Yankee Farm Credit
Building Relationships That Last Generations

2019
ANNUAL REPORT

ONE MISSION. MANY VOICES.

When you become a Farm Credit customer, you become a member of our family – and a unique part of the Farm Credit story.

We were created for one mission that will always remain the same: to support rural communities and agriculture with reliable, consistent credit and financial services. While your lender is a local expert who can help tailor solutions to your personal needs, our organization is more than 500,000 members strong across the United States and Puerto Rico.

As a Farm Credit member, you are part of a rich tapestry that spans more than a century. Farm Credit's "One Mission. Many Voices." campaign highlights stories from a wide variety of Farm Credit members, employees and board members. This campaign started in 2017 as a way to demonstrate to policymakers the importance of Farm Credit in helping rural America and agriculture thrive. We will continue in the months ahead to tell our story – and your story – to create greater awareness of our mission and impact.

This helps ensure a stable source of funding and financial services for the people who feed, clothe and fuel the world.

Discover success stories from your neighbors and fellow Farm Credit members at farmcredit.com, and let Farm Credit help you continue to write your own success story!

INNOVATION

is one of Yankee Farm Credit's core values.

Management consultant, educator and author Peter Drucker noted that innovation is a function of entrepreneurship and is essential in wealth creation. We are highlighting innovative member businesses that are exploring new ideas to create better solutions within their markets. Yankee is proud to support these and other member innovations by providing capital to grow, as well as business services that aid in creating strong plans, enhancing capacity, and setting up new systems for successful implementation.

Ceres Greens

Ceres Greens is a vertical farming company focused on supplying customers with fresh local produce year-round. Founded in 2016, and based in Barre, Vermont, they constructed a facility to grow leafy greens and herbs using controlled environment agricultural methods to supply our local market area. Starting first in the cold climate of Vermont, Ceres Greens intends to establish similar vertical farming facilities in select markets as they expand.

Photo: Jay Stearns, Accent Productions

North Williston Cattle Company

The Whitcomb family has been farming in Chittenden County, Vermont since 1867. Its members are committed to educating friends, neighbors, and the community about modern dairy farming in New England. The farm, which includes approximately 750 acres of owned and rented land, sits in the towns of Williston, Essex Junction, and Jericho. The family milks about 240 Holstein cows and has nearly 600 animals in total on the farm. They grow all their own forages, such as alfafa, corn and soybeans. In 2012, the Whitcomb family installed four Lely robotic milkers on the farm. This allows cows to decide when they want to be milked. The cows are able to choose when they eat, sleep, drink, and get milked—this is the ultimate in cow comfort!

Photo: Jay Stearns, Accent Productions

Parker Family Maple Farm

Located on the edge of the Adirondack Mountains, in West Chazy, New York, Parker Family Maple Farm has been family owned and operated by the Parkers since 1889. Five generations of Parkers have worked hard to provide the best quality maple products to our community. Each generation has contributed to the growth of the business by continuous innovation and refinement. This includes the construction of a new sugarhouse, a monitoring system and the installation of a steam boiler to increase production efficiencies.

Wood's Market Garden

Jon Satz has deep farming roots. After years of growing on rented land, the search for a farm of his own led him to the Wood farm in Brandon, Vermont. After a few twists in the road, he was finally able to purchase the farm in 2000 from retiring owners Bob and Sally Wood. His passion for growing and commitment to sustainable farming practices has fostered his drive for continuous innovation. The most recent being the diversification into industrial hemp. The farm and market have blossomed into a destination for beautiful organic vegetables, quality bedding plants and some of the sweetest strawberries around.

Pinestead Farm

Alyssa Sherburn from Franconia, New Hampshire is the owner/operator of Pinestead Farm. The farm utilizes a Leafy Green Machine from Freight Farms, Inc. Freight Farms takes old shipping containers with all of the insulation and converts them to hydroponic farming units that can grow up to two acres of vegetables. These units are intuitively climate controlled and can be remotely overseen with the mobile app, Farmhand. This app monitors everything happening inside the unit, tracks two weeks of historical data and prompts the farmer when it is time to harvest and plant. The unit takes 20 hours per week of labor, and it is six weeks from planting to harvest.

VALUE PROPOSITION

Our value to our members is based on five foundational elements:

1. Our deep knowledge of agriculture.

We know agriculture inside and out. From volatile financial markets to international trade, we completely comprehend how the operating environment affects this vast industry. We understand the needs of farmers and agribusinesses, and we tailor our financial solutions and terms accordingly.

2. We serve members through good times and bad.

Because we understand the cyclical nature of agriculture, we are a patient lender. We help members weather difficult times.

3. Meaningful, long-term member relationships.

Our employees are skilled financial advisors who are down to earth and genuinely interested in helping members realize their dreams. We offer expert agricultural business services and consulting to our members to ensure their success through generations.

4. Adaptable and Innovative.

We value the entrepreneurship of our members. In working for our members, we strive to embody the value of adaptability to meet the innovation and high risk necessary in today's agricultural environment.

5. Timely and Responsive Lending.

We know that your time is valuable. We are committed to using the most modern lending practices for timely decisions.

BOARD OF DIRECTORS

Celeste Kane-Stebbins
Chairperson

Thomas J. Colgan
Vice Chairperson

Alan J. Bourbeau

Bryan E. Davis

Kenneth F. Deon

David Folino

Paul B. Franklin

Craig Giroux

Bradley N. Maxwell

Rene M. Saenger

Kyle Thygesen

Richard Woollams

SENIOR MANAGEMENT TEAM

Brenda K. Frank
President and CEO

Pamela A. Simek
Sr. Vice President/ Chief Financial Officer

Michael K. Farmer
Sr. Vice President/ Chief Operating Officer

Christopher A. Bessette
Sr. Vice President/ Lending

Ruchel St. Hilaire
Human Resources Director

David E. Lane
Sr. Vice President/ Marketing and FRS

James E. Mills Jr.
Sr. Vice President/ Strategy, Risk and Audit

Matthew S. Senter
Sr. Vice President/ Commercial and Special Assets

MESSAGE FROM

the Chairperson of the Board and the Chief Executive Officer

The theme of our report this year is innovation. The marketplace continues to remind us that change is inevitable. And businesses have to constantly innovate to remain relevant. The opportunity is in finding the fit for you and your business. As we review 2019 and look ahead to 2020, it remains the goal of Yankee Farm Credit to stay beside our members with consistent credit and business services that allow us to navigate these changes together.

While there has been some relief in commodity prices, our marketplace remains volatile. An ongoing review of risk shows that we can continue to manage capital with a view toward growth and maximizing the return to our members.

- Gross loan volume was $892.0 million for 2019. This is up from the 2018 year-end figure of $823.3 million by 8.3% ($68.5 million).
- Net loans (what we hold in our portfolio) was $543.5 million for 2019. This is up from the 2018 year-end figure of $518.3 million by 4.9% ($25.2 million).
- Permanent Capital was $95.5 million and the Permanent Capital Ratio was 18.6% as of 2019 year-end. Compared to 2018 year-end, which was $90.8 million and 18.5%, respectively.

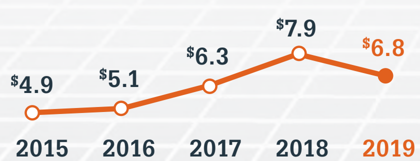
We will need to continue our investment in best practices in banking, which includes nearly constant updates in information technology and internal controls. While we don't anticipate the need for wholesale change like we made in 2018, keeping up with regular updates will demand regular investments of time and money.

- Net Income was $13.2 million in 2019. This is up 0.2% ($21 thousand) from 2018 year-end.
- Income from business services was $1.7 million in 2019, this is $103 thousand (6.5%) favorable to 2018 year-end.
- Operating Expenses were $12.2 million in 2019. This is $568 thousand (4.9%) above 2018 year-end.

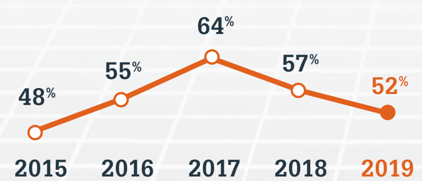
FINANCIAL HIGHLIGHTS

Net Income
(in millions)

Cash Patronage Declared
(in millions)



Patronage to Income Ratio



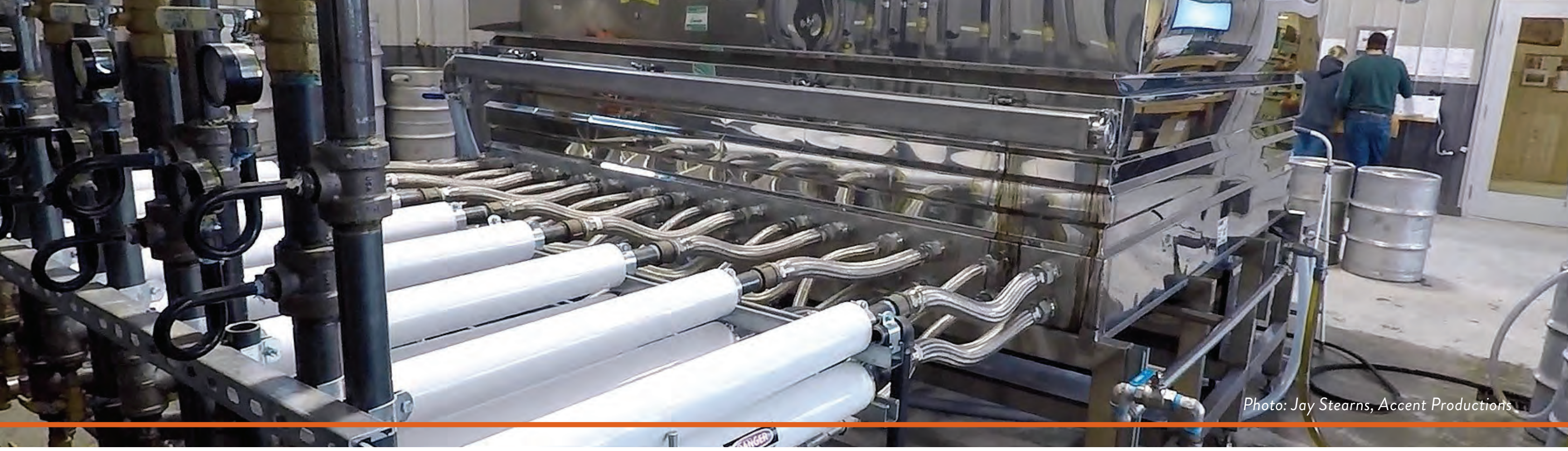


Photo: Jay Stearns, Accent Productions

We are fortunate to have an engaged and dedicated team of people that are agile and ready to manage the risks and opportunities in the marketplace. As many of our members experienced firsthand, 2019 was the year when multiple years of low commodity prices really impacted the financial health of our industry. The detrition of the quality of the association's portfolio was most pronounced in the dairy industry, in which we are still heavily weighted. The following metrics represent the view of our most at-risk assets as a percentage of the capital we hold to mitigate the risk.

- Adverse Assets to Regulatory Capital was 31.9% as of 2019 year-end. This is up compared to the 2018 year-end of 29.5%.
- Criticized Assets to Regulatory Capital was 97.8% as of 2019 year-end. This is up compared to the 2018 year-end of 84.0%.

When we put all of the metrics together, we see a picture of an organization that holds a strong capital position and has a group of employees who can manage through a significant downturn. We have the tools and talent to navigate change through innovation in our credit and business services.

In 2020, Yankee Farm Credit will celebrate our 25th year as an Agriculture Credit Association.

We are very proud of the dedicated members and the work of our employees over the last 25 years that has had an ongoing positive impact on the business of agriculture.

