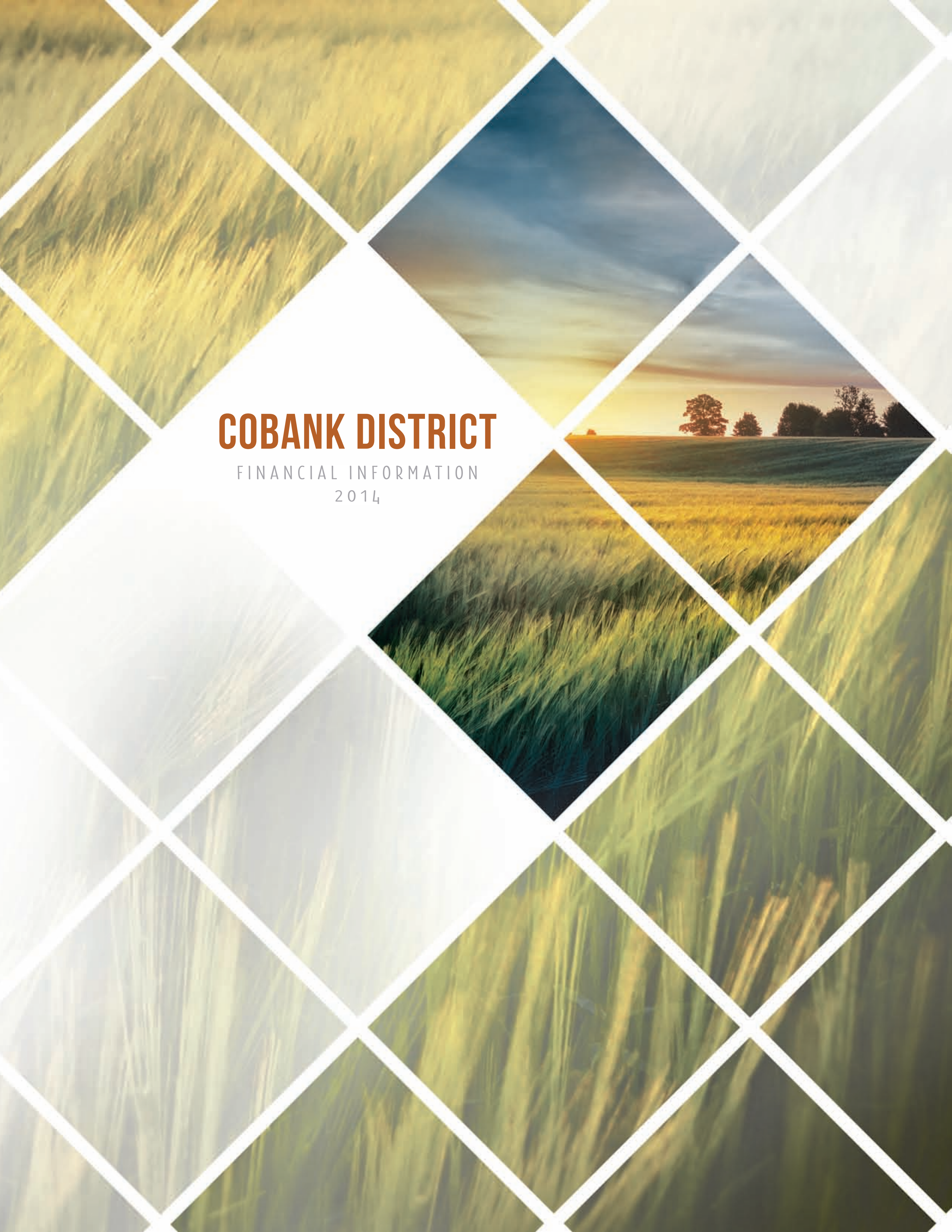
COBANK DISTRICT

FINANCIAL INFORMATION
2014



District Financial Information

CoBank, ACB and Affiliated Associations

Introduction and District Overview

CoBank, ACB (CoBank or the Bank) is one of the four banks of the Farm Credit System (System) and provides loans, leases and other financial services to vital industries across rural America. The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. The System was established in 1916 by the U.S. Congress, and is a Government Sponsored Enterprise. CoBank is federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act), and is subject to supervision, examination, and safety and soundness regulation by an independent federal agency, the Farm Credit Administration (FCA).

We are cooperatively owned by our U.S. customers. Our customers consist of agricultural cooperatives; food and agribusiness companies; rural energy, communications and water cooperatives and companies; rural community facilities; farmer-owned financial institutions including Agricultural Credit Associations and Federal Land Credit Associations (Associations); and other businesses that serve rural America.

