Yankee Farm Credit, ACA

CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER ENDED MARCH 31, 2019

May 8, 2019

Dear Shareholder:

Enclosed are the Association's consolidated financial statements for the first quarter of 2019. These statements should be read in conjunction with the 2018 Annual Report to Shareholders.

The purpose of these consolidated 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.yankeefarmcredit.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 consolidated financial statements, in the opinion of management, fairly present the financial condition of the institution except as noted.

Sincerely,

Celeste Kane-Stebbins
Chairperson, Board of Directors

Brenda K. Frank
President and Chief Executive Officer

Kenneth F. Deon
Chairperson, Audit Committee

Pamela A. Simek
Senior Vice President and Chief Financial Officer

Yankee Farm Credit, ACA

CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER ENDED MARCH 31, 2019

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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. This process provides 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.

Internal control over financial reporting 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 March 31, 2019. 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 March 31, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2019.

Brenda K. Frank
President and Chief Executive Officer

Pamela A. Simek
Senior Vice President and Chief Financial Officer

May 8, 2019

Yankee Farm Credit, ACA

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

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

RESULTS OF OPERATIONS: FIRST QUARTER

Net income for the first quarter of 2019 was $3.825 million, down $109 thousand (2.9%) from net income of $3.934 million in the first quarter of 2018.

Net interest income before the reversal for loan losses was up $18 thousand (0.4%) in 2019 as compared to 2018. The following table shows the components of this increase:

Changes in net interest income due to:		
Changes in volumes of accrual loans & debt	$	118
Changes in interest rates on accrual loans & debt		242
Changes in interest income on nonaccrual loans		(343)
Other adjustments		1
Total change in net interest income	$	18

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

	Three Months Ended March 31,			
		2019		2018
Average accrual loan volume	$	511,765	$	498,754
Average interest rate on loans		6.17%		5.32%
Average interest rate spread		3.41%		3.35%

Average loan volume was higher in 2019 as compared to the same period of 2018, and this contributed an increase of $118 thousand in the total change in net interest income as shown in the first table above. Changes in interest rates contributed $242 thousand to the total change in net interest income.

There was a reversal to the provision for loan losses of $419 thousand in the first quarter of 2019, as compared to a reversal for loan losses of $165 thousand in the first quarter of 2018.

Noninterest income decreased by $266 thousand (15.4%) in 2019 as compared to 2018. This decrease was due to a decrease of $225 thousand refunds from the Farm Credit System Insurance Corporation (Insurance Fund) as compared to the first quarter of 2018.

Noninterest expense increased by $116 thousand 4.1% in 2019 as compared to 2018. Salaries and employee benefits increased by $90 thousand (5.3%), while the Insurance Fund increased $9 thousand (10.7%). This was offset by operating expenses (which includes purchased services) increasing by $17 thousand (1.9%).

As of January 1, 2019, the Associations adopted ASU 2016-02 Topic 842 related to Leases. Upon adoption, the Association recorded a cumulative-effect adjustment to Unallocated Retained Earnings of approximately $13 thousand. In addition, a Right to Use Asset (ROU) in the amount of $269 thousand recorded on the balance sheet as Other Assets and a Lease Liability shown on the balance sheet as Lease Obligations in the amount of $273 thousand. As of March 31, 2019 these amounts were $261 thousand in ROU assets and $265 thousand in Lease Obligations.

LOAN PORTFOLIO AND FINANCIAL CONDITION

Loans as of end of the first quarter totaled $515.3 million, a decrease of $8.5 million (1.6%) from year-end. Net loans outstanding (loans less allowance for loan losses) totaled $509.4 million at the end of the first quarter, down $8.0 million (1.6%) from year-end. These decreases primarily resulted from normal loan repayments and paydowns.

Loan quality worsened slightly but remained strong through the first quarter of 2019. Loans graded Substandard or lower were 4.6% of total loans at March 31, 2019, 0.2% worsened from year-end. High risk assets comprised 1.99% of loans and related assets at March 31, 2019, 0.33% worsened from year-end. (High risk assets include nonaccrual loans, accrual troubled debt restructured loans, loans delinquent 90 days or more but not yet classified as nonaccrual, and other property owned.) Repayment performance remained satisfactory. The 12-month rolling average for this statistic was 1.8% at March 31, 2019, up 0.1% from year-end. There were charge-offs of $52 thousand and no significant recoveries in the first quarter of 2019. There were no significant charge-offs or recoveries in the first quarter of 2018.