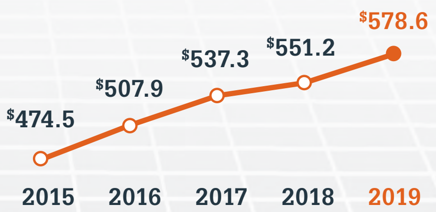
Celeste Kane-Stebbins

Celeste Kane-Stebbins
Chairperson of the Board

Brenda Frank

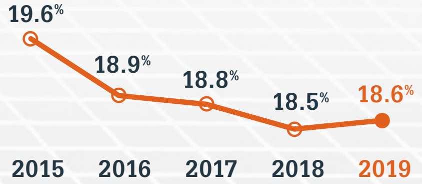
Brenda K. Frank
Chief Executive Officer

Total Assets
(in millions)



Members Equity
(in millions)

Permanent Capital Ratio



WHO GETS FINANCING FROM FARM CREDIT?

Full- and part-time farmers, ranchers and timber operations

Those whose primary or secondary source of income is their agricultural operation. Farm Credit can lend for most agriculture, non agriculture, and family needs.

Businesses and agribusinesses

Those businesses that process and/or market agricultural products including timber and those that provide services to farmers, such as crop spraying, custom harvesting, veterinary services, etc. Farm Credit also has a specialized commercial lending team dedicated to providing expertise for large and complex relationships with agribusinesses.

Photo: Jay Stearns, Accent Productions

Photo: Jay Stearns, Accent Productions

WHAT ARE THE ADVANTAGES OF DOING BUSINESS WITH FARM CREDIT?

We're the experts in rural finance

Farm Credit has been financing land, homes, farms and timber operations in the country since 1916 and we know all of the unique situations that can arise.

Personal and local service

We have a branch near you, but we will even come to your home, farm or office. When you call our office, you'll talk to a live person, not a machine. Because of our unique structure, we can analyze your operation accurately and confidentially, and provide you with a credit decision in a timely manner.

Patronage refund program

As a cooperative owned by our members, we are able to share our profits with them. The patronage refund rewards you for your business and lowers your costs.

MANAGE YOUR ACCOUNT ONLINE

When you want to withdraw funds, make a loan payment or view important tax documents, you need easy and secure access to your account. With our online solution AccountAccess – you can manage your account when it's convenient for you!

To sign up:

- Locate your account number on your loan documents or a recent bill.
- Visit yankeefarmcredit.com or download the Yankee Farm Credit mobile app on your smartphone.
- Click "Sign up" under "AccountAccess."

Sign up today for easy money management so you can get back to what's most important!

As our customers grow and innovate to meet the needs of their own businesses, Yankee is driven to adapt and innovate our own products and systems to better serve and fulfill our mission of being the business service provider of choice for the agriculture and timber industries.

Yankee Farm Credit is more than just a lender. We have the business tools, knowledge and staff to help you achieve your goals and improve profitability. We provide a coordinated network of experts that have been finding solutions for agricultural and timber businesses for generations. Our employees are ready to partner with you in the success of your business – whether you are starting a business, diversifying or expanding an existing business.

Yankee Farm Credit, ACA

2019 ANNUAL REPORT

Contents

Report of Management

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

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

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

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2019 Annual Report of Yankee Farm Credit, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Celeste Kane-Stebbins
Chairperson of the Board

Brenda K. Frank
President and Chief Executive Officer

Pamela A. Simek
Senior Vice President and Chief Financial Officer

March 12, 2020

Report on Internal Control Over Financial Reporting

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

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

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

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

March 12, 2020

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2019	2018	2017	2016	2015
Balance Sheet Data					
Cash	**$ 67**	$ 90	$ 13	$ 4,161	$ 4,210
Loans	**547,763**	523,745	511,930	480,625	449,000
Allowance for loan losses	**(6,182)**	(6,279)	(5,941)	(5,793)	(5,123)
Net loans	**541,581**	517,466	505,989	474,832	443,877
Equity investments in other Farm Credit institutions	**22,985**	21,531	19,940	18,307	16,913
Other assets	**13,898**	12,104	11,311	10,606	9,453
Total assets	**$ 578,531**	$ 551,191	$ 537,253	$ 507,906	$ 474,453
Notes payable to CoBank, ACB	**$ 451,264**	$ 431,926	$ 423,158	$ 399,144	$ 372,830
Accrued interest payable and other liabilities with maturities of less than one year	**12,091**	10,711	10,726	9,344	6,634
Total liabilities	**463,355**	442,637	433,884	408,488	379,464
Capital stock and participation certificates	**1,110**	1,098	1,126	1,092	1,093
Unallocated retained earnings	**115,067**	108,718	103,521	99,887	95,709
Accumulated other comprehensive income (loss)	**(1,001)**	(1,262)	(1,278)	(1,561)	(1,813)
Total members' equity	**115,176**	108,554	103,369	99,418	94,989
Total liabilities and members' equity	**$ 578,531**	$ 551,191	$ 537,253	$ 507,906	$ 474,453
Statement of Income Data					
Net interest income	**$ 19,885**	$ 19,084	$ 17,363	$ 16,307	$ 15,135
Provision for (reversal of allowance for) loan losses	**(6)**	296	300	674	(139)
Noninterest income (expense), net	**(6,726)**	(5,643)	(7,158)	(6,340)	(5,050)
Net income	**$ 13,165**	$ 13,145	$ 9,905	$ 9,293	$ 10,224
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.4%**	2.5%	2.0%	1.9%	2.3%
Total members' equity	**11.5%**	12.3%	9.7%	9.5%	11.0%
Net interest income as a percentage of average earning assets	**3.8%**	3.8%	3.6%	3.6%	3.6%
Net (chargeoffs) recoveries to average loans	**(0.02)%**	0.01%	0.03%	0.00%	0.01%
Total members' equity to total assets	**19.9%**	19.7%	19.2%	19.6%	20.0%
Debt to members' equity (:1)	**4.0**	4.1	4.2	4.1	4.0
Allowance for loan losses to loans	**1.1%**	1.2%	1.2%	1.2%	1.1%
Permanent capital ratio	**18.6%**	18.5%	18.8%	18.9%	19.6%
Total surplus ratio	*	*	*	18.7%	19.3%
Core surplus ratio	*	*	*	18.7%	19.3%
Common equity tier 1 capital ratio	**18.3%**	18.5%	18.5%	*	*
Tier 1 capital ratio	**18.3%**	18.5%	18.5%	*	*
Total regulatory capital ratio	**19.5%**	19.7%	19.8%	*	*
Tier 1 leverage ratio	**17.4%**	17.8%	17.6%	*	*
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**19.6%**	19.8%	18.6%	*	*
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 6,803**	$ 7,949	$ 6,271	$ 5,115	$ 4,862

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

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

(dollars in thousands, except as noted)

FORWARD LOOKING STATEMENTS

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

RESULTS OF OPERATIONS

Net income in 2019 was $13.165 million, an increase of $20 thousand (0.2%) from 2018.

The return on average assets (ROA) was 2.4% in 2019 as compared to 2.5% in 2018 and 2.0% in 2017. The return on average members' equity (ROE) was 11.5% in 2019 as compared to 12.3% in 2018 and 9.7% in 2017.

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

Effect on net income increase (decrease)	2019 vs. 2018	2018 vs. 2017
Net interest income	$ 801	$ 1,721
Provision for loan losses	302	4
Patronage refunds from other Farm Credit Institutions	(445)	811
Other noninterest income, exclusive of patronage refunds from other Farm Credit Institutions	(70)	543
Other noninterest expense	(568)	161
Total increase (decrease) in net income	$ 20	$ 3,240

Net interest income

In 2019, net interest income was $19.885 million, an increase of $801 million (4.2%) from 2018. The following table shows the principal components of net interest income before the provision for loan losses. Interest earning assets consist of accrual loans, and interest bearing liabilities consist of the note payable to CoBank, ACB (CoBank).

	2019	2018	2017
Interest income on interest earning assets	$ 31,226	$ 28,234	$ 23,200
Interest expense on interest bearing liabilities	11,412	9,579	6,219
Subtotal	19,814	18,655	16,981
Interest income on nonaccrual loans	71	429	382
Net interest income before the provision for loan losses	$ 19,885	$ 19,084	$ 17,363

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

	2019	2018	2017
Volumes:			
Interest earning assets	$ 523,150	$ 501,484	$ 476,291
Interest bearing liabilities	436,800	417,423	395,057
Loanable equity	$ 86,350	$ 84,061	$ 81,234
Rates:			
Interest earning assets	5.97%	5.64%	4.87%
Interest bearing liabilities	2.61%	2.30%	1.57%
Interest rate spread	3.36%	3.34%	3.30%

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

Effect on net interest income increase(decrease)	2019 vs. 2018	2018 vs. 2017
Due to changes in volumes	$ 775	$ 890
Due to changes in interest rates	384	784
Interest Income on nonaccrual loans	(358)	47
Total increase in net interest income	$ 801	$ 1,721

Net interest margin (net interest income as a percent of average earning assets) was 3.8% in 2019, as compared to 3.8% in 2018 and 3.6% in 2017.

Provision/Recovery for loan losses

The 2019 net recovery for loan losses of $6 thousand compares to a net provision of $296 thousand in 2018 and a net provision of $300 thousand in 2017. The decrease in the net provision in 2019 was primarily due to updated methodology factors, which offset the increase in loan volume and slightly lower credit quality.

Patronage refunds from other Farm Credit Institutions

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

	2019	2018	2017
Patronage refunds on the Association's note payable to CoBank	$ 1,748	$ 1,883	$ 1,775
Patronage refunds on participation loans sold to CoBank	1,735	2,046	1,316
Total	$ 3,483	$ 3,929	$ 3,091

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

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

In 2019, this category decreased by $70 thousand (3.4%) as compared to the prior year. During 2019, a refund from Farm Credit System Insurance Corporation (FCSIC) in the amount of $121 thousand was received versus a refund of $346 thousand in 2018. In 2017, we did not receive a refund from FCISC. FCSIC administers the Farm Credit Insurance Fund (Fund). The Fund is required by statute to maintain a secure base amount equal to 2% of the System's insured debt. When the Fund exceeds that base, FCSIC may refund excess amounts. See Note 1(A) to the Consolidated Financial Statements, "Organization and Operations" for additional information on FCSIC and the Fund.

Other noninterest expense

In 2019, this category increased by $568 thousand (4.9%). The primary driver of this change was an increase in occupancy and equipment of $236 thousand related to the relocation of the Williston (administrative) office. This is accompanied by an increase of $393 thousand (10%) in other operating expenses. The drivers of this increase include an increase in advertising/marketing of $73 thousand and an increase in data processing services of $125 thousand. These were partially offset by a decrease in purchased services of $103 thousand.

Provision for income taxes

The provision for income taxes consisted of the following:

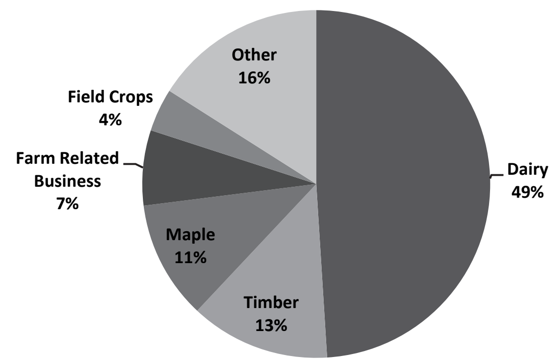
	2019	2018	2017
Provision for income taxes	$ 3	$ 3	$ 3

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

LOAN PORTFOLIO

Total loans outstanding were $547.8 million at December 31, 2019, an increase of $24.0 million (4.6%) over the prior year-end. The increase in loan volume was due to new loan originations as well as increased purchased participations for the purpose of portfolio diversification, and year-end advances on existing commitments. Average loan balance in 2019 was $529.7 million, which was $22.9 million (4.5%) higher than in 2018. In 2018, year-end loans outstanding increased by $11.8 million (2.3%) from year-end 2017, while average loan balance for the year increased by $25.5 million (5.3%).