We are chartered by the FCA to serve the Associations that provide credit and financially related services to or for the benefit of eligible borrowers/shareholders for qualified purposes in specific geographic areas in the United States. We collectively refer to these entities as our affiliated Associations. Associations are not authorized by the Farm Credit Act to participate in the issuance of Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities). Therefore, we are the primary funding source for our affiliated Associations. As of January 1, 2015, we have 26 affiliated Associations serving customers in 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

Our affiliated Associations are considered customers and thus operate independently and maintain an arms-length relationship with us, except to the extent that the Farm Credit Act requires us, as the funding bank, to monitor and approve certain activities of these Associations. Accordingly, the financial information of affiliated Associations is not included in our consolidated financial statements as presented in CoBank's 2014 Annual Report to Shareholders (the Annual Report). However, because of the interdependent manner in which CoBank and our affiliated Associations operate, we believe that presenting combined Bank and Association financial information could be meaningful for purposes of additional analysis.

The Associations originate and service long-term real estate mortgage loans as well as short- and intermediate-term loans for agricultural purposes. The Associations may also purchase eligible loan participations from System entities and other lending institutions. Additionally, the Associations may serve as an intermediary in offering multi-peril crop insurance and credit life insurance, and providing additional financial services to borrowers.

CoBank and its affiliated Associations operate under a creditor/debtor relationship evidenced by a General Financing Agreement (GFA) entered into separately with each Association. The GFA sets forth the creditor/debtor relationship between us and each Association and also references certain requirements contained in the Farm Credit Act and FCA regulations. The Associations' respective boards of directors are expected to establish and monitor the necessary policies and procedures to comply with all FCA regulations. In all other respects, the lending relationship with the Associations is substantially similar to that with our other borrowers.

We make loans to the Associations, which, in turn, make loans to their eligible borrowers. We have senior secured interests in substantially all of the Associations' assets, which extend to the underlying collateral of the Associations' loans to their customers. The total loans outstanding to our affiliated Associations were $36.0 billion at December 31, 2014. During 2014, $115.8 billion of advances on loans were made to our affiliated Associations and repayments totaled $113.7 billion.

Our bylaws permit our Board of Directors to set the required level of Association investment in the Bank within a range of 4 to 6 percent of the one-year historical average of Association borrowings. In 2014, the required investment level was 4 percent. There are no capital sharing agreements between us and our affiliated Associations.

The Financial Highlights, Management's Discussion and Analysis and the Condensed Combined Income Statements and Balance Sheets included on the following pages present unaudited combined financial information and related analysis of CoBank and its affiliated Associations, which are collectively referred to as the "District." As part of the combining process, all significant transactions between CoBank and the Associations, including loans made by the Bank to the affiliated Associations and the interest income/interest expense related thereto, and investments of the affiliated Associations in the Bank and the earnings related thereto, have been eliminated.

Association Matter

During the third quarter of 2014, one of our affiliated Associations, Farm Credit Services Southwest, ACA (FCSSW), noted a sudden significant increase in delinquencies in a discrete portion of its retail lending portfolio. An in-depth investigation was conducted by a special investigative committee of the FCSSW board of directors regarding the cause of the unexpected increase including the potential for fraud, internal and/or external to FCSSW. In connection with the investigation, the board of directors identified an overstatement of FCSSW's net income, assets and stockholders' equity over several years as the result of a material weakness in certain of FCSSW's internal controls. The board of directors and management of FCSSW have announced that FCSSW's financial statements as of and for the year ended December 31, 2013, and the prior years included therein, as well as the three months ended March 31, 2014 and the six months ended June 30, 2014 could no longer be relied upon. FCSSW intends to publish restated financial reports for the above-mentioned periods.

In February 2015, the board of directors of FCSSW and the board of directors of Farm Credit West, ACA, another of our affiliated Associations, signed a letter of intent to merge with an anticipated merger date of September 1, 2015. The merger will be subject to the approval of the stockholders of both Associations as well as the Farm Credit Administration.

As a result of the matters described above, the District's unaudited, condensed combined financial statements for the year ended December 31, 2014 include out-of-period adjustments to the provision for loan losses for $47.0 million, charge-offs of $42.0 million and the transfer of $62.0 million in loans to nonaccrual status, $20.0 million of which remains in nonaccrual loans at year-end 2014. Although FCSSW is still in the process of determining the periods in which these adjustments should be recorded in its historical financial statements, such errors are not material to the current and historical District unaudited, condensed combined financial statements.