As discussed in the 2018 Annual Report to Shareholders, the Association declared two patronage distribution during 2018, in total of $7.949 million based on 2018 earnings, 100% in cash. The mid-year distribution of $1.848 million was paid during October 2018, the remaining $6.101 million was paid April 4, 2019.

Members' equity as a percentage of assets was 20.7% at March 31, 2019, as compared to 19.7% at year-end.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain certain minimum regulatory capital ratios.

The regulations require common equity tier 1 (CET1), tier 1 and total regulatory capital (tier 1 plus tier 2) risk-based capital ratio requirements. The regulations also add a tier 1 leverage ratio for all System institutions.

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

	Value At				
	March 31, 2019	**December 31, 2018**	**Regulatory Minimum**	**Internal Minimum**	**2019 Goal Range**
Permanent capital ratio	18.01%	18.47%	7.0%	15.0%	17.0% - 19.0%
CET 1	17.69%	18.45%	5.75%	14.5%	16.5% - 18.5%
Tier 1 capital	17.69%	18.45%	5.75%	14.5%	16.5% - 18.5%
Total regulatory capital	18.94%	19.70%	9.25%	15.5%	17.5% - 19.5%
Tier 1 leverage	17.03%	17.84%	5.0%	13.5%	15.5% - 17.5%

The ratios at March 31, 2019, as indicated above, are not indicative of the full year.

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

REGULATORY MATTERS

On April 3, 2019, the Farm Credit Administration issued a proposed rule that would clarify the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule would also revise the criteria by which loans are reinstated to accrual status, and would revise the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The public comment periods ends on June 3, 2019.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Consolidated Financial Statements, and the 2018 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the following table.

The following Accounting Standards Update (ASU) was issued by the Financial Accounting Standards Board (FASB) but has 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.	• Implementation efforts have begun by establishing a cross-discipline governance structure. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in an increase in 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 financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2021.

Yankee Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2019	December 31, 2018
	(unaudited)	*(audited)*
Assets		
Cash	**$ 87**	$ 90
Loans	**515,254**	523,745
Allowance for loan losses	**(5,808)**	(6,279)
Net loans	**509,446**	517,466
Other investments	**471**	463
Accrued interest receivable	**3,461**	2,346
Equity investments in other Farm Credit institutions	**22,279**	21,531
Premises and equipment, net	**3,658**	3,500
Accounts receivable	**1,454**	5,057
Other assets	**880**	738
Total assets	**$ 541,736**	$ 551,191
Liabilities		
Notes payable to CoBank, ACB	**$ 424,325**	$ 431,926
Lease obligations	**265**	—
Accrued interest payable	**987**	944
Patronage refunds payable	**182**	6,099
Accounts payable	**2,113**	2,236
Other liabilities	**1,505**	1,432
Total liabilities	**429,377**	442,637
Commitments and contingencies (Note 5)		
Members' Equity		
Capital stock and participation certificates	**1,091**	1,098
Unallocated retained earnings	**112,530**	108,718
Accumulated other comprehensive income (loss)	**(1,262)**	(1,262)
Total members' equity	**112,359**	108,554
Total liabilities and members' equity	**$ 541,736**	$ 551,191

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

Yankee Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2019	2018
Interest Income		
Loans	**$ 7,794**	$ 6,891
Interest Expense		
Notes payable to CoBank, ACB	**2,888**	2,003
Net interest income	**4,906**	4,888
Provision for (reversal of allowance for) loan losses	**(419)**	(165)
Net interest income after provision for (reversal of allowance for) loan losses	**5,325**	5,053
Noninterest Income		
Loan fees	**35**	66
Fees for financially related services	**331**	409
Lease income	**1**	1
Patronage refunds from other Farm Credit institutions	**971**	902
Gains (losses) on sales of premises and equipment, net	**8**	—
Gains (losses) on other transactions	**(4)**	6
Insurance Fund refunds	**121**	346
Other noninterest income	**3**	2
Total noninterest income	**1,466**	1,732
Noninterest Expense		
Salaries and employee benefits	**1,798**	1,708
Occupancy and equipment	**153**	153
Insurance Fund premiums	**93**	84
Other operating expenses	**919**	902
Total noninterest expense	**2,963**	2,847
Income before income taxes	**3,828**	3,938
Provision for income taxes	**3**	4
Net income	**3,825**	3,934
Other comprehensive income	**—**	—
Comprehensive income	**$ 3,825**	$ 3,934