The loan portfolio continues to be primarily concentrated in the dairy industry, with 49% of loans invested in dairy businesses at December 31, 2019. The second largest concentration is timber, with 13% of the loan portfolio. Loans to maple represent 11% of the loan portfolio, while farm related businesses represents 7% of the portfolio and field crops made up 4%. The remainder of the loan portfolio includes rural homeowners and a variety of other miscellaneous agricultural operations, as well as most of the purchased participation loans, with no single category comprising more than 3% of the loan portfolio.

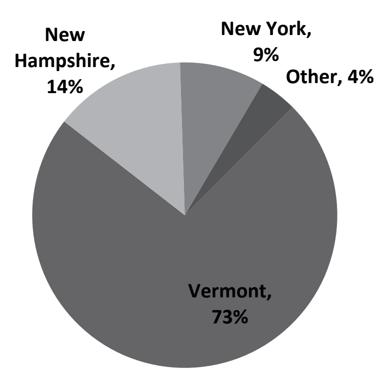


Included in loans are purchased participation loans of $57.7 million (10.5% of the portfolio). These loans are primarily categorized as marketing and processing ($20.6 million), which is included in the industry category "other" above, dairy ($14.4 million) and farm related business ($10.0 million). The remaining balance of participation loans, which is included in the category "other" above, is $12.7 million. Purchased participation loan volume increased $15.3 million (36.3%) in 2019 as referenced above.

At December 31, 2018, the two most significant industry concentrations were dairy 49% and timber 12%. Loans to maple represented 11% of the loan portfolio, farm related businesses 4%, field crops 4%, fruit & vegetables 2% and livestock 2%.

See Note 3 to the Consolidated Financial Statements, "Loans and Allowance for Loan Losses," for additional information about the Association's loan portfolio.

Our loan portfolio is geographically diversified throughout our assigned territory, which consists of all of Vermont, four counties in western New Hampshire, and two counties in northeastern New York. As of December 31, 2019, approximately 73% of our loan volume was with Vermont borrowers, 14% with New Hampshire borrowers, and 9% with New York borrowers.



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

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

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

The following table shows performing loans and high risk assets. By this measure, loan quality improved slightly in 2019.

	December 31,		
	2019	2018	2017
Performing loans	98.8%	98.3%	99.1%
High risk assets			
Nonaccrual loans	0.8%	1.0%	0.9%
Loans 90+ days past due	0.0%	0.0%	0.0%
Accrual TDR loans*	0.4%	0.7%	0.0%
OPO	0.0%	0.0%	0.0%
Total high risk assets	1.2%	1.7%	0.9%
Total loans + OPO	100.0%	100.0%	100.0%

Percentages based on volume.
*rounds to zero in 2017

Another measure of loan quality is to consider the credit classification of loans according to the Uniform Classification System. By this measure, loan quality declined in 2019. The following table includes all loans (including nonaccrual loans), but not other property owned (of which the Association has none).

	December 31,		
Credit Classification:	2019	2018	2017
Acceptable	82.4%	84.9%	89.8%
OAEM*	11.8%	9.7%	6.8%
Substandard/doubtful/loss	5.8%	5.4%	3.4%
Total loans	100.00%	100.00%	100.00%

Percentages based on volume.
*Other Assets Especially Mentioned

Two additional measures of loan quality are the delinquency rate and loan charge-offs. The average delinquency rate for the year improved during 2019 and was favorable to our internal goal. There was $121 thousand in charge-offs and recoveries totaling $30 thousand in 2019. There were less than $1 thousand in charge-offs and recoveries totaling $42 thousand in 2018.

	2019	2018	2017
Loans 30 days or more past due (as % of total loans)			
At December 31	1.2%	1.9%	1.5%
Average for the year	1.4%	1.8%	1.5%
Net loan charge-offs (recoveries)			
Amount	$91	($42)	$152
As % of average loans	0.02%	0.01%	0.03%

Percentages based on volume.

Taking all of these measures together, loan quality remained stable in 2019, and overall loan quality at December 31, 2019 was at a satisfactory level and met all regulatory minimums.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses at year-end was $6.182 million, as compared to $6.279 million in 2018, and $5.941 million in 2017. The $97 thousand decrease in the allowance in 2019 consists of a $6 thousand reversal for the allowance for loan losses, cumulative charge-offs of $121 thousand and recoveries of $30 thousand.

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

FUNDING SOURCES, LIQUIDITY AND INTEREST RATE RISK

The Association obtains funds by borrowing from CoBank on a revolving line of credit. The funding relationship with CoBank is governed by a General Financing Agreement (GFA). At December 31, 2019, the Association's Borrowing Base ratio was 87.2%, as compared to 87.4% and 86.8% at December 31, 2018 and 2017, respectively. Because the funding relationship with CoBank provides sufficient liquidity, the Association does not maintain large balances in cash or other liquid investments.

The Association attempts to limit interest rate risk by matching the interest rate characteristics of its debt with the interest rate characteristics of its loans. The Association offers both variable and fixed rate loans. The Association's loan portfolio consisted of the following breakdown by pricing type:

	December 31,		
	2019	2018	2017
Variable rate loans	77%	79%	82%
Fixed rate loan	23%	21%	18%

The interest rate charged to the Association on debt used to fund the fixed rate loans is itself a fixed rate, which limits interest rate risk on that portion of the portfolio. The interest rate charged to the Association on the remaining debt is a variable rate, but the Association has the ability to change the variable rate charged to borrowers as needed.

To reduce interest rate risk, the Association match funds almost all of its loans with similar term debt with CoBank. The Association then receives a credit in the form of interest expense reduction related to the amount of loanable funds, called the loanable funds credit. The Association can receive a credit equal to its cost of funds or direct CoBank to use the loanable funds to purchase fixed-term investments among other options.

Beginning in April 2019, the Association positioned approximately 70% of its loanable funds into fixed term investments at CoBank. As of year-end, there was $67 million equally maturing from six months to seven years with rates from 1.39% to 2.43% which is returned to the Association through its loanable funds credit with CoBank.

The purpose of this strategy is to reduce the volatility of net interest income due to changes in our cost of funds. As noted above, because the Association's equity is used to fund loans, net interest income will be higher when interest rates are higher, and lower when interest rates are lower, all other factors being equal. On the other hand, income from fixed-term instruments will increase when interest rates decrease, and decrease when interest rates increase, all other factors being equal. These two factors will tend to offset each other and result in the reduction of net interest income volatility.

Historically, long term interest rates have on average been higher than short term interest rates. Nevertheless, it is possible to experience several consecutive years of negative impact on net interest income from this strategy.

In 2019, the effect of this strategy on the consolidated statement of income was an increase in net interest income of $51 thousand.

Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds.

At December 31, 2019, the weighted average rate of interest charged to the Association by CoBank was 2.20%.

MISSION RELATED INVESTMENTS

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

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

At December 31, 2019, the Association's net investment in this program was $472 thousand, with 21 FarmStart investments made through that same date.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

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

	December 31,		
	2019	2018	2017
Pension	(929)	(1,174)	(1,178)
Post-Retirement Healthcare	(72)	(88)	(100)
Total Accumulated Other Comprehensive (Loss)	$ (1,001)	$ (1,262)	$ (1,278)

CAPITAL RESOURCES

Members' equity was 19.9% of assets at December 31, 2019, as compared to 19.7% and 19.2% at the end of 2018 and 2017, respectively.

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. Farm Credit Administration (FCA) regulations require the plan consider the following factors in determining optimal capital levels, including:

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

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

- To modernize capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill the System's mission as a government-sponsored enterprise;
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System;
- To make System regulatory capital requirements more transparent; and
- To meet certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

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

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

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

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

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

As shown in the following table, at December 31, 2019, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions and retire equities.

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital	4.5%	1.875%	6.375%	18.29%	18.45%	18.52%
Tier 1 Capital	6.0%	1.875%	7.875%	18.29%	18.45%	18.52%
Total Capital	8.0%	1.875%	9.875%	19.53%	19.70%	19.77%
Permanent Capital	7.0%	0.0%	7.0%	18.62%	18.47%	18.81%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	17.45%	17.84%	17.63%
URE and UREE Leverage	1.5%	0.0%	1.5%	19.62%	19.82%	18.58%

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

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

The minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2019, we met all capital ratio goals.

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

PATRONAGE PROGRAM

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

	December 31, 2019	2018	2017
Patronage Rate (bps)	115	130	115
Total cash patronage (million)	$6.803	$7.949	$6.721

In 2018, a special mid-year patronage was declared in August 2018 in the amount of $1.848 million and paid 100% in cash in October 2018. The Association also declared a year-end patronage distribution of $6.101 million based on 2018 standard earnings and made this distribution 100% cash in April 2019.

The decrease in patronage distribution in 2019 to $6.803 million, down from $7.949 million in the previous year, was due in part to the 30 bps special mid-year patronage paid in October 2018.The increase in patronage distribution in 2018 to $7.949 million, up from $6.721 million in 2017, was due to the increase in loan volume as well as an increase in patronage rate.

CHANGE IN INFORMATION TECHNOLOGY

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

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

REGULATORY MATTERS

On February 13, 2020, the Farm Credit Administration approved a rule that clarifies the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule also revises the criteria by which loans are reinstated to accrual status, and revises 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.

On September 18, 2019, the Farm Credit Administration issued a proposed rule to amend its investment regulations to allow System associations to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the USDA unconditionally guarantees or insures as to timely payment of principal and interest. The rule would authorize associations to buy investments to augment the liquidity of rural credit markets, reduce the capital burden on community banks and other non-System lenders who choose to sell their USDA guaranteed portions of loans, and to enhance the ability of associations to manage risk. The public comment period ended on November 18, 2019.

On September 23, 2019, the Farm Credit Administration issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's "Measurement of Credit Losses on Financial Instruments" are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ended on November 22, 2019.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss 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, 2022, and interim periods within those fiscal years. Early application is permitted.	• Implementation efforts began with 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 a change 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 change 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 2023.

YANKEE FARM CREDIT, ACA

DIRECTORS AND SENIOR OFFICERS

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

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

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

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

Celeste Kane-Stebbins, Chairperson (Region 1)
Celeste Kane-Stebbins has served as a director since 2008. Her current term expires in 2020. Ms. Kane-Stebbins grew up on her family's dairy farm in Sheldon, Vermont. She and her husband, Gregory Stebbins, became Farm Credit members 43 years ago when they purchased their first farm with a loan from the Federal Land Bank of Springfield. Since then they have grown their business through the purchase and lease of several additional farms, including the purchase of Ms. Kane-Stebbins' parents' farm where they now reside. Ms. Kane-Stebbins and her husband established Stebbinshire Farms, Inc. in 2010; their son, Sean, and his wife, Sarah, are co-owners. Sean serves as Vice President and oversees daily operations. Stebbinshire Farms currently operates on 1,500 acres, milks approximately 500 head and raises all replacements. In addition, the farm runs a maple sugaring operation with approximately 10,000 taps. Ms. Kane-Stebbins serves as Secretary/Treasurer of the corporation. Her primary responsibilities include bookkeeping, payroll, and tax preparation. Ms. Kane-Stebbins recently retired from her full-time job as Director of Quality and Risk Management at Copley Hospital in Morrisville, Vermont but continues to work part-time as their Project Specialist. Ms. Kane-Stebbins earned a B.S. from the University of Vermont and a M.S. from the University of Phoenix. She and her husband have four children and were recently blessed with their ninth grandchild. In addition to currently serving on Yankee Farm Credit's Board of Directors, Ms. Kane-Stebbins serves on the Enosburg Falls Economic Development Corporation, the Franklin County Farm Bureau Board of Directors, and Northwestern Medical Center Incorporators.