Financial Highlights

($ in Thousands)

As of December 31,	2014	2013	2012
Total Loans	$ 89,132,415	$ 81,602,878	$ 79,076,558
Less: Allowance for Loan Losses	749,257	739,745	759,626
Net Loans	88,383,158	80,863,133	78,316,932
Total Assets	116,966,016	106,354,560	100,374,523
Total Shareholders' Equity	15,139,164	13,973,480	12,942,545

Year Ended December 31,	2014	2013	2012
Net Interest Income	$ 2,451,105	$ 2,337,151	$ 2,362,465
Provision for Loan Losses/(Loan Loss Reversal)	32,972	(23,385)	147,167
Net Fee Income	132,408	147,176	147,384
Net Income	1,577,755	1,576,970	1,500,678
Net Interest Margin	2.26 %	2.33 %	2.48 %
Return on Average Assets	1.42	1.54	1.53
Return on Average Total Shareholders' Equity	10.76	11.63	11.89
Average Loans	$ 85,030,096	$ 79,529,070	$ 77,210,644
Average Earning Assets	108,563,098	100,152,982	95,201,132
Average Assets	110,748,032	102,213,961	98,045,339

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

District net income for 2014 was $1,578 million, essentially unchanged from $1,577 million in 2013. Net interest income increased $114.0 million. The increase in net interest income was offset by a net change in the provision for loan losses/loan loss reversal of $56.4 million and an increase in operating expenses of $59.0 million. Net interest income increased 5 percent to $2,451 million in 2014 as compared to $2,337 million in 2013 due to growth in average loan volume. Average loan volume in the District grew 7 percent to $85.0 billion in 2014 compared to $79.5 billion for 2013. The increase in average loan volume primarily reflected growth in agribusiness, real estate mortgage, energy, and short and intermediate-term loans, as well as leases. The impact of growth in average loan volume on net interest income was partially offset by a reduction in CoBank's income from net accretion of merger-related asset and liability fair value adjustments, and lower spreads on the District's lending portfolios due to increased market competition for the business of our customers and stronger credit quality across the District. These factors led to a decrease in the District's overall net interest margin to 2.26 percent for 2014 from 2.33 percent for 2013.

The District recorded a net provision for loan losses of $33.0 million in 2014, compared to a net loan loss reversal of $23.4 million in 2013. CoBank recorded a $15.0 million loan loss reversal in 2014 compared to no provision for loan losses in 2013. The Associations recorded a net combined provision for loan losses of $48.0 million for 2014, compared to a net combined loan loss reversal of $23.4 million in the prior year. The current period net provision for loan losses at the Associations primarily resulted from the provision at FCSSW, which is discussed beginning on page 1.

Noninterest income increased to $251.2 million in 2014 from $246.0 million in 2013. Other noninterest income increased by $32.0 million in 2014, as compared to 2013, due to an increased level of patronage income received by CoBank from other System institutions, gains resulting from the sale of three investment securities at CoBank and gains on the disposition of acquired property at certain Associations. Losses on early extinguishments of debt, net of prepayment income, increased to $32.0 million for 2014 compared to $17.6 million in 2013. These losses primarily relate to CoBank's greater level of losses on early extinguishment of debt, net of prepayment income, to better position its balance sheet in the low interest rate environment, which will reduce its future interest expense.

Total District operating expenses increased 7 percent to $918.5 million for 2014 from $859.5 million for 2013. The change included an increase in Farm Credit Insurance Fund (Insurance Fund) premium expense of $21.0 million, driven by an increase in premium rates and, to a lesser extent, growth in average loan volume. Insurance Fund premium rates were 12 basis points of adjusted insured debt obligations during 2014 compared to 10 basis points throughout 2013. Employee compensation expense increased to $526.0 million for 2014 from $515.7 million for 2013. The increase was primarily due to the Associations' increased staffing, as well as annual salary adjustments and increased incentive compensation across the District. General and administrative expenses increased to $73.0 million for 2014 from $63.3 million for 2013 due to an increase in corporate sponsorships, industry advocacy and charitable contributions at CoBank as well as increases in office equipment purchases and training expenses at the Associations. Purchased services increased $9.1 million primarily due to increased consulting fees associated with the development of a new cash management platform at CoBank, as well as increased audit and legal expense at FCSSW related to the matters described beginning on page 1.