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

Yankee Farm Credit, ACA

Consolidated Statements of Changes in Members’ Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2017	$ 1,126	$ 103,521	$ (1,278)	$ 103,369
Comprehensive income		3,934		3,934
Capital stock/participation certificates issued/(retired), net	(4)			(4)
Patronage distribution				
Cash		(1,431)		(1,431)
Balance at March 31, 2018	$ 1,122	$ 106,024	$ (1,278)	$ 105,868
Balance at December 31, 2018	**$ 1,098**	**$ 108,718**	**$ (1,262)**	**$ 108,554**
Cumulative effect of change in accounting principle		**(13)**		**(13)**
Comprehensive income		**3,825**		**3,825**
Capital stock/participation certificates issued/(retired), net	**(7)**			**(7)**
Balance at March 31, 2019	**$ 1,091**	**$ 112,530**	**$ (1,262)**	**$ 112,359**

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

Yankee Farm Credit, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization
The accompanying consolidated financial statements include the accounts of Yankee Farm Credit, ACA and its wholly owned subsidiaries, the Production Credit Association (PCA) and Federal Land Credit Association (FLCA) (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2018, are contained in the 2018 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation
In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies
The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the consolidated financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), and financial instruments (Note 4, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period
The following ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent year end:

- In March 2019, the FASB issued ASU 2019-01 Leases (Topic 842): Codification Improvements. The Update addresses potential implementation issues that could arise as organizations implement Topic 842. The amendments in the Update include the following items brought to the Board's attention through interactions with stakeholders: 1. Determining the fair value of the underlying asset by lessors that are not manufacturers or dealers; 2. Presentation on the statement of cash flows—sales-type and direct financing leases; 3. Transition disclosures related to Topic 250, Accounting Changes and Error Corrections. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

ASUs Pending Effective Date
For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- 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. Early adoption is permitted upon issuance. Entities are permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The removed disclosures were adopted effective with the 2018 Annual Report. Evaluation of any possible effects the additional and modified disclosures guidance may have on the statements of financial condition and results of operations is in progress.

- 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 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 31, 2018. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

Accounting Standards Effective During the Period

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting. See the most recent Annual Report for a detailed description of each of the standards below:

In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance was effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

- 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 was effective for interim and annual periods beginning after December 15, 2018 for public business entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

- 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. 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. The amendments were effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities.

  Transition Information

  - The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this 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.
  - The package of practical expedients was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
  - There will not be a material change to the timing of future expense recognition.

- Upon adoption, a cumulative-effect adjustment to equity of approximately $(13) was recorded. In addition, a Right of Use Asset in the amount of $269 and Lease Liability in the amount of $273 were recognized.
- Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses 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. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. 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.

A summary of loans outstanding at period end follows:

	March 31, 2019	December 31, 2018
Real estate mortgage	$ 229,453	$ 231,021
Production and intermediate-term	207,429	208,247
Loans to cooperatives	7,722	7,735
Processing and marketing	32,662	37,280
Farm-related business	35,792	37,199
Power and water/waste disposal	633	670
Rural residential real estate	1,563	1,593
Total loans	$ 515,254	$ 523,745

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

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

	March 31, 2019							
	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	$ 9,711	$ 27,344	$ 26	$ –	$ –	$ –	$ 9,737	$ 27,344
Production and intermediate-term	1,595	230,886	–	–	–	–	1,595	230,886
Loans to cooperatives	7,728	–	–	–	–	–	7,728	–
Processing and marketing	14,150	18,607	–	–	–	–	14,150	18,607
Farm-related business	8,488	–	–	–	–	–	8,488	–
Power and water/waste disposal	633	–	–	–	–	–	633	–
Total	$ 42,305	$ 276,837	$ 26	$ –	$ –	$ –	$ 42,331	$ 276,837

	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

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:

