM*	2.0%	1.0%
Substandard/doubtful	2.0%	2.0%
	<u>38.7%</u>	<u>36.4%</u>
Country home		
Acceptable	0.4%	0.4%
OAEM*	0.1%	0.1%
Substandard/doubtful	0.0%	0.0%
	<u>0.5%</u>	<u>0.5%</u>
Farm related business		
Acceptable	14.4%	14.1%
OAEM*	0.2%	0.1%
Substandard/doubtful	0.4%	0.5%
	<u>15.0%</u>	<u>14.7%</u>
Production and intermediate term		
Acceptable	41.6%	43.3%
OAEM*	2.2%	3.1%
Substandard/doubtful	2.0%	2.0%
	<u>45.8%</u>	<u>48.4%</u>
Total Loans		
Acceptable	91.1%	91.2%
OAEM*	4.5%	4.3%
Substandard/doubtful	4.4%	4.5%
	<u>100.0%</u>	<u>100.0%</u>

*Other Assets Especially Mentioned

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

	Recorded Investment At 3/31/13	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired Loans with a related allowance for loan losses:					
Long-term farm mortgage	\$ 3,819	\$ 4,451	\$ 330	\$ 3,991	\$ 18
Production and intermediate term	638	788	36	761	-
Farm related business	910	1,317	207	743	2
Total	<u>\$ 5,367</u>	<u>\$ 6,556</u>	<u>\$ 573</u>	<u>\$ 5,495</u>	<u>\$ 20</u>
Impaired Loans with no related allowance for loan losses:					
Long-term farm mortgage	\$ 29	\$ 105	-	\$ 30	-
Production and intermediate term	56	148	-	57	-
Total	<u>\$ 85</u>	<u>\$ 253</u>	<u>\$ -</u>	<u>\$ 87</u>	<u>\$ -</u>
Total Impaired Loans:					
Long-term farm mortgage	\$ 3,848	\$ 4,556	\$ 330	\$ 4,021	\$ 18
Production and intermediate term	638	788	36	761	-
Farm related business	966	1,465	207	800	2
Total	<u>\$ 5,452</u>	<u>\$ 6,809</u>	<u>\$ 573</u>	<u>\$ 5,582</u>	<u>\$ 20</u>

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

	Recorded Investment At 12/31/12	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired Loans with a related allowance for loan losses:					
Long-term farm mortgage	\$ 3,860	\$ 4,452	\$ 312	\$ 4,054	\$ -
Production and intermediate term	849	1,116	94	1,006	(3)
Farm related business	760	1,020	143	927	-
Total	<u>\$ 5,469</u>	<u>\$ 6,588</u>	<u>\$ 549</u>	<u>\$ 5,987</u>	<u>\$ (3)</u>
Impaired Loans with no related allowance for loan losses:					
Long-term farm mortgage	\$ 31	\$ 105	\$ -	\$ 40	\$ -
Production and intermediate term	59	149	-	59	-
Total	<u>\$ 90</u>	<u>\$ 254</u>	<u>\$ -</u>	<u>\$ 99</u>	<u>\$ -</u>
Total Impaired Loans:					
Long-term farm mortgage	\$ 3,891	\$ 4,557	\$ 312	\$ 4,094	\$ -
Production and intermediate term	908	1,265	94	1,065	(3)
Farm related business	760	1,020	143	927	-
Total	<u>\$ 5,559</u>	<u>\$ 6,842</u>	<u>\$ 549</u>	<u>\$ 6,086</u>	<u>\$ (3)</u>

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

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

	Long-term Farm Mortgage	Country Home	Farm Related Business	Production & Intermediate Term	Total
Allowance for Loan Losses:					
Balance at December 31, 2012	\$ 2,586	\$ 67	\$ 238	\$ 1,897	\$ 4,788
Charge-offs	-	-	-	-	-
Recoveries	-	-	7	-	7
Provision for (reversal of provision for) loan losses	138	4	98	(165)	75
Balance at March 31, 2013	<u>\$ 2,724</u>	<u>\$ 71</u>	<u>\$ 343</u>	<u>\$ 1,732</u>	<u>\$ 4,870</u>
Ending Balance: individually evaluated for impairment					
	\$ 328	\$ -	\$ 36	\$ 207	\$ 571
Ending Balance: collectively evaluated for impairment					
	<u>2,396</u>	<u>71</u>	<u>307</u>	<u>1,525</u>	<u>4,299</u>
Balance at March 31, 2013	<u>\$ 2,724</u>	<u>\$ 71</u>	<u>\$ 343</u>	<u>\$ 1,732</u>	<u>\$ 4,870</u>
Recorded Investment in Loans Outstanding:					
Ending Balance for loans individually evaluated for impairment	\$ 3,845	\$ -	\$ 638	\$ 966	\$ 5,449
Ending Balance for loans collectively evaluated for impairment	<u>141,351</u>	<u>2,030</u>	<u>55,779</u>	<u>170,912</u>	<u>370,072</u>
Ending Balance at March 31, 2013	<u>\$ 145,196</u>	<u>\$ 2,030</u>	<u>\$ 56,417</u>	<u>\$ 171,878</u>	<u>\$ 375,521</u>

In 2011, we revised our methodology for determining the Allowance for Credit Losses. The new methodology takes into consideration potential losses related to unfunded commitments, and as a result, we have established a separate Reserve for Unfunded Commitments, which is included in Other Liabilities on the Association's balance sheet.