Income tax expense increased to $173.1 million for 2014 from $170.0 million for 2013. The income tax expense at the District predominantly relates to CoBank, as a substantial majority of the business activities at Associations are exempt from federal income tax. While income tax expense increased at CoBank, the effective tax rate at the Bank decreased slightly as a result of an increase in earnings in nontaxable business activities in 2014.

Loan Portfolio

The following table presents the District's outstanding loans classified in accordance with the FCA's loan types.

($ in Thousands)

District Loans by Loan Type						
December 31,		2014		2013		2012
Real Estate Mortgage	$	25,333,109	$	24,459,913	$	23,403,897
Non-affiliated Associations		3,847,208		3,838,682		3,590,169
Production and Intermediate-term		14,696,286		13,936,988		12,976,059
Agribusiness:						
Loans to Cooperatives		12,527,572		10,002,849		11,197,967
Processing and Marketing Operations		5,642,694		4,369,018		3,786,031
Farm Related Businesses		1,692,682		1,436,470		1,489,009
Communications		3,388,172		2,754,218		2,854,413
Energy		12,397,400		11,586,577		10,740,816
Water/Wastewater		1,274,346		1,131,043		1,119,923
Agricultural Export Finance		4,378,277		4,518,185		4,660,523
Rural Residential Real Estate		845,797		871,202		870,060
Lease Receivables		2,965,287		2,594,696		2,308,251
Other		143,585		103,037		79,440
Total	$	89,132,415	$	81,602,878	$	79,076,558

District loan volume at December 31, 2014 was $89.1 billion compared to $81.6 billion at December 31, 2013. The increase was driven primarily by an increase in CoBank's loans to cooperatives, processing and marketing loans and energy and communications loans as well as an increase in Association real estate mortgage loans, production and intermediate-term loans, and processing and marketing loans. CoBank's increase in agribusiness lending was primarily driven by increased lending to food and agribusiness customers, but also increased seasonal loan volume generally due to higher grain inventory levels at many agricultural cooperatives and increased lending in the protein sector due to strong exports and product demand and higher prices.

District Financial Information
CoBank, ACB and Affiliated Associations

Portfolio Diversification

The following tables present the District's combined loan portfolio by primary business/commodity and geographic distribution, as a percent of total loans for the periods presented.

Distribution by Primary Business / Commodity	2014	2013	2012
Fruits, Nuts and Vegetables	13 %	14 %	12 %
Farm Supply, Grain and Marketing	12	12	14
Dairy	10	10	10
Electric Distribution	7	7	6
Cattle	6	6	6
Forest Products	6	6	4
Agricultural Export Finance	5	5	6
Field Crops Except Grains	5	5	5
Other Farm Credit Entities	4	5	4
Generation and Transmission	4	4	4
Livestock, Fish and Poultry	4	4	4
Farm Related Business Services	3	3	3
Leasing	3	3	3
Rural Home	3	3	2
Local Telephone Exchange Carriers	1	1	2
Nursery, Greenhouse	1	1	2
Other	13	11	13
Total	100 %	100 %	100 %

Geographic Distribution	2014	2013	2012
California	21 %	21 %	21 %
Texas	7	7	7
Kansas	6	6	6
Washington	5	5	5
New York	4	4	4
Colorado	4	4	4
Oregon	3	4	4
Idaho	3	3	3
Oklahoma	3	3	3
Illinois	2	2	2
Iowa	2	2	2
Minnesota	2	2	2
Other (less than 2 percent each for the current year)	33	32	31
Total States	95 %	95 %	94 %
Latin America	2	2	2
Europe, Mideast and Africa	1	1	2
Other International	2	2	2
Total Agricultural Export Finance	5 %	5 %	6 %
Total	100 %	100 %	100 %

District Financial Information
CoBank, ACB and Affiliated Associations

Loan Quality

The following table presents loans and related accrued interest receivable, classified by management at the various District entities pursuant to the FCA's Uniform Loan Classification System, as a percent of total loans and related accrued interest.