	March 31, 2019			
	Due Less than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	$ 1,603	$ 4,426	$ 223,424	$ 229,453
Production and intermediate term	22,357	57,211	127,861	207,429
Loans to cooperatives	–	7,722	–	7,722
Processing and marketing	3,666	10,175	18,821	32,662
Farm-related business	2,921	17,212	15,659	35,792
Power and water/waste disposal	–	–	633	633
Rural residential real estate	–	89	1,474	1,563
Total loans	$ 30,547	$ 96,835	$ 387,872	$ 515,254
Percentage	5.93%	18.79%	75.28%	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 the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	March 31, 2019	December 31, 2018
Real estate mortgage:		
Acceptable	79.04%	79.72%
OAEM	13.56	13.39
Substandard/doubtful/loss	7.40	6.89
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	84.97%	84.99%
OAEM	8.97	9.37
Substandard/doubtful/loss	6.06	5.64
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	98.71%	98.92%
OAEM	0.03	–
Substandard/doubtful/loss	1.26	1.08
	100.00%	100.00%

	March 31, 2019	December 31, 2018
Farm-related business:		
Acceptable	99.08%	99.12%
OAEM	0.42	0.22
Substandard/doubtful/loss	0.50	0.66
	100.00%	100.00%
Power and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	86.51%	86.62%
OAEM	13.49	13.38
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	84.42%	84.90%
OAEM	9.73	9.69
Substandard/doubtful/loss	5.85	5.41
	100.00%	100.00%

The following tables provide an aging analysis of the recorded investment of past due loans as of:

	March 31, 2019				
	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	$ 912	$ 358	$ 1,270	$ 229,925	$ 231,195
Production and intermediate-term	1,823	3,651	5,474	203,398	208,872
Loans to cooperatives	–	–	–	7,749	7,749
Processing and marketing	–	–	–	32,768	32,768
Farm-related business	104	111	215	35,705	35,920
Power and water/waste disposal	–	–	–	640	640
Rural residential real estate	–	–	–	1,571	1,571
Total	$ 2,839	$ 4,120	$ 6,959	$ 511,756	$ 518,715

	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

Nonperforming assets (including accrued interest receivable as applicable) and related credit quality statistics at period end were as follows:

	March 31, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	$ 2,211	$ 1,085
Production and intermediate-term	4,452	4,168
Farm-related business	160	226
Total	$ 6,823	$ 5,479
Accruing restructured loans:		
Real estate mortgage	$ 2,187	$ 2,196
Production and intermediate-term	1,449	1,308
Total	$ 3,636	$ 3,504
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 10,459	$ 8,983
Other property owned	–	–
Total nonperforming assets	$ 10,459	$ 8,983
Nonaccrual loans as a percentage of total loans	1.32%	1.05%
Nonperforming assets as a percentage of total loans and other property owned	2.03%	1.72%
Nonperforming assets as a percentage of capital	9.31%	8.28%

The following table presents information related to the recorded investment of impaired loans at period end. 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.

	March 31, 2019	December 31, 2018
Impaired nonaccrual loans:		
Current as to principal and interest	$ 2,276	$ 519
Past due	4,547	4,960
Total	$ 6,823	$ 5,479
Impaired accrual loans:		
Restructured	$ 3,636	$ 3,504
90 days or more past due	–	–
Total	$ 3,636	$ 3,504
Total impaired loans	$ 10,459	$ 8,983
Additional commitments to lend	$ 25	$ 3

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

	March 31, 2019			Three Months Ended March 31, 2019	
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	$ 2,137	$ 2,988	$ 109	$ 1,832	$ 3
Production and intermediate-term	4,452	5,072	268	3,815	5
Farm-related business	160	214	15	137	–
Total	$ 6,749	$ 8,274	$ 392	$ 5,784	$ 8
With no related allowance for credit losses:					
Real estate mortgage	$ 2,261	$ 2,292	$ –	$ 1,937	$ 3
Production and intermediate-term	1,449	1,453	–	1,242	2
Farm-related business	–	–	–	–	–
Total	$ 3,710	$ 3,745	$ –	$ 3,179	$ 5
Total impaired loans:					
Real estate mortgage	$ 4,398	$ 5,280	$ 109	$ 3,769	$ 6
Production and intermediate-term	5,901	6,525	268	5,057	7
Farm-related business	160	214	15	137	–
Total	$ 10,459	$ 12,019	$ 392	$ 8,963	$ 13