Alan J. Bourbeau (Region 1)
Alan J. Bourbeau has served as a director since 2007. His current term expires in 2022. Mr. Bourbeau owns and operates a third-generation farm located on Pond Road in Swanton, Vermont. Mr. Bourbeau and his wife Kimberly have been married for 36 years and have three children and five grandchildren. Mr. Bourbeau and his two sons operate Bourbeau & Sons, Inc., which has a 260 cow milking herd and raises all its own replacement livestock. In 2007, the Bourbeau family built a sugarhouse and expanded the sugar woods to 50,000 taps. In addition to managing Bourbeau & Sons, Inc., Bourbeau Farm LLP, and Greens Corners Maple Products, LLC, Mr. and Mrs. Bourbeau buy and sell 700,000 to 1,000,000 pounds of syrup per year from other maple producers. Mr. Bourbeau has served nine years with the Swanton Planning Commission (seven as Chairman) and eighteen years as Franklin County Field Days Director.

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

Bryan E. Davis (Region 2)
Bryan E. Davis has served as a director since 2010. His current term expires 2022. He and his wife Susan have owned and operated Grand View Farm in Derby Line, Vermont since 1978. They recently sold their herd of dairy cows and now lease the tillable land to a neighbor. They have a small maple operation where they tap and boil the sap from 4,500 trees. He works part time for Monroe Tractor, based in New York. He travels around Vermont, Northern New Hampshire and N.E. New York announcing Monroe Tractor's expansion to Vermont. Mr. Davis holds an A.S. in Forestry Management and Land Surveying from Paul Smiths College. He served on the board of directors for the St. Albans Cooperative Creamery for 22 years where he held officer positions of secretary and treasurer. He was chairman of the Quality Committee, and served on the equity and audit committees at the Co-op. He is the former chairman of the New England Dairy Promotion Board, and past director of The United Dairy Industry Association, both of which are involved in dairy promotion. Additionally, Mr. Davis is Chair of the Derby School Board, member and past President of the Orleans County Farm Bureau, 40 year member of the Elks Club, and member of the Orleans County Sugarmakers and the Vermont Sugarmakers Association.

Kenneth F. Deon (Outside Director)
Kenneth F. Deon has served as a director since 2016. His current term expires in 2020. Mr. Deon grew up in Plattsburgh, New York and graduated from SUNY Plattsburgh. His career as a CPA was primarily at KPMG LLP, where Ken served as managing partner of the offices in Burlington, Vermont; Albany, New York; and West Palm Beach, Florida. Mr. Deon has over 30 years of experience providing audit and advisory services to clients in a number of industries, primarily focused in operations, processes, and technical accounting assistance, including business combinations, regulatory accounting, and financial reporting. His audit experience includes IPO/SEC and Sarbanes-Oxley regulatory requirements. He is currently an adjunct Professor at the University of Colorado and has also served as an adjunct Professor of Accounting at Union Graduate School and at Saint Michael's College. He currently lives in Greer, South Carolina.

David Folino (Region 3)
David Folino has served as a director since 2018. His current term expires in 2021. Dave grew up in Essex Junction, graduated from UVM and later earned his MBA from Rensselaer Polytechnic Institute, (RPI). As a kid he worked on dairy farms in Chittenden County. In 1979, after graduating from UVM, he started a small sugaring operation with no experience, like a lot of sugarmakers, his hobby kept growing and eventually turned into a small business, or an overgrown hobby depending upon how you look at it. In the meantime, he spent the next 20 years in the publishing industry, working as a marketing director, general manager and co-owner. In the late 1990s his publishing business was creating some of the earliest electronic books, (formatted for the cutting-edge device, the Palm Pilot.) These concise books focused on business management skills. In 2003 he had an opportunity to sell his share of the publishing business and expand his maple sideline into a full-time business. Currently, Dave and his wife Sue own and operate a 15,500 tap maple sugaring business in Starksboro Vermont. They focus on efficiency, frugality and direct marketing. Dave also teaches classes to other sugarmakers on maple economics and management, and serves on several other agricultural boards and committees.

Paul B. Franklin (Region 3)
Paul B. Franklin has served as a director since 2011. His current term expires in 2020. Mr. Franklin grew up on a small dairy farm in Plainfield, New Hampshire. After graduating from the University of New Hampshire, Mr. Franklin and his wife Nancy started a pick-your-own (PYO) strawberry operation. Forty years later, with the enlisted help of their three children, they own and operate Riverview Farm in Plainfield, New Hampshire, a 45-acre fruit and vegetable operation specializing in PYO apples, blueberries, raspberries, and pumpkins. Mr. Franklin manages field operations and cider pressing, and Mrs. Franklin, with the help of daughter Amy, oversees the retail barn, PYO, and school tours. In addition, they own a 170-acre wood lot managed for timber and firewood production, recreation, and wildlife habitat. For 22 years, Mr. Franklin was a member and Chairman of the New Hampshire Board of Tax and Land Appeals, serving as administrative tax judge. Currently, he is Treasurer of the New Hampshire Fruit Growers Association, a Director of the New Hampshire Statewide Program of Action to Conserve our Environment, and the Plainfield Town and School Moderator.

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

Bradley N. Maxwell (Region 2)
Bradley N. Maxwell has served as a director since 2012. His current term expires in 2021. Mr. Maxwell grew up in Coventry, Vermont, on the dairy farm that his parents started in 1959. He currently owns and operates Maxwells' Neighborhood Farm, LLC and Neighborhood Equities, LLC with his brothers, son and nephew. Mr. Maxwell and his family have been with Yankee Farm Credit for three generations. Over the years, the farm has grown from a 120-cow dairy to the current herd of 800 milking cows and 700 head of young stock. Ever-expanding and diversifying, Neighborhood Energy, LLC's methane digester began operation in late 2008. Its newest ventures are a small sugaring operation and a greenhouse. Mr. Maxwell and his wife Jean have four children. In addition to his work on the farm, Mr. Maxwell has been an integral part of the local and agricultural communities over the past 30 years, including coaching elementary and high school basketball, serving on the Coventry Select board, serving as a delegate on the New England Dairy Promotion Board, and

serves on the Orleans County Natural Resources Conservation District (NRCD) board.

Rene M. Saenger (Region 3)
Rene Saenger has served as a director since 2015. Her current term expires in 2022. Ms. Saenger has been a member of Farm Credit since 1983 when she and her husband, Paul, purchased their first farm in Weybridge, Vermont. In 1988, the Saengers moved to Shoreham and for the next 26 years operated Cream Hill Farm, a 1600 acre, 1600 head capacity beef feeding facility. From 2001 to 2014, she was responsible for the day to day management of Cream Hill Farm. In April 2014, the real estate containing the improvements and infrastructure for feeding cattle were sold to a young farmer. Ms. Saenger retains approximately 1000 acres of agricultural land, which is leased to neighboring farms. Ms. Saenger has a B.S. in Agriculture from the University of Illinois and holds a 100 Ton Master Captain's license. From 1986 to 1992, she owned and operated Farm Management Services, a forage analysis lab. Ms. Saenger currently volunteers at Neat Repeats in Middlebury, Vermont and works at Middlebury Indoor Tennis.

Kyle Thygesen (Region 2)
Kyle Thygesen has served as a director since 2017. His current term expires in 2020. He has been very involved in many aspects of Vermont's agricultural industry since moving back to Vermont with his wife Jennifer in 2000. In 2003, Mr. Thygesen became a member of Yankee Farm Credit with the purchase of their farm in Tunbridge. From then to today, he, his wife Jennifer and son Keenan own and operate the Farmstead at Falls Hill, LLC. The farm has been an award winning organic dairy and now raises and sells registered dairy cattle. Currently, Mr. Thygesen is the Director for Milk Sourcing and Procurement for Stonyfield Organic, the nation's largest organic yogurt company. In his role, Mr. Thygesen manages all of the milk that Stonyfield purchases from cooperatives and milk sourced through their direct milk supply program. Since 2014 Stonyfield has grown the supply from 0 to 32 farm relationships throughout New England. Through this program, eight farms started brand new operations, six generational transfer plans were completed and now a robust supply program is in place. This has been achieved through collaborative efforts with producers and industry service providers. In 2019, his duties have now expanded to include milk procurement for Commonwealth Dairy and Siggi's Yogurt. He enjoys working to serve the agricultural industry and develop its present and future generations. He is active in volunteer work for 4-H and FFA. He and his wife Jennifer were awarded the 2017 Ed Gould Memorial award by Vermont 4H for their work with their 4H club and support of the state dairy program.

Richard Woollams (Outside Director)
Richard Woollams has served as a director since 2019. His current term expires in 2022 He is originally from Ohio, Mr. Woollams holds a BA in Political Science from Kent State University and a JD from Cleveland State University. After a stint as a small-town lawyer, Mr. Woollams joined the insurance industry. He worked for The Travelers in Cleveland, OH and Hartford, CT and then the American International Group (AIG) in New York City in a series of roles over 30 years, the last of which was Global Head of Commercial Claims for AIG, in which his organization of 3,000 employees managed $20 billion in annual payments and $60 billion in reserves across 70 countries. Mr. Woollams retired from AIG in 2016 and now acts as a consultant, expert witness and arbitrator for Property-Casualty insurance carriers on insurance and reinsurance issues. In his career in Property-Casualty claims, Mr. Woollams worked with companies of all sizes and industries in managing their largest insurance-related problems. Mr. Woollams and his wife Brenda Grassey live in New York City and Waitsfield, VT.

BOARD COMMITTEES

The Board of Directors has established five standing committees. Each committee is governed by a formal charter. The directors serving on each committee as of December 31, 2019 are indicated on the Director's page at the end of this report.

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

The Audit Committee consists of six directors, who met five times in 2019 in person. Mr. Kenneth Deon is Chairperson.

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

The Compensation Committee consists of six directors, who met two times in 2019 in person. Mr. Tom Colgan is Chairperson.

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

The Executive Committee consists of four directors, who did not meet in 2019. Mr. Alan Bourbeau is Chairperson.

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

The Membership/Governance Committee consists of five directors, who met two times in 2019 in person. Mr. Bryan Davis is Chairperson.

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

The Strategy and Risk Management Committee consists of six directors, who met four times in 2019 in person. Mr. Paul Franklin is Chairperson.

SENIOR OFFICERS

Brenda K. Frank (President and CEO)
Brenda K. Frank, has been employed by the Association since 2016. Ms. Frank's 28 years of experience in agriculture commenced with managing the family farm in Minnesota. Subsequently, at Syngenta, she worked in sales and IT. At Cargill, she managed marketing and agronomy. For 10 years prior to joining the Association, she directed Farm Credit Canada's Western Provinces commercial lending and point-of-sale functions, as well as worked closely with the Board of Directors to create long-term business strategy and develop enterprise risk management and corporate planning processes. Ms. Frank holds a M.B.A. from the University of Maryland and a B.S. in Soil Science from the University of Minnesota. She is a Chartered Director from McMasters University in Canada and continues in the study and advancement of effective corporate governance.

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

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

David E. Lane, (Senior Vice President, Marketing and Business Services)
David E. Lane has been employed by the Association since 2011, and has over 25 years of economic development, financial and technical assistance expertise. He has primary responsibility for overseeing marketing, business development and the business services division. In addition, he is the Legislative Officer managing relationships with several state and federal agencies. David has held the positions of Regional Manager, Branch Manager and Senior Loan Officer at YFC. Prior to Yankee, Mr. Lane was a Loan Officer with Vermont Agricultural Credit Corporation (VACC). He also held the positions of Deputy Secretary for the Vermont Agency of Agriculture, Food and Markets from 2003 to 2006, Executive Director of the Intervale Center from 2000 to 2003 and Director of Lending at Vermont Community Loan Fund from 1995 to 2000. Mr. Lane grew up on the family dairy farm which he operated in partnership with his father until 1995. Having purchased the farm in 1999 he lives in the farmhouse with his wife. Together with his two sons they continue to operate the farm and Snow Farm Vineyard producing wine, maple syrup and operate a bed and breakfast.