District Loan Quality

December 31,	2014	2013	2012
Acceptable	96.41 %	95.80 %	94.86 %
Special Mention	1.91	2.08	2.29
Substandard	1.63	2.05	2.71
Doubtful	0.05	0.07	0.14
Loss	-	-	-
Total	100.00 %	100.00 %	100.00 %

Loan quality within the District is very favorable, with over 96 percent of all loans and related accrued interest in the highest category of credit quality. Credit risk in the District's loan portfolio is spread broadly among customers, industries and geographic territory. The District serves a diversified spectrum of borrowers up and down the agricultural value chain. Association retail loans in the District loan portfolio are concentrated in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. CoBank's retail loan portfolio extends across the United States, with moderate levels of concentration in the Midwest region of the country and in the farm supply, grain marketing, electric distribution, and generation and transmission sectors.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) totaled $558.8 million as of December 31, 2014 compared to $649.8 million at December 31, 2013. The decrease was driven by paydowns and loans returned to accruing status at five Associations and at CoBank, partially offset by increases at two Associations, including FCSSW. Nonperforming assets represented 0.63 percent of total District loan volume and other property owned at December 31, 2014 compared to 0.80 percent at December 31, 2013. Nonaccrual loan volume, the largest component of nonperforming assets, was 0.50 percent of total loans at December 31, 2014 compared to 0.66 percent at December 31, 2013. Accruing loans 90 days or more past due increased slightly to $10.1 million at December 31, 2014 from $8.5 million at December 31, 2013.

The following table displays the District's nonperforming assets for the periods presented.

($ in Thousands)

Nonperforming Assets

December 31,	2014	2013	2012
Nonaccrual Loans:			
Real Estate Mortgage	$ 186,160	$ 226,103	$ 350,187
Production and Intermediate-term	107,837	168,634	224,217
Agribusiness	49,703	26,625	36,119
Communications	56,685	78,395	79,493
Energy	28,092	19,700	22,141
Water/Waste Water	-	-	200
Rural Residential Real Estate	7,130	10,705	12,360
Lease Receivables	6,332	5,421	5,116
Total Nonaccrual Loans	441,939	535,583	729,833
Accruing Restructured Loans:			
Real Estate Mortgage	45,985	24,533	35,098
Production and Intermediate-term	28,019	25,832	26,091
Agribusiness	-	3,213	3,709
Energy	-	2,707	3,145
Rural Residential Real Estate	2,008	1,200	316
Mission Related	71	-	-
Total Accruing Restructured Loans	76,083	57,485	68,359
Accruing Loans 90 Days or More Past Due:			
Real Estate Mortgage	4,537	4,560	4,474
Production and Intermediate-term	5,209	3,038	6,750
Agribusiness	-	512	-
Rural Residential Real Estate	98	190	77
Lease Receivables	239	193	479
Total Accruing Loans 90 Days or More Past Due	10,083	8,493	11,780
Total Nonperforming Loans	528,105	601,561	809,972
Other Property Owned	30,741	48,275	47,826
Total Nonperforming Assets	$ 558,846	$ 649,836	$ 857,798
Nonaccrual Loans as a Percentage of Total Loans	0.50 %	0.66 %	0.92 %
Nonperforming Assets as a Percentage of Total Loans and Other Property Owned	0.63	0.80	1.08
Nonperforming Assets as a Percentage of Capital	3.69	4.65	6.63

District Financial Information

CoBank, ACB and Affiliated Associations

The following tables present an aging of past due loans and related accrued interest in the District for the periods presented.

($ in Thousands)

Aging of Past Due Loans

	December 31, 2014					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 59,074	$ 55,028	$ 114,102	$ 25,452,525	$ 25,566,627	$ 4,537
Production and Intermediate-term	32,228	34,273	66,501	14,719,320	14,785,821	5,209
Agribusiness	1,751	8,110	9,861	19,913,959	19,923,820	-
Communications	-	1,138	1,138	3,393,996	3,395,134	-
Energy	-	21,039	21,039	12,426,120	12,447,159	-
Water/Waste Water	-	-	-	1,281,922	1,281,922	-
Agricultural Export Finance	-	-	-	4,389,165	4,389,165	-
Rural Residential Real Estate	7,639	2,736	10,375	838,410	848,785	98
Lease Receivables	8,417	1,421	9,838	2,955,853	2,965,691	239
Non-affiliated Associations	-	-	-	3,849,440	3,849,440	-
Other	71	-	71	143,816	143,887	-
Total	$ 109,180	$ 123,745	$ 232,925	$ 89,364,526	$ 89,597,451	$ 10,083

($ in Thousands)