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

	Three Months Ended March 31,	
	2013	2012
Provision for loan losses	\$ 75	\$ (70)
Provision for unfunded commitments	(50)	(6)
Total provision for credit losses	<u>\$ 16</u>	<u>\$ (76)</u>

A restructuring of a debt constitutes as troubled debt restructuring (TDR) if the Association, for economic or legal reasons related to the member's financial difficulties, grants a concession to the member that it would not otherwise considered. The Association had no new TDR loans through the period ending March 31, 2013.

The following table provides information on outstanding loans restructured in troubled debt restructurings as of March 31, 2013:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Long-term farm mortgage	\$ 968	\$ 1,063	\$ 343	\$ 435
Production and intermediate term	12	23	12	23
Total	<u>\$ 980</u>	<u>\$ 1,086</u>	<u>\$ 355</u>	<u>\$ 458</u>

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

There were no additional commitments to lend additional funds to members whose loans were classified as troubled debts restructured at March 31, 2013.

NOTE 3 - CAPITAL

Please see the 2012 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 2012 was \$4.918 million and was distributed 100% in cash on March 25, 2013. A patronage distribution program is also in effect for 2013. The amount of the patronage distribution for 2013 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 quarter of 2013 is approximately \$1.072 million. Management believes it is probable that the 2013 patronage distribution will be paid 100% in cash. Therefore, the accompanying financial statements show an interim accrual at the end of the first quarter of 2013 for patronage distribution payable of \$1.072 million. The corresponding interim accrual at the end of the first quarter of 2012 for patronage distribution payable was \$848 thousand (also 100% cash).

The Association's regulatory capital ratios were:

	Value At		Regulatory Minimum
	March 31, 2013	December 31, 2012	
Core surplus ratio	19.1%	19.4%	3.5%
Total surplus ratio	19.1%	19.6%	7.0%
Permanent capital ratio	19.4%	19.9%	7.0%

Additionally, for 2013, the Association has established an internal minimum of 16.0% for the permanent capital ratio and a goal of 19.3%. The ratio at March 31, 2013, as indicated above, is not indicative of the full year.

NOTE 4 - INCOME TAXES

Please see the 2012 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 quarter of 2013.

NOTE 5 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. Please see the 2012 Annual Report to Shareholders, particularly Note 2L and Note 11 to the Financial Statements, for a more complete description.

The Association had no assets measured at a fair value on a recurring basis at March 31, 2013 or at December 31, 2012.

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

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
<u>Assets:</u>			
Impaired loans	\$ -	\$ -	\$ 5,315
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,315</u>

Assets measured at a fair value on a non-recurring basis at December 31, 2012 are summarized below:

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
<u>Assets:</u>			
Impaired loans	\$ -	\$ -	\$ 5,432
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,432</u>

There were no liabilities measured at fair value on a recurring or non-recurring basis at March 31, 2013.

As more fully discussed in Note 2L and Note 11 of the 2012 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Associations' assets.

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

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

	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Loans, net	\$ 370,651	\$ 370,896	\$ 380,312	\$ 380,514
Cash	910	910	2,522	2,522
Financial Liabilities:				
Notes payable to CoBank, ACB	\$ 306,633	\$ 307,228	\$ 316,179	\$ 316,942

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

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

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

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

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS

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 2012 Annual Report to Shareholders, particularly Note 2K and Note 15 to the Financial Statements, for a more complete description.

Derivatives had no impact on the balance sheet for the quarter end. The following table shows the impact of these derivatives on the income statement as of quarter end:

	Three Months Ended March 31,	
	2013	2012
<u>Statement of income:</u>		
(Decreased) increased interest expense	\$ -	\$ (10)
<u>Other comprehensive income:</u>		
Net unrealized gains (losses) on Interest rate swaps	\$ -	\$ (10)

As of June 2012, the Association had suspended the current interest rate swap program.

NOTE 7 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 7, 2013, which is the date the financial statements were available to be issued. No subsequent events were identified that would require additional disclosures or adjustments to the financial statements.

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OFFICE LOCATIONS**

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(518) 846-7330

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Yankee Farm Credit, ACA
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(802) 334-8050

Yankee Farm Credit, ACA
130 Upper Welden Street
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