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

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

A. Director Compensation

Directors are compensated at a flat daily rate for attendance at Board meetings and other activities authorized by the Board. Per Board Policy dated June 27, 2018, the rate is $550 per day ($650 per day for the Board Chairperson at meetings at which he/she presides, and $650 per day for the Chairperson of the Audit Committee at meetings where he/she presides). Directors receive an annual retainer of $4,000 ($5,000 for the Board Chairperson) and are paid for participating in telephone conference calls. There were seven Board meetings held during 2019. Other activities attended by Directors included, but were not limited to: Association committee meetings, national directors' meetings, and national training sessions. Compensation paid to directors in 2019 was:

	Days Served		
Director	Board Meetings	Other Activities	Compensation
Alan J. Bourbeau	7	2.5	11,150
Thomas J. Colgan	7	3	12,250
Bryan E. Davis	7	5.5	15,600
Kenneth F. Deon	7	5.5	15,425
Rocki-Lee DeWitt*	2	1	2,200
David Folino	7	2	10,325
Paul B. Franklin	7	4.5	18,600
Craig Giroux	7	3.5	14,450
Celeste Kane-Stebbins	7	4	17,375
Bradley N. Maxwell	7	4	13,625
Rene Saenger	7	8	15,125
Kyle Thygesen	7	2	12,800
Richard Woollams**	5	5.5	13,550
Total	84	51	$172,475

Term expired in 2019* * Elected in 2019*

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

	Committee				
Director	Audit	Strategy & Risk	Compensation	Executive	Membership/ Governance
Bourbeau	$	$ 1,650	$ 1,100	$	$
Colgan		2,200	1,100		
Davis	2,750				1,100
Deon	4,275				
DeWitt	550	550			
Folino	550		550		1,100
Franklin		2,200	550		
Giroux	2,200		550		
Kane-Stebbins		2,200			1,100
Maxwell	2,750				1,100
Saenger	3,325	1,650			
Thygesen			1,100		550
Woollams	2,175	1,650			
Total	$ 18,575	$ 12,100	$ 4,950	$	$ 4,950

B. Senior Officer Compensation

The following tables show the total compensation paid by the Association in each of the last three years to the CEO and to the senior officers and other highly compensated employees as a group (excluding the CEO). Disclosure of the total compensation paid during the last fiscal year to any senior officer included in the aggregate is available to shareholders on request.

	2019	2018	2017
CEO	Brenda K. Frank	Brenda K. Frank	Brenda K. Frank
Salary	$306,563	$300,000	$300,000
Bonus	–	–	10,000
Deferred/perquisites	–	–	–
Other	2,316	2,538	3,650
Total	$308,879	$302,538	$313,650

Senior Officers*	2019	2018	2017
Number in group	Six	Five	Six
Salary	$983,096	$726,841	$839,742
Bonus	–	10,000	38,488
Deferred/perquisites	–	–	–
Other	12,846	13,812	26,420
Total	$995,942	$750,653	$904,650

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

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

The amounts identified as bonuses in the above CEO table reflect unique bonuses that were awarded to the CEOs only and are not guaranteed in any year.

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

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

Ms. Frank is employed as President and CEO under terms of an employment agreement through December 31, 2022.

C. Travel, Subsistence and Other Related Expenses

The Association's travel policy provides that directors and employees will be reimbursed for reasonable out-of-pocket expenses while traveling on official Association business. Business use of a personal automobile is reimbursed at the IRS standard mileage rate. Some employees are assigned a company car. A copy of the Association's travel policy is available to shareholders on request. The total amount of reimbursement for training, travel, subsistence and related expenses for all directors as a group was $74,371, $85,797, and $81,588 in 2019, 2018, and 2017, respectively.

TRANSACTIONS AND LOANS WITH DIRECTORS AND SENIOR OFFICERS

The Association abides by all policies and procedures of CoBank and the FCA pursuant to transactions and loans with directors and senior officers of the Association.

A. Transactions Other Than Loans

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

B. Loans

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

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

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

RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS

There were no disagreements with our independent public accountants, PricewaterhouseCoopers, LLP (PwC) on any matter of accounting principles or financial statement disclosures during this period. In 2019, the Association paid PwC a fee of $73,850 for audit services, a fee of $22,600 for tax services, and a fee of $15,000 for transfer pricing analysis services.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report of PwC dated March 12, 2020, and the report of management, which appear in this Annual Report are incorporated herein by reference.

Copies of the Association's annual and quarterly reports are available upon request free of charge by calling 1-800-639-3053 or writing Pamela A. Simek, CFO, Yankee Farm Credit, ACA, 289 Hurricane Lane, Suite 202, Williston, VT 05495, or on our website, ***www.yankeefarmcredit.com***. The Annual Report is available on the website within 75 days after the end of the fiscal year, and is distributed to shareholders within 90 days after the end of the fiscal year. The Quarterly Report is available on the website within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

YANKEE FARM CREDIT, ACA
CERTIFICATION STATEMENT
FOR 2019 ANNUAL REPORT

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

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

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

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

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

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

Celeste Kane-Stebbins
Chairperson, Board of Directors

Brenda K. Frank
President and CEO

Kenneth Deon
Chairperson, Audit Committee

Pamela A. Simek
SVP/Chief Financial Officer

March 12, 2020

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Yankee Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2019, 2018 and 2017, and the related consolidated statements of income, of comprehensive income, of changes in members' equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Yankee Farm Credit, ACA and its subsidiaries as of December 31, 2019, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Fort Lauderdale, Florida
March 12, 2020

PricewaterhouseCoopers LLP, *401 East Las Olas Boulevard Suite 1800 Fort Lauderdale, Florida 33301*
T: 954 764 7111, www.pwc.com/us

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2019	2018	2017
Assets			
Cash	**$ 67**	$ 90	$ 13
Loans	**547,763**	523,745	511,930
Allowance for loan losses	**(6,182)**	(6,279)	(5,941)
Net loans	**541,581**	517,466	505,989
Other investments	**472**	463	369
Accrued interest receivable	**2,690**	2,346	2,013
Equity investments in other Farm Credit institutions	**22,985**	21,531	19,940
Premises and equipment, net	**3,418**	3,500	3,655
Accounts receivable	**5,528**	5,057	4,545
Other assets	**1,790**	738	729
Total assets	**$ 578,531**	$ 551,191	$ 537,253
Liabilities			
Notes payable to CoBank, ACB	**$ 451,264**	$ 431,926	$ 423,158
Accrued interest payable	**829**	944	647
Patronage refunds payable	**6,803**	6,099	6,271
Accounts payable	**2,412**	2,236	2,233
Other liabilities	**2,047**	1,432	1,575
Total liabilities	**463,355**	442,637	433,884
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**1,110**	1,098	1,126
Unallocated retained earnings	**115,067**	108,718	103,521
Accumulated other comprehensive income (loss)	**(1,001)**	(1,262)	(1,278)
Total members' equity	**115,176**	108,554	103,369
Total liabilities and members' equity	**$ 578,531**	$ 551,191	$ 537,253

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

Consolidated Statements of Income

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Interest Income			
Loans	**$ 31,297**	$ 28,663	$ 23,581
Interest Expense			
Notes payable to CoBank, ACB	**11,412**	9,579	6,218
Net interest income	**19,885**	19,084	17,363
Provision for (reversal of allowance for) loan losses	**(6)**	296	300
Net interest income after provision for (reversal of allowance for) loan losses	**19,891**	18,788	17,063
Noninterest Income			
Loan fees	**152**	126	54
Fees for financially related services	**1,701**	1,597	1,601
Lease income	**14**	6	6
Patronage refunds from other Farm Credit institutions	**3,505**	3,950	3,139
Gains (losses) on sales of premises and equipment, net	**39**	3	34
Gains (losses) on other transactions	**(17)**	(7)	(161)
Insurance Fund refunds	**121**	346	—
Other noninterest income	**6**	15	9
Total noninterest income	**5,521**	6,036	4,682
Noninterest Expense			
Salaries and employee benefits	**6,798**	6,868	6,797
Occupancy and equipment	**781**	545	492
Insurance Fund premiums	**348**	339	515
Other operating expenses	**4,317**	3,924	4,033
Total noninterest expense	**12,244**	11,676	11,837
Income before income taxes	**13,168**	13,148	9,908
Provision for income taxes	**3**	3	3
Net income	**$ 13,165**	$ 13,145	$ 9,905

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Net income	**$ 13,165**	$ 13,145	$ 9,905
Other comprehensive income net of tax			
Employee benefit plans adjustments	**261**	16	283
Comprehensive income	**$ 13,426**	$ 13,161	$ 10,188

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2016	$ 1,092	$ 99,887	$ (1,561)	99,418
Comprehensive income		9,905	283	10,188
Capital stock/participation certificates issued/(retired), net	34			34
Patronage distribution				
Cash		(6,271)		(6,271)
Balance at December 31, 2017	$ 1,126	$ 103,521	$ (1,278)	$ 103,369
Comprehensive income		13,145	16	13,161
Capital stock/participation certificates issued/(retired), net	(28)			(28)
Patronage distribution				
Cash		(7,949)		(7,949)
Adsutment for rounding		1		1
Balance at December 31, 2018	$ 1,098	$ 108,718	$ (1,262)	$ 108,554
Cumulative effect of change in accounting principle		**(13)**		**(13)**
Comprehensive income		**13,165**	**261**	**13,426**
Capital stock/participation certificates issued/(retired), net	**12**			**12**
Patronage distribution				
Cash		**(6,803)**		**(6,803)**
Balance at December 31, 2019	**$ 1,110**	**$ 115,067**	**$ (1,001)**	**$ 115,176**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Cash flows from operating activities:			
Net income	**$ 13,165**	$ 13,145	$ 9,905
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**342**	333	317
Provision for (reversal of allowance for) loan losses	**(6)**	296	300
Noncash patronage distribution	**(726)**	(666)	(634)
(Gains) losses on sales of premises and equipment, net	**(39)**	(3)	(34)
(Gains) losses on other transactions	**17**	7	161
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**(344)**	(333)	(393)
(Increase) decrease in accounts receivable	**(471)**	(512)	(190)
(Increase) decrease in other assets	**(1,065)**	(9)	(36)
Increase (decrease) in accrued interest payable	**(115)**	297	271
Increase (decrease) in accounts payable	**176**	3	29
Increase (decrease) in other liabilities	**859**	(134)	48
Total adjustments	**(1,372)**	(721)	(161)
Net cash provided by (used in) operating activities	**11,793**	12,424	9,744
Cash flows from investing activities:			
Net (increase) decrease in loans	**(24,109)**	(11,773)	(31,457)
(Increase) decrease in equity investments in other Farm Credit institutions	**(728)**	(925)	(999)
Purchases of other investments	**(9)**	(94)	(68)
Purchases of premises and equipment	**(299)**	(194)	(378)
Proceeds from sales of premises and equipment	**78**	19	77
Net cash provided by (used in) investing activities	**(25,067)**	(12,967)	(32,825)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to CoBank, ACB, net	**19,338**	8,768	24,014
Capital stock and participation certificates issued/(retired), net	**12**	(28)	34
Patronage refunds and dividends paid	**(6,099)**	(8,120)	(5,115)
Net cash provided by (used in) financing activities	**13,251**	620	18,933
Net increase (decrease) in cash	**(23)**	77	(4,148)
Cash, beginning of period	**90**	13	4,161
Cash, end of period	**$ 67**	$ 90	$ 13
Supplemental schedule of non-cash activities:			
Estimated cash dividends or patronage distributions declared or payable	**$ 6,803**	$ 7,949	$ 6,271
Employee benefit plans adjustments (Note 9)	**(261)**	(16)	(283)
Supplemental information:			
Interest paid	**$ 11,527**	$ 9,282	$ 5,947
Taxes (refunded) paid, net	**2**	1	—

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

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

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The System is comprised of three Farm Credit Banks, one Agricultural Credit Bank and 68 associations.