	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 impaired loans:					
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

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period 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, 2018	$ 3,269	$ 2,718	$ 284	$ 1	$ 7	$ 6,279
Charge-offs	(52)	–	–	–	–	(52)
Recoveries	–	–	–	–	–	–
Provision for loan losses	(205)	(181)	(33)	–	–	(419)
Balance at March 31, 2019	$ 3,012	$ 2,537	$ 251	$ 1	$ 7	$ 5,808
Balance at December 31, 2017	$ 2,902	$ 2,705	$ 326	$ –	$ 8	$ 5,941
Charge-offs	–	–	–	–	–	–
Recoveries	–	–	–	–	–	–
Provision for loan losses	(33)	(107)	(26)	1	–	(165)
Balance at March 31, 2018	$ 2,869	$ 2,598	$ 300	$ 1	$ 8	$ 5,776
Allowance on loans evaluated for impairment:						
Individually	$ 109	$ 268	$ 15	$ –	$ –	$ 392
Collectively	2,903	2,269	236	1	7	5,416
Balance at March 31, 2019	$ 3,012	$ 2,537	$ 251	$ 1	$ 7	$ 5,808
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
Recorded investment in loans evaluated for impairment:						
Individually	$ 4,398	$ 5,901	$ 160	$ –	$ –	$ 10,459
Collectively	226,797	202,971	76,277	640	1,571	508,256
Balance at March 31, 2019	$ 231,195	$ 208,872	$ 76,437	$ 640	$ 1,571	$ 518,715
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

**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.

	Three Months Ended March 31, 2019				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 53	$ –	$ –	$ 53	
Production and intermediate-term	36	452	–	488	
Total	$ 89	$ 452	$ –	$ 541	
Post-modification:					
Real estate mortgage	$ 53	$ –	$ –	$ 53	$ –
Production and intermediate-term	36	452	–	488	–
Total	$ 89	$ 452	$ –	$ 541	$ –

	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	$ –

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.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Real estate mortgage	$ 2,835	$ 2,869	$ 648	$ 673
Production and intermediate-term	1,721	1,547	272	239
Farm-related business	48	45	48	45
Total loans	$ 4,604	$ 4,461	$ 968	$ 957
Additional commitments to lend	$ 24	$ 3		

The following table presents information as of period end:

	March 31, 2019
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ –

Note 3 — Capital

Please see the 2018 Annual Report to Shareholders, particularly Note 7 *Members' Equity,* 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 percent of the loan not to exceed $1 thousand.

The patronage distribution for 2018 was $6.101 million and was distributed 100 percent in cash on April 4, 2019. A special mid-year patronage of $1.848 million was declared in August 2018. A year-end patronage distribution program is also in effect for 2019. The amount of the year-end patronage distribution for 2019 will depend on financial results for the year as a whole and is therefore not known with certainty at this time. Management believes it is probable that the 2019 patronage distribution will be paid 100 percent in cash.

Note 4 — 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. The classifications within the fair value hierarchy are as follows:

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

Level 2 inputs 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 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 the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see Note 8, *Fair Value Measurement in* the 2018 Annual Report to Shareholders.

There were no Level 3 assets or 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 statement of financial position, 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.

	March 31, 2019				
	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	$ 6,357	$ –	$ –	$ 6,357	$ 6,357
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 6,357	$ –	$ –	$ 6,357	$ 6,357
Other Financial Instruments					
Assets:					
Cash	$ 87	$ 87	$ –	$ –	$ 87
Loans	503,089	–	–	514,737	514,737
Other Financial Assets	$ 503,176	$ 87	$ –	$ 514,737	$ 514,824
Liabilities:					
Notes payable to CoBank	$ 424,325	$ –	$ –	$ 424,214	$ 424,214
Other Financial Liabilities	$ 424,325	$ –	$ –	$ 424,214	$ 424,214

	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

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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	$ 6,357	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			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 5 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least 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.

Note 6 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring additional disclosure through May 8, 2019, which was the date the consolidated financial statements were issued.

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OFFICE LOCATIONS

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Yankee Farm Credit, ACA
320 Exchange Street
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Yankee Farm Credit, ACA
250 Commerce Way
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Derby, VT 05829 (physical)
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