Aging of Past Due Loans

	December 31, 2013					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 62,204	$ 47,747	$ 109,951	$ 24,576,776	$ 24,686,727	$ 4,560
Production and Intermediate-term	45,784	66,058	111,842	13,907,985	14,019,827	3,038
Agribusiness	5,370	20,689	26,059	15,836,453	15,862,512	512
Communications	-	54,923	54,923	2,706,053	2,760,976	-
Energy	-	-	-	11,633,602	11,633,602	-
Water/Waste Water	-	-	-	1,137,639	1,137,639	-
Agricultural Export Finance	-	-	-	4,528,308	4,528,308	-
Rural Residential Real Estate	8,098	2,736	10,834	864,177	875,011	190
Lease Receivables	6,257	1,418	7,675	2,587,565	2,595,240	193
Non-affiliated Associations	-	-	-	3,840,908	3,840,908	-
Other	-	-	-	103,247	103,247	-
Total	$ 127,713	$ 193,571	$ 321,284	$ 81,722,713	$ 82,043,997	$ 8,493

District Financial Information
CoBank, ACB and Affiliated Associations

($ in Thousands)

Aging of Past Due Loans

	December 31, 2012					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 75,130	$ 127,289	$ 202,419	$ 23,421,193	$ 23,623,612	$ 4,474
Production and Intermediate-term	51,905	64,382	116,287	12,941,245	13,057,532	6,750
Agribusiness	12,870	7,562	20,432	16,512,149	16,532,581	-
Communications	-	5,296	5,296	2,855,692	2,860,988	-
Energy	-	71	71	10,784,164	10,784,235	-
Water/Waste Water	-	-	-	1,126,483	1,126,483	-
Agricultural Export Finance	-	-	-	4,672,186	4,672,186	-
Rural Residential Real Estate	5,089	6,961	12,050	862,087	874,137	77
Lease Receivables	8,854	1,400	10,254	2,298,462	2,308,716	479
Non-affiliated Associations	-	-	-	3,592,333	3,592,333	-
Other	-	-	-	79,580	79,580	-
Total	$ 153,848	$ 212,961	$ 366,809	$ 79,145,574	$ 79,512,383	$ 11,780

District entities maintain an allowance for loan losses at a level consistent with the probable losses identified by management of each institution, considering such factors as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition and concentrations. CoBank and certain Associations also maintain a reserve for unfunded commitments, which totaled $154.1 million at December 31, 2014.

Although aggregated in the District's combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities. The allowance for loan losses at December 31, 2014 totaled $749.3 million compared to $739.7 million at December 31, 2013. Changes in the allowance included an overall provision for loan losses of $33.0 million, which is described on page 3, a $28.7 million net transfer from the reserve for unfunded commitments primarily at CoBank, net charge-offs of $45.9 million driven by the charge-offs at FCSSW and a $6.3 million reduction due to Association mergers.

The following presents detailed changes in the allowance for loan losses in the District for the periods presented.

($ in Thousands)

Changes in Allowance for Loan Losses

	Balance at December 31, 2013	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Association Merger Impact	Balance at December 31, 2014
Real Estate Mortgage	$ 103,685	$ (1,557)	$ 1,833	$ 11,185	$ (22,972)	$ (1,823)	$ 90,351
Production and Intermediate-term	182,301	(51,972)	8,518	33,394	1,365	(3,542)	170,064
Agribusiness	233,062	(1,396)	3,274	38,980	5,734	(922)	278,732
Communications	64,930	(4,087)	1,189	(11,748)	4,150	(2)	54,432
Energy	97,354	(531)	106	(35,422)	36,644	(2)	98,149
Water/Waste Water	9,425	-	-	(3,505)	3,893	-	9,813
Agricultural Export Finance	7,439	-	54	1,524	(93)	-	8,924
Rural Residential Real Estate	6,671	(408)	16	(50)	-	(13)	6,216
Lease Receivables and Other	34,878	(1,333)	418	(1,386)	-	(1)	32,576
Total	$ 739,745	$ (61,284)	$ 15,408	$ 32,972	$ 28,721	$ (6,305)	$ 749,257

	Balance at December 31, 2012	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Balance at December 31, 2013
Real Estate Mortgage	$ 89,743	$ (9,101)	$ 3,121	$ 23,144	$ (3,222)	$ 103,685
Production and Intermediate-term	201,398	(28,725)	41,462	(30,818)	(1,016)	182,301
Agribusiness	255,027	(2,024)	9,477	(25,426)	(3,992)	233,062
Communications	66,265	(26)	1,061	(9)	(2,361)	64,930
Energy	93,403	(537)	26	6,571	(2,109)	97,354
Water/Waste Water	9,853	-	-	(214)	(214)	9,425
Agricultural Export Finance	6,238	-	1,213	(9)	(3)	7,439
Rural Residential Real Estate	5,519	(657)	16	1,793	-	6,671
Lease Receivables and Other	32,180	(428)	1,543	1,583	-	34,878
Total	$ 759,626	$ (41,498)	$ 57,919	$ (23,385)	$ (12,917)	$ 739,745