CoBank, ACB (funding bank or the "Bank"), and its related associations are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. The CoBank District consists of CoBank and 21 Agricultural Credit Associations (ACAs), which each have two wholly owned subsidiaries, (a FLCA and a PCA).

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Each of the ratings carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows significantly as a loan moves from a 9 to 10 (other assets especially mentioned) and grows more significantly as a loan moves to a substandard viable level of 11. A substandard non-viable rating of 12 indicates that the probability of default is almost certain. Loans risk rated 13 or 14 are generally written off.

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

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

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

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

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

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

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

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

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

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

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

Additional information may be found in Note 9.

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

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

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

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

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

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

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

K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

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

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

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing.

The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist.

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

Additional information may be found in Note 8.

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

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

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

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

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

Contracts with Customers
The Association maintains contracts with customers to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. As most of the contracts are to provide access to expertise or system capacity that the Association maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. The Association also does not generally incur costs to obtain contracts. Revenue is recognized to reflect the transfer of goods and services to customers in an amount equal to the consideration the Association receives or expects to receive.

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

N. **Leases:**
Lessee
Contracts entered into are evaluated at inception to determine if they contain a lease. Assets and liabilities are recognized on the Consolidated Balance Sheets to reflect the rights and obligations created by any contracts that contain a lease. These contracts are then classified as either operating or finance leases.

In the course of normal operations, the Association may enter into leases for various business purposes. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement. Any options are assessed individually to determine if it is reasonably certain they will be exercised.

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make the payments arising from the lease. ROU assets and lease liabilities are initially recognized based on the present value of lease payments over the lease term. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Lease expense for finance leases is recognized on a declining basis over the lease term.

ROU assets are included on the Consolidated Balance Sheets in Premises and Equipment for finance leases and Other Assets for operating leases. Lease liabilities are included in Other Liabilities on the Consolidated Balance Sheets. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets and lease expense is recognized over the lease term.

Lessor
The Association acts as lessor in certain contractual arrangements. The contracts relate to office space in an owned property and are considered operating leases. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement.

Lease income is recognized on a straight-line basis over the lease term. Lease and nonlease components are accounted for separately in the Consolidated Statements of Income. Any initial direct costs are deferred and recognized as an expense over the lease term on the same basis as lease income. Any taxes assessed by a governmental authority are excluded from consideration as variable payments.

Lease receivables and income are included in Accounts Receivable on the Consolidated Balance Sheets and Lease Income in the Consolidated Statements of Income.

O. **Accounting Standards Updates (ASUs):** In January 2020, the FASB issued ASU 2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarify certain interactions between the guidance on accounting for certain equity securities under Topic 321, the guidance on accounting for investments under the equity method in Topic 323, and the guidance in Topic 815. The Update could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments are intended to improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period. Evaluation of any possible effects the guidance may have on the consolidated statements of financial condition and results of operations is in progress.

In December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments simplify the accounting for income taxes by removing the following exceptions:

- Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income),
- Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment,
- Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and
- Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

The amendments also simplify the accounting for income taxes by doing the following:

- Requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax,
- Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction,
- Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; however, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority,
- Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date, and
- Making minor codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Any possible effects the guidance may have on the consolidated statements of financial condition and results of operations are not likely to be material.

In November 2019, the FASB issued ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation, the Board has gained a greater understanding about the implementation challenges encountered by all types of entities when adopting a major Update. The challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations. In response to those issues and requests to defer certain major Updates not yet effective for all entities, the Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). Credit Losses guidance in ASU 2016-13 will be effective for all bucket two entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

In May 2019, the FASB issued ASU 2019-05 Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief. The amendments in this Update provide entities with an option to irrevocably elect the fair value option applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective date and transition methodology for the amendments in this Update are the same as in that update. Evaluation of any possible effects the guidance may have on the consolidated statements of financial condition and results of operations is in progress.

In April 2019, the FASB issued ASU 2019-04 Codification Improvements to Topic 326 Financial Instruments—Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825 Financial Instruments. The amendments in this Update clarify, correct, and improve various aspects of the guidance in the following Updates related to financial instruments: ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The items addressed generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition requirements in ASU 2016-13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting policy upon adoption of the amendments in this Update for determining when accrued interest receivables are deemed uncollectible and written off. For entities that have adopted the amendments in ASU 2017-12 as of the issuance date of this Update, the effective date is as of the beginning of the first annual period beginning after the issuance date of this Update. For those entities, early adoption is permitted, including adoption on any date on or after the issuance of this Update. The amendments in this Update related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance of this Update as long as the entity has adopted all of the amendments in ASU 2016-01. The amendments in this Update should be applied on a modified-retrospective transition basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted all of the amendments in ASU 2016-01. Adoption of the guidance related to ASU 2016-01 and ASU 2017-12 is not expected to have an impact on the consolidated statements of financial condition or results of operations. Evaluation of any possible effects the ASU 2016-13 guidance may have on the consolidated statements of financial condition and results of operations is in progress.

In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The guidance will be adopted on a prospective basis in 2020 and is not expected to have a material impact on the consolidated statements of financial condition or results of operations.

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, and the remaining disclosures were adopted with the 2019 Annual Report.

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 consolidated 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 consolidated statements of financial condition and results of operations.

In March 2017, the FASB issued ASU 2017-07 Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments were effective for annual periods beginning after December 15, 2018.

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, 2022, 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 consolidated statements of financial condition and results of operations is in progress.

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 are classified as either finance leases or operating leases. This distinction is relevant for the pattern of expense recognition in the income statement. Lessor accounting guidance is largely unchanged from the previous standard. 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.

<u>Transition Information</u>

- 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 related to initial application of the guidance 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) thousand was recorded. In addition, a Right of Use Asset in the amount of $274 thousand and Lease Liability in the amount of $287 thousand were recognized.
- Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as

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

A summary of loans outstanding at period end follows:

	December 31, 2019	December 31, 2018	December 31, 2017
Real estate mortgage	$ 234,740	$ 231,021	$ 217,434
Production and intermediate-term	211,872	208,247	221,398
Loans to cooperatives	14,468	7,735	5,902
Processing and marketing	42,972	37,280	31,830
Farm-related business	38,576	37,199	32,884
Power and water/waste disposal	3,861	670	707
Rural residential real estate	1,274	1,593	1,775
Total loans	$ 547,763	$ 523,745	$ 511,930

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

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

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

	December 31, 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	$ 11,727	$ 23,119	$ 2,159	–	–	–	13,886	23,119
Production and intermediate-term	1,453	279,041	–	737	–	–	1,453	279,778
Loans to cooperatives	14,505	–	–	–	–	–	14,505	–
Processing and marketing	13,973	45,404	–	–	–	–	13,973	45,404
Farm-related business	10,029	–	–	–	–	–	10,029	–
Power and water/waste disposal	3,888	–	–	–	–	–	3,888	–
Total	$ 55,575	$ 347,564	$ 2,159	737	–	–	57,734	348,301

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

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

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

	December 31, 2019			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	$ 1,460	$ 5,726	$ 227,554	$ 234,740
Production and intermediate term	14,668	55,831	141,373	211,872
Loans to cooperatives	–	10,730	3,738	14,468
Processing and marketing	12,056	5,778	25,138	42,972
Farm-related business	9,464	11,049	18,063	38,576
Power and water/waste disposal	–	1,826	2,035	3,861
Rural residential real estate	–	72	1,202	1,274
Total loans	$ 37,648	$ 91,012	$ 419,103	$ 547,763
Percentage	6.87%	16.62%	76.51%	100.00%

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

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	December 31, 2019	December 31, 2018	December 31, 2017
Real estate mortgage:			
Acceptable	76.96%	79.72%	87.55%
OAEM	13.09	13.39	8.43
Substandard/doubtful/loss	9.95	6.89	4.02
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	84.42%	84.99%	89.24%
OAEM	11.98	9.37	7.17
Substandard/doubtful/loss	3.60	5.64	3.59
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	99.06%	98.92%	98.88%
OAEM	–	–	1.12
Substandard/doubtful/loss	0.94	1.08	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	77.08%	99.12%	97.16%
OAEM	22.62	0.22	0.26
Substandard/doubtful/loss	0.30	0.66	2.58
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	100.00%	86.62%	87.47%
OAEM	–	13.38	12.53
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	82.40%	84.90%	89.76%
OAEM	11.85	9.69	6.81
Substandard/doubtful/loss	5.75	5.41	3.43
	100.00%	100.00%	100.00%

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

December 31, 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	$ 1,371	$ 1,186	$ 2,557	$ 233,468	$ 236,025
Production and intermediate-term	1,099	1,105	2,204	210,709	212,913
Loans to cooperatives	–	–	–	14,510	14,510
Processing and marketing	–	–	–	43,099	43,099
Farm-related business	1,622	82	1,704	37,061	38,765
Power and water/waste disposal	–	–	–	3,861	3,861
Rural residential real estate	–	–	–	1,280	1,280
Total	$ 4,092	$ 2,373	$ 6,465	$ 543,988	$ 550,453

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

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

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

	December 31, 2019	2018	2017
Nonaccrual loans:			
Real estate mortgage	$ 2,594	$ 1,085	$ 915
Production and intermediate-term	1,566	4,168	3,460
Farm-related business	97	226	202
Total	$ 4,257	$ 5,479	$ 4,577
Accruing restructured loans:			
Real estate mortgage	$ 1,490	$ 2,196	$ 77
Production and intermediate-term	853	1,308	–
Total	$ 2,343	$ 3,504	$ 77
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 6,600	$ 8,983	$ 4,654
Other property owned	–	–	–
Total nonperforming assets	$ 6,600	$ 8,983	$ 4,654
Nonaccrual loans as a percentage of total loans	0.78%	1.05%	0.89%
Nonperforming assets as a percentage of total loans and other property owned	1.20%	1.72%	0.91%
Nonperforming assets as a percentage of capital	5.73%	8.28%	4.50%

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

	December 31, 2019	2018	2017
Impaired nonaccrual loans:			
Current as to principal and interest	$ 1,765	$ 519	$ 559
Past due	2,492	4,960	4,018
Total	$ 4,257	$ 5,479	$ 4,577
Impaired accrual loans:			
Restructured	$ 2,343	$ 3,504	$ 77
90 days or more past due	–	–	–
Total	$ 2,343	$ 3,504	$ 77
Total impaired loans	$ 6,600	$ 8,983	$ 4,654
Additional commitments to lend	$ 3	$ 3	$ –

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

	December 31, 2019			Year Ended December 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	$ 2,594	$ 3,589	$ 131	$ 3,908	$ 28
Production and intermediate-term	1,566	1,619	177	2,359	17
Farm-related business	97	161	5	146	1
Total	$ 4,257	$ 5,369	$ 313	$ 6,413	$ 46
With no related allowance for credit losses:					
Real estate mortgage	$ 1,490	$ 1,484	$ –	$ 2,244	$ 16
Production and intermediate-term	853	846	–	1,286	9
Farm-related business	–	–	–	–	–
Total	$ 2,343	$ 2,330	$ –	$ 3,530	$ 25
Total:					
Real estate mortgage	$ 4,084	$ 5,073	$ 131	$ 6,152	$ 44
Production and intermediate-term	2,419	2,465	177	3,645	26
Farm-related business	97	161	5	146	1
Total	$ 6,600	$ 7,699	$ 313	$ 9,943	$ 71

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

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

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Power and Water/Waste Disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2018	$ 3,269	$ 2,718	$ 284	$ 1	$ 7	$ 6,279
Charge-offs	(121)	–	–	–	–	(121)
Recoveries	1	29	–	–	–	30
Provision for loan losses	193	(459)	247	12	1	(6)
Balance at December 31, 2019	$ 3,342	$ 2,288	$ 531	$ 13	$ 8	$ 6,182
Balance at December 31, 2017	$ 2,902	$ 2,705	$ 326	$ –	$ 8	$ 5,941
Charge-offs	–	–	–	–	–	–
Recoveries	21	21	–	–	–	42
Provision for loan losses	346	(8)	(42)	1	(1)	296
Balance at December 31, 2018	$ 3,269	$ 2,718	$ 284	$ 1	$ 7	$ 6,279
Balance at December 31, 2016	$ 2,691	$ 2,824	$ 269	$ –	$ 9	$ 5,793
Charge-offs	(21)	(147)	–	–	–	(168)
Recoveries	–	11	5	–	–	16
Provision for loan losses	232	17	52	–	(1)	300
Balance at December 31, 2017	$ 2,902	$ 2,705	$ 326	$ –	$ 8	$ 5,941
Allowance on loans evaluated for impairment:						
Individually	$ 131	$ 177	$ 5	$ –	$ –	$ 313
Collectively	3,211	2,111	526	13	8	5,869
Balance at December 31, 2019	$ 3,342	$ 2,288	$ 531	$ 13	$ 8	$ 6,182
Individually	$ 55	$ 251	$ 34	$ –	$ –	$ 340
Collectively	3,214	2,467	250	1	7	5,939
Balance at December 31, 2018	$ 3,269	$ 2,718	$ 284	$ 1	$ 7	$ 6,279
Individually	$ 118	$ 186	$ 109	$ –	$ –	$ 413
Collectively	2,784	2,519	217	–	8	5,528
Balance at December 31, 2017	$ 2,902	$ 2,705	$ 326	$ –	$ 8	$ 5,941
Recorded investment in loans evaluated for impairment:						
Individually	$ 2,594	$ 1,566	$ 97	$ –	$ –	$ 4,257
Collectively	233,431	211,347	96,277	3,861	1,280	546,196
Balance at December 31, 2019	$ 236,025	$ 212,913	$ 96,374	$ 3,861	$ 1,280	$ 550,453
Individually	$ 3,129	$ 5,480	$ 226	$ –	$ –	$ 8,835
Collectively	228,968	203,778	82,233	677	1,600	517,256
Balance at December 31, 2018	$ 232,097	$ 209,258	$ 82,459	$ 677	$ 1,600	$ 526,091
Individually	$ 992	$ 3,437	$ 225	$ –	$ –	$ 4,654
Collectively	217,316	218,897	70,583	712	1,781	509,289
Balance at December 31, 2017	$ 218,308	$ 222,334	$ 70,808	$ 712	$ 1,781	$ 513,943

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

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

	Year Ended December 31, 2019				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 415	$ 811	$ –	$ 1,226	
Production and intermediate-term	254	932	–	1,186	
Total	$ 669	$ 1,743	$ –	$ 2,412	
Post-modification:					
Real estate mortgage	$ 415	$ 812	$ –	$ 1,227	$ –
Production and intermediate-term	254	932	–	1,186	–
Total	$ 669	$ 1,744	$ –	$ 2,413	$ –

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

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

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

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

Defaulted troubled debt restructurings	Year Ended December 31, 2019	2018	2017
Real estate mortgage	$ –	$ 241	$ –
Production and intermediate-term	–	161	–
Total	$ –	$ 402	$ –

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

	Total TDRs December 31,			Nonaccrual TDRs December 31,		
	2019	2018	2017	2019	2018	2017
Real estate mortgage	$ 2,832	$ 2,869	$ 703	$ 1,342	$ 673	$ 626
Production and intermediate-term	1,755	1,547	–	902	239	–
Farm-related business	15	45	–	15	45	–
Total Loans	$ 4,602	$ 4,461	$ 703	$ 2,259	$ 957	$ 626
Additional commitments to lend	$ 2	$ 3	$ –			

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions

The Association's equity investment in CoBank is in the form of Class A stock with a par value of $100 per share. The Association is required to invest in CoBank for two purposes. First, the Association is required to invest in CoBank to capitalize the Association's loan from CoBank. The capitalization requirement for this purpose is 4 percent of the average borrowings for the current year. For 2019, the required investment in CoBank for this purpose was $17.480 million and the actual investment was $17.478 million. When the Association's investment is more than the required amount, CoBank adjusts the interest rate to the Association to compensate for any capital in excess of the required amount. As the capitalization requirement is measured at year-end, the interest rate adjustment will be effective in the subsequent year.

Second, the Association is required to invest in CoBank to capitalize any participation loans sold to CoBank. In 2019, the capitalization requirement for this purpose was 8 percent of the previous ten years' average participations sold. For 2019, the required investment in CoBank for this purpose was $12.943 million and the actual investment was $5.206 million. When the Association's investment is less than the required amount, CoBank pays a portion of the patronage refunds to the

Association in the form of stock. Currently, CoBank pays the refunds 75 percent in cash and 25 percent in stock.

The noncash patronage refund received by the Association was $726 thousand, $666 thousand, and $634 thousand in 2019, 2018, and 2017, respectively.

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

The Association owned 0.65% of the issued stock of CoBank on December 31, 2019. As of that date, CoBank's assets totaled $145.004 billion and members' equity totaled $10.567 billion. CoBank earned net income of $1.091 billion during 2019. In addition, the Association had investments of $301 thousand related to other Farm Credit institutions at December 31, 2019.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2019	2018	2017
Land	$ 558	$ 558	$ 545
Buildings and improvements	3,124	3,138	3,152
Furniture and equipment	1,438	1,426	1,473
	5,120	5,122	5,170
Less: accumulated depreciation	1,702	1,622	1,515
Total	$ 3,418	$ 3,500	$ 3,655

Note 6 — Debt

Notes Payable to CoBank

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets, and is governed by a General Financing Agreement (GFA). The GFA and promissory note are subject to periodic renewals in the normal course of business. The Association believes it was in compliance with the terms and conditions of the GFA as of December 31, 2019. The interest rate is periodically adjusted by CoBank. The average interest rate was 2.20 percent, 2.30 percent, and 1.90 percent at December 31, 2019, 2018, and 2017, respectively.

CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2019, the Association's note payable was within the specified limitations.

Note 7 — Members' Equity

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

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

A. **Protected Borrower Equity:** The Association had no protected borrower equity outstanding as of December 31, 2019.

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

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

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

   At December 31, 2019, the Association had 207,507 shares of Class B stock outstanding at a par value of $5 per share, and 14,407 shares of Class B participation certificates outstanding at a par value of $5 per share.

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

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

   Effective January 1, 2017, the regulatory capital requirements for System banks and associations were modified. These regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. Regulatory ratios include common equity tier 1

(CET1) capital, tier 1 capital, and total capital risk-based ratios. The regulations also include a tier 1 leverage ratio and an unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

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

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

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital	4.5%	1.875%	6.375%	18.29%	18.45%	18.52%
Tier 1 Capital	6.0%	1.875%	7.875%	18.29%	18.45%	18.52%
Total Capital	8.0%	1.875%	9.875%	19.53%	19.70%	19.77%
Permanent Capital	7.0%	0.0%	7.0%	18.62%	18.47%	18.81%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	17.45%	17.84%	17.63%
URE and UREE Leverage	1.5%	0.0%	1.5%	19.62%	19.82%	18.58%

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

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

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

For December 31, 2019, 2018 and 2017, patronage distribution payable was $6.803 million, $6.101 million and $6.271 million, respectively. In October 2018, the Association paid out $1.848 million in a special mid-year patronage payment. The combined patronage rate was 1.15 percent of the average daily balance of originated loans for 2019, 1.30 percent of the average daily balance of originated loans for 2018, and 1.15 percent of the average daily balance of originated loans for 2017.

The Association had no allocated surplus as of December 31, 2019, 2018 and 2017.

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

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

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

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

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

	For the Year Ended December 31,		
	2019	**2018**	**2017**
Employee Benefit Plans:			
Balance at beginning of period	$ (1,262)	$ (1,278)	$ (1,561)
Other comprehensive income (loss) before reclassificatio	240	(7)	274
Amounts reclassified from AOCI	21	23	9
Net current period OCI	261	16	283
Balance at end of period	$ (1,001)	$ (1,262)	$ (1,278)

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

	For the Year Ended December 31,			
	2019	**2018**	**2017**	**Income Statement Line Item**
Employee Benefit Plans:				
Periodic pension costs	$ (21)	$ (23)	$ (9)	See Note 9
Amounts reclassified	$ (21)	$ (23)	$ (9)	

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

Note 8 — Fair Value Measurement

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

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

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

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

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

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

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

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

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

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

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

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

	December 31, 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	$ 3,944	$ –	$ –	$ 3,944	$ 3,944
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 3,944	$ –	$ –	$ 3,944	$ 3,944
Other Financial Instruments					
Assets:					
Cash	$ 67	$ 67	$ –	$ –	$ 67
Loans	537,637	–	–	555,458	555,458
Other Financial Assets	$ 537,704	$ 67	$ –	$ 555,458	$ 555,525
Liabilities:					
Notes payable to CoBank	$ 451,264	$ –	$ –	$ 453,077	$ 453,077
Other Financial Liabilities	$ 451,264	$ –	$ –	$ 453,077	$ 453,077

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

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

Uncertainty in Measurements of Fair Value

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, and its valuation processes are calibrated annually by an independent consultant. 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	$ 3,944	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 9 — Employee Benefit Plans

Employee Savings Plan

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

Schedule A – Employer Matching Contributions

Under this part of the plan, the Association matches 100 percent of employee contributions up to a maximum employee contribution of 6 percent of salary. Employer contributions charged to expense were approximately $317 thousand, $290 thousand, and $293 thousand in 2019, 2018, and 2017, respectively.

Schedule B – Employer Contributions

Under this part of the plan, the Association contributes a percentage of each employee's salary, based on years of service. Employer contributions charged to expense were $239 thousand, $224 thousand, and $252 thousand in 2019, 2018 and 2017, respectively.

Defined Benefit Plan

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

	December 31, 2019	2018	2017
Change in Benefit Obligation			
Benefit obligation at beginning of year	$ 1,677	$ 1,906	$ 2,045
Service cost	–	–	–
Interest cost	70	68	83
Plan amendments	–	–	–
Actuarial (gain)/loss, net	34	(86)	(1)
Benefits paid	(193)	(211)	(221)
Benefit obligation at end of year	$ 1,588	$ 1,677	$ 1,906

	December 31, 2019	2018	2017
Change in Plan Assets			
Fair value of plan assets at beginning of year	$ 2,285	$ 2,527	$ 2,387
Actual return(loss) on plan assets	335	(31)	361
Employer contributions	–	–	–
Benefits paid	(193)	(211)	(221)
Fair value of plan assets at end of year	2,427	2,285	2,527
Funded status	839	608	621
Fourth quarter employer contributions and other	–	–	–
Net amount recognized at end of year	$ 839	$ 608	$ 621

The fair values of the Association's pension plan assets at December 31, 2019, by asset category are as follows:

	Level 1	Level 2	Level 3	NAV*	Total
Cash	$ 5	$	$	$	$ 5
Domestic Equity:					
Large-cap growth funds	432				432
Large-cap equity funds				398	398
Small-cap growth funds				131	131
International:					
International equity fund	218				218
International growth fund				72	72
Fixed Income:					
Total return fund	541				541
Emerging Markets:					
Equity & fixed income Fund		466			466
Opportunities fund	47				47
Hedge funds				116	116
Fair value of plan assets at end of year	$ 1,243	$ 466	$ –	$ 717	$ 2,426

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

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

	December 31, 2019	2018	2017
Balance sheets:			
Intangible asset (included in other assets)	$ 839	$ 608	$ 621
Pension liability (included in other liabilities)	–	–	–
Accumulated other comprehensive income(loss)	(929)	(1,174)	(1,178)

	Year Ended December 31, 2019	2018	2017
Statements of income:			
Expense (benefit) recognized in salaries and employee benefits	$ 14	$ 17	$ 39

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

	December 31, 2019	2018	2017
Benefit obligations	$ 75	$ 70	$ 76
Net liability recognized	75	70	76
Net periodic (income) expense	$ 21	$ 13	$ (30)

Other

For measurement purposes, a 7.4 percent annual rate of increase in the cost of covered health care benefits is assumed for 2019. The rate was assumed to decrease to 4.5 percent through 2026 and remain at that level thereafter.