	Balance at December 31, 2011	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Bank Merger Impact	Balance at December 31, 2012
Real Estate Mortgage	$ 52,628	$ (14,148)	$ 8,066	$ 4,183	$ 294	$ 38,720	$ 89,743
Production and Intermediate-term	143,613	(72,081)	8,887	72,162	1,173	47,644	201,398
Agribusiness	232,396	(15,319)	1,921	14,478	6,575	14,976	255,027
Communications	46,498	(1,556)	2,343	17,800	715	465	66,265
Energy	68,204	-	364	35,491	(12,895)	2,239	93,403
Water/Waste Water	7,518	-	45	3,664	(1,378)	4	9,853
Agricultural Export Finance	12,073	-	412	(7,964)	1,701	16	6,238
Rural Residential Real Estate	4,123	(711)	45	2,007	-	55	5,519
Lease Receivables and Other	21,826	(3,239)	7,345	5,346	-	902	32,180
Total	$ 588,879	$ (107,054)	$ 29,428	$ 147,167	$ (3,815)	$ 105,021	$ 759,626

District Capital Resources

Combined District shareholders' equity at December 31, 2014 totaled $15.1 billion, a net increase of $1.1 billion as compared to $14.0 billion at December 31, 2013. The increase primarily resulted from District net income of $1,578 million, net issuance of CoBank preferred stock of $163.3 million and net issuance of preferred stock by Associations of $66.0 million. These factors were somewhat offset by accrued patronage of $565.6 million, additional other comprehensive loss of $69.9 million, and preferred stock dividends of $60.3 million.

The increase in the District's total accumulated other comprehensive loss in 2014 primarily relates to changes in pension-related values driven by underlying mortality assumptions, somewhat offset by unrealized gains on CoBank's investment securities.

The components of the District's accumulated other comprehensive loss are detailed in the following table.

($ in Thousands)

Accumulated Other Comprehensive Loss

December 31,	2014	2013	2012
Unrealized Gains on Investment Securities	$ 94,454	$ 1,305	$ 213,983
Net Pension Adjustment	(327,259)	(195,430)	(303,628)
Unrealized Losses on Interest Rate Swaps and Other Financial Instruments	(33,460)	(2,246)	(11,261)
Accumulated Other Comprehensive Loss	$ (266,265)	$ (196,371)	$ (100,906)

The following table presents regulatory capital ratios for CoBank and the range of ratios at the affiliated Associations.

District Capital Ratios

	December 31, 2014			December 31, 2013			December 31, 2012		
	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio
CoBank	15.70%	14.81%	10.47%	16.72%	15.74%	10.82%	16.14%	15.22%	10.06%
Associations	13.40 - 35.69%	12.97 - 35.25%	12.88 - 30.09%	13.59 - 35.69%	13.41 - 35.25%	13.41 - 30.02%	13.43 - 35.45%	13.27 - 35.02%	13.07 - 29.78%
Regulatory Minimum	7.00%	7.00%	3.50%	7.00%	7.00%	3.50%	7.00%	7.00%	3.50%

As depicted in the table above, at December 31, 2014, CoBank and all affiliated Associations exceeded the FCA's regulatory minimum capital ratios.

Although aggregated in the District's condensed financial statements, capital for each District entity is particular to that institution. In addition, the provisions of joint and several liability for Systemwide Debt Securities are applicable only to System banks and do not include Associations. CoBank has no access to Association capital beyond their required investment in the Bank. There are no capital sharing agreements between CoBank and its affiliated Associations.

Association Mergers

Effective January 1, 2014, two Association mergers occurred in the CoBank District. The Federal Land Bank Association of Kingsburg, FLCA and Northern California Farm Credit, ACA, merged to form Golden State Farm Credit, ACA. Additionally, Farm Credit of Maine, ACA merged into Farm Credit East, ACA. Effective October 1, 2014, Farm Credit of Central Oklahoma, ACA, merged into Farm Credit of Western Oklahoma, ACA.

Effective January 1, 2015, Frontier Farm Credit (Frontier), one of our affiliated Associations, and Farm Credit Services of America (FCSAmerica), an Association affiliated with AgriBank, FCB, formed a strategic alliance. As part of the alliance, Frontier and FCSAmerica have integrated their day-to-day business operations, systems and leadership teams while continuing to exist as separate Associations. Each Association will continue to have its own board, with representatives participating in a coordinating committee to facilitate board governance between the two organizations. CoBank will continue as the funding bank for Frontier.

In December 2014, the boards of directors of two affiliated Associations, Farm Credit Services of East Central Oklahoma, ACA, and Chisholm Trail Farm Credit, ACA, signed a letter of intent to merge with an anticipated completion date of January 1, 2016.

As previously described beginning on page 1, in February 2015, the board of directors of FCSSW and the board of directors of Farm Credit West, ACA, another of our affiliated Associations, signed a letter of intent to merge with an anticipated merger date of September 1, 2015.

Condensed Combined Statements of Income
(unaudited)

($ in Thousands)

Year Ended December 31,	2014	2013	2012
Interest Income			
Loans	$ 2,937,598	$ 2,806,758	$ 2,814,611
Investment Securities	360,144	323,746	336,590
Total Interest Income	3,297,742	3,130,504	3,151,201
Interest Expense	846,637	793,353	788,736
Net Interest Income	2,451,105	2,337,151	2,362,465
Provision for Loan Losses/(Loan Loss Reversal)	32,972	(23,385)	147,167
Net Interest Income After Provision for Loan Losses/(Loan Loss Reversal)	2,418,133	2,360,536	2,215,298
Noninterest Income/ Expense			
Net Fee Income	132,408	147,176	147,384
Prepayment Income	26,269	79,258	49,510
Losses on Early Extinguishment of Debt	(58,316)	(96,839)	(86,718)
Loss on Tender Offer for Subordinated Debt	-	-	(28,460)
Total Other-Than-Temporary Impairment Losses	-	(1,852)	(972)
Portion Recognized in Other Comprehensive Loss	-	(648)	(16,028)
Net Other-Than-Temporary Impairment Losses Included in Earnings	-	(2,500)	(17,000)
Other, Net	150,841	118,861	200,827
Total Noninterest Income	251,202	245,956	265,543
Operating Expenses			
Employee Compensation	525,990	515,743	496,898
General and Administrative	73,004	63,282	72,248
Information Technology	58,032	55,858	50,412
Insurance Fund Premium	88,517	67,493	33,397
Farm Credit System Related	26,192	24,577	23,253
Occupancy and Equipment	45,961	42,308	41,615
Purchased Services	53,129	44,069	38,583
Other	47,671	46,156	42,867
Total Operating Expenses	918,496	859,486	799,273
Income Before Income Taxes	1,750,839	1,747,006	1,681,568
Provision for Income Taxes	173,084	170,036	180,890
Net Income	$ 1,577,755	$ 1,576,970	$ 1,500,678

District Financial Information

CoBank, ACB and Affiliated Associations

Condensed Combined Balance Sheets

(unaudited)

($ in Thousands)

As of December 31,		2014		2013		2012
Assets						
Total Loans	$	89,132,415	$	81,602,878	$	79,076,558
Less: Allowance for Loan Losses		749,257		739,745		759,626
Net Loans		88,383,158		80,863,133		78,316,932
Cash		2,071,427		1,500,552		1,538,820
Investment Securities		24,529,619		21,937,745		18,287,845
Interest Rate Swaps and Other Financial Instruments		454,530		672,955		1,005,044
Accrued Interest Receivable and Other Assets		1,527,282		1,380,175		1,225,882
Total Assets	$	116,966,016	$	106,354,560	$	100,374,523
Liabilities						
Bonds and Notes	$	98,785,016	$	89,469,626	$	84,490,027
Subordinated Debt		904,685		904,685		904,685
Interest Rate Swaps and Other Financial Instruments		111,228		120,271		157,008
Reserve for Unfunded Commitments		154,058		184,137		171,246
Accrued Interest Payable and Other Liabilities		1,871,865		1,702,361		1,709,012
Total Liabilities		101,826,852		92,381,080		87,431,978
Shareholders’ Equity						
Preferred Stock Issued by Bank		1,125,000		961,750		961,750
Preferred Stock Issued by Associations		498,020		432,022		338,371
Common Stock		1,325,998		1,278,417		1,240,695
Paid In Capital		894,823		654,933		654,933
Unallocated Retained Earnings		11,561,588		10,842,729		9,847,702
Accumulated Other Comprehensive Loss		(266,265)		(196,371)		(100,906)
Total Shareholders’ Equity		15,139,164		13,973,480		12,942,545
Total Liabilities and Shareholders’ Equity	$	116,966,016	$	106,354,560	$	100,374,523

CoBANK

COOPERATIVE. CONNECTED. COMMITTED.

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