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

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

	December 31,		
	2019	2018	2017
Discount rate	3.30%	4.45%	3.75%
Rate of compensation increase (qualified plans only)	3.60%	3.60%	3.60%

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

	December 31,		
	2019	2018	2017
Discount rate	4.45%	3.75%	4.30%
Expected rate of return on plan assets (qualified plans only)	6.00%	6.00%	6.00%
Rate of compensation increase (qualified plans only)	3.60%	3.60%	4.75%

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

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

Note 10 — Related Party Transactions

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

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

Total loans to such persons at December 31, 2019, amounted to \$191.910 million. During 2019, \$70.076 million of new loans and advances on existing loans were made, and repayments totaled \$41.063 million. In the opinion of management, none of these loans outstanding at December 31, 2019, involved more than a normal risk of collectability.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2019, \$112.189 million of commitments to extend credit and no commercial letters of credit were outstanding with a related reserve for unfunded commitments of \$240 thousand included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2019, standby letters of credit outstanding totaled \$3.113 million with expiration dates ranging from January 1, 2020 to August 11, 2021. The maximum potential amount of future payments that may be required under these guarantees was \$3.113 million.

Note 12 — Income Taxes

The provision for income taxes follows:

	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	$ –	$ –	$ –
State	3	3	3
Deferred:			
Federal	–	–	–
State	–	–	–
Total provision for income taxes	$ 3	$ 3	$ 3

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

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

	Year Ended December 31,		
	2019	2018	2017
Federal tax at statutory rate	$ 2,765	$ 2,761	$ 3,368
State tax, net of federal income tax effect	1	1	2
Effect of tax exempt FLCA	(2,045)	(2,427)	(2,778)
Patronage distributions	(688)	(1,670)	(2,132)
Loss Carryforward	4,220	–	–
Change in valuation allowance	(4,854)	1,843	(497)
Changes in tax law/rates	–	–	2,208
Return to provision	745	–	–
Other	(141)	(505)	(168)
Total provision for income taxes	$ 3	$ 3	$ 3

Deferred Tax Assets and Liabilities and Valuation Allowance

Based on the Association's strategic financial plan, primarily expected future patronage programs and the tax benefits of the FLCA subsidiary, management believes that as of the end of 2019, none of the Association's net deferred tax asset will be realizable in future periods. Accordingly, a valuation allowance is provided against net deferred tax assets since it has been determined that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized.

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

	December 31,		
	2019	2018	2017
Allowance for loan losses	$ 792	$ 882	$ 826
Deferred compensation and other postretirement benefits	287	391	367
Net operating loss	–	5,770	4,745
Other	668	868	933
Deferred tax asset	1,747	7,911	6,871
Bank stock patronage after December 31, 1992	57	57	57
Retirement benefits	613	609	607
CoBank, ACB patronage	564	–	775
Depreciation	–	–	30
Deferred tax liability	1,234	666	1,469
Subtotal	513	7,245	5,402
Less valuation allowance	513	7,245	5,402
Net deferred tax asset	$ –	$ –	$ –

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

During 2019, the Association wrote-off net operating loss carryforwards which are expected to expire with no utilization. As a result, deferred tax assets were reduced by $5.7 million with a corresponding reduction in the valuation allowance of the same amount.

The Association did not have any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. No uncertain tax positions were taken by the Association during 2019, 2018 or 2017. The tax years that remain open for federal and major state income tax jurisdictions are 2016 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2019				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,906	$ 4,935	$ 5,012	$ 5,032	$ 19,885
Provision for (reversal of allowance for) loan losses	(419)	170	267	(24)	(6)
Noninterest income (expense), net	(1,500)	(1,820)	(1,804)	(1,602)	(6,726)
Net income	$ 3,825	$ 2,945	$ 2,941	$ 3,454	$ 13,165

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

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

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through March 12, 2020, which was the date the financial statements were issued.

YANKEE FARM CREDIT, ACA
BORROWER PRIVACY STATEMENT

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

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

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

WHISTLEBLOWER INFORMATION

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

OFFICE LOCATIONS

Yankee Farm Credit, ACA
9784 Route 9
P.O. Box 507
Chazy, NY 12921
(800) 545-8374
(518) 846-7330

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

Yankee Farm Credit, ACA
250 Commerce Way
Newport, VT 05855
see note
(800) 370-2738
(802) 334-8050

Yankee Farm Credit, ACA
130 Upper Welden Street
P.O. Box 240
St. Albans, VT 05478
(800) 545-1097
(802) 524-2938

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

Yankee Farm Credit, ACA
Association Headquarters
289 Hurricane Lane, Suite 202
Williston, VT 05495
(800) 639-3053
(802) 879-4700

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

Website: *www.YankeeFarmCredit.com*

YANKEE FARM CREDIT, ACA
YOUNG, BEGINNING AND SMALL FARMERS

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

Young, Beginning and Small farmers are defined as:

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

The 2012 Census of Agriculture (the most recent available) indicates 9,700 farms are located within the Association's geographic territory (as described in the MD&A). The following table provides a comparison of data from the 2012 Census of Agriculture with Association data as of year-end 2019. Association data includes timber operations, the Census data does not. The 2012 Census data indicates that 39.2% of Young, 29.0% of Beginning, and 28.0% of Small farmers have debt involved with their operations. Census data also indicates that 66.3% of Small farmers have less than $10,000 in annual sales of agricultural products.

	2012 Census Data[1]		Association Data[2] as of 12/31/2019			
	# of Farms	**% of Total Farms**	**# of Loans**	**% of Total Loan #s**	**Loan Volume[3] Goal**	**Loan Volume[3] Actual**
Young	1,157	11.9%	413	19.7%	$ 84,950,000	$ 74,150,000
Beginning	3,007	31.0%	603	28.7%	$119,500,000	$112,586,000
Small	8,928	92.0%	674	32.1%	$ 66,250,000	$ 72,634,000

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

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

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

The Association is involved in, and supports, a number of activities and programs designed to benefit YBS farmers. The Association is a partner in, and has invested in, FarmStart, LLP. Contributions are made regularly to agriculturally-related organizations such as Extension Systems, Young Farmer Coalitions, FFA, and 4-H that provide education and experience to our future farmers. The Association awards up to four scholarships each year to family members of customers enrolled in higher education programs, preferentially agricultural programs. Association employees routinely serve in a variety of capacities, e.g., as classroom instructors and mentors, in furtherance of the Association's efforts to assist YBS farmers. YBS farmers also receive discounts on fees for Financial Services, such as tax preparations, payroll processing and records services. In 2019, $10,880 in discounts for these services was given to YBS farmers.

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

YANKEE FARM CREDIT, ACA
RELATIONSHIP WITH COBANK, ACB

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

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

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

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

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

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

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

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

Shareholders’ investments in the Association may be materially affected by the financial condition and results of operations of CoBank. CoBank’s annual and quarterly reports are available without charge from any of our offices or directly from CoBank.

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

Contact information for CoBank, ACB:

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

Website: *www.cobank.com*

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

INFORMATION ABOUT THE FARM CREDIT SYSTEM

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

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

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

YANKEE FARM CREDIT, ACA DIRECTORS

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9437 VT Route 105
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Term Expires 2020

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Term Expires 2022

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Term Expires 2022

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Term Expires 2021

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Term Expires 2020

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Outside Director – Committee 1, 5
Term Expires 2022

Committees as of 12/31/2019
1 – Audit Committee
2 – Compensation Committee
3 – Executive Committee
4 – Membership/Governance Committee
5 – Strategy & Risk Management Committee

YANKEE FARM CREDIT, ACA NOMINATING COMMITTEE

Members

Region #1

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William Nop
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Todd Hardie
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Region #3

David Goodhouse
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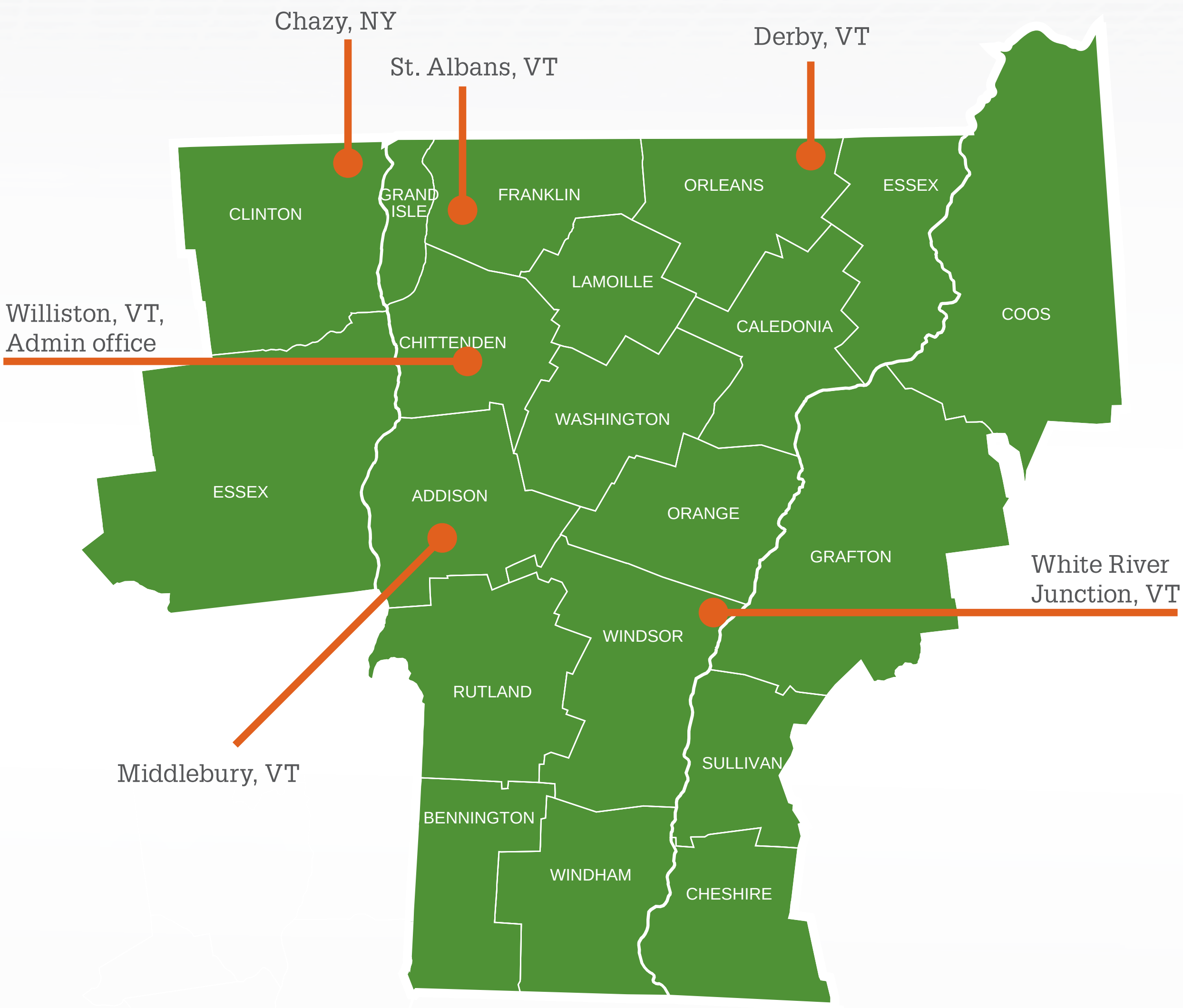
TERRITORY MAP AND OFFICE LOCATIONS



FARM CREDIT

Yankee Farm Credit, ACA
289 Hurricane Lane | Suite 202
Williston, VT 05495

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PERMIT 1160

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