2014 ANNUAL REPORT

STRONGER TOGETHER

CoBANK

2014 FINANCIAL HIGHLIGHTS

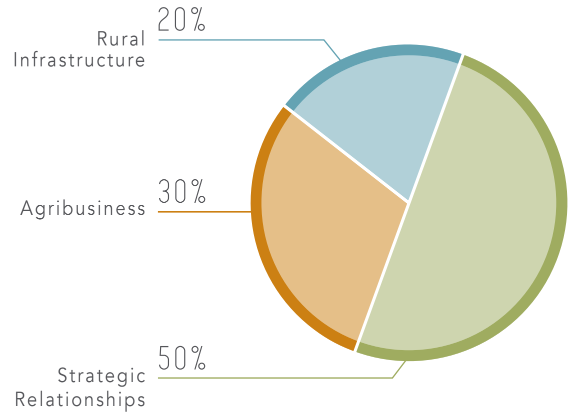
OUR MISSION, AS A PROUD MEMBER OF THE FARM CREDIT SYSTEM, IS TO SERVE AS A DEPENDABLE PROVIDER OF CREDIT AND OTHER VALUE-ADDED FINANCIAL SERVICES TO AGRICULTURE AND RURAL INFRASTRUCTURE BUSINESSES FOR THE BENEFIT OF RURAL AMERICA.

FOR THE YEAR ($ IN MILLIONS)	2014	2013	2012
NET INTEREST INCOME	$ 1,232	$ 1,163	$ 1,238
(REVERSAL) PROVISION FOR LOAN LOSSES	(15)	0	70
NET INCOME	904	856	854
PATRONAGE DISTRIBUTION	467	415	425

AT YEAR-END ($ IN MILLIONS)	2014	2013	2012
AGRIBUSINESS	$ 24,359	$ 21,182	$ 21,394
STRATEGIC RELATIONSHIPS	39,919	37,897	36,707
RURAL INFRASTRUCTURE	16,104	14,524	13,879
TOTAL LOANS	80,382	73,603	71,980
ALLOWANCE FOR CREDIT LOSSES	597	615	595
TOTAL ASSETS	107,428	97,644	92,478
TOTAL SHAREHOLDERS' EQUITY	7,370	6,705	6,441

FINANCIAL RATIOS FOR THE YEAR	2014	2013	2012
RETURN ON AVERAGE COMMON EQUITY	14.27 %	14.40 %	15.16 %
RETURN ON AVERAGE ASSETS	0.89	0.91	0.94
RETURN ON ACTIVE PATRON INVESTMENT	18.59	17.53	18.41
NET INTEREST MARGIN	1.23	1.26	1.41
PERMANENT CAPITAL RATIO	15.70	16.72	16.14

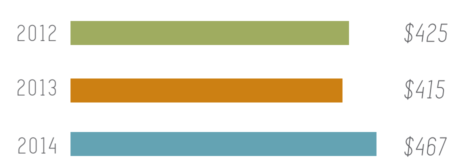
KEY METRICS



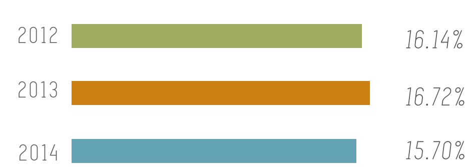
Total Loans
$80 billion
at 12/31/14

Total Assets
($ in billions)

Net Income
($ in millions)



Patronage Distribution
($ in millions)



Permanent Capital Ratio

"WE REMAIN AS OPTIMISTIC AS EVER ABOUT THE PROSPECTS FOR RURAL AMERICA."

Everett M. Dobrinski and Robert B. Engel

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◆ **EVERETT M. DOBRINSKI**
Chairman

◆ **ROBERT B. ENGEL**
Chief Executive Officer

TO OUR SHAREHOLDERS

The year 2014 was full of reminders about the inherent volatility and ongoing change that define the U.S. rural economy. Grain prices fell sharply in the face of higher farm yields and softer demand growth from foreign markets. The protein sector enjoyed a banner year as prices for meat, poultry and fish surged to all-time highs. Dairy experienced severe ups and downs, with milk prices reaching record levels before retreating due to a global supply glut later in the year. Oil plummeted from over $110 a barrel in mid-2014 to about $50, changing the economics of ethanol and energy production in rural areas. The increasing adoption and competitiveness of distributed generation technologies continued to test the business models of power providers, including rural electric cooperatives. Communications providers faced a host of challenges delivering services to sparsely populated rural communities, including regulatory uncertainty and disruptive technological change. In the realm of public policy, the long-delayed passage of the Farm Bill codified U.S. agricultural law for the next five years. But the bill's arduous journey in Congress demonstrated how fragile support for rural industries has become in our nation's capital.

In short, it was the kind of year that underscores the CoBank value proposition in rural America. As a mission-based, cooperatively owned financial institution, our purpose is to serve as a source

> "IT WAS COBANK'S 15TH CONSECUTIVE YEAR OF GROWTH IN PROFITABILITY ON BEHALF OF OUR CUSTOMER-OWNERS, AN ACCOMPLISHMENT MATCHED BY FEW IF ANY OTHER FINANCIAL INSTITUTIONS IN THE ENTIRE WORLD."

of stability and certainty for our agribusiness and rural infrastructure customers as well as our partner associations in the Farm Credit System. That's especially true when market conditions are unpredictable or difficult. We always strive to achieve strong business and financial results on behalf of our customer-owners, and we're proud to have done so again in 2014. But we believe our customers look to CoBank first and foremost as a trustworthy source of dependable credit and knowledge, through the highs and lows of agricultural, financial and economic business cycles. At the end of the day, that is the gauge we consistently use to measure our performance and the overall success of our business.

Throughout 2014, CoBank sought to deepen customer relationships, expand its market share and deliver an outstanding customer experience to every one of its borrowers. We also continued to invest heavily in the development of new products and services, in building our knowledge of the industries we serve, and in public-private partnerships that will enhance the bank's ability to fulfill its mission of service to rural America over the long term. It was a year of significant accomplishment across our entire enterprise, and one that positioned us for continued growth and success in 2015 and beyond.

2014 FINANCIAL RESULTS

CoBank's average loan and lease volume increased approximately 7 percent in 2014, to $76.6 billion. That growth was driven by higher levels of borrowing from food and agribusiness customers, rural electric and communications service providers, and affiliated Farm Credit associations.

Considering the broader U.S. economy expanded at an average rate of only 2.4 percent during the year, we're very pleased to have delivered robust levels of growth across such a wide cross section of our business.

Net interest income increased by 6 percent in 2014, to $1.2 billion, due to higher loan volumes as well as increased earnings from our balance sheet positioning. Net income also rose 6 percent to $904.3 million, compared to $856.5 million in 2013. It was CoBank's 15th consecutive year of growth in profitability on behalf of our customer-owners, an accomplishment matched by few if any other financial institutions in the entire world.

Credit quality in CoBank's loan portfolio continued to be favorable, reflecting the strong performance of our customers. Nonaccrual loans totaled $130.3 million, or 0.16 percent of total loans, compared to $147.8 million the year before. Credit quality was strong enough to warrant a reversal of a portion of our allowance for credit losses during the year, which contributed to our solid earnings performance. Nonetheless, the bank's allowance totaled $596.8 million at year-end, which provides continuing protection for the bank and its capital base against losses in our loan portfolio. CoBank finished the year with $7.4 billion of shareholders' equity, and our capital and liquidity levels remained well in excess of regulatory minimums.

As we move further into 2015, we're very pleased with the overall financial condition of the bank and its ongoing ability to meet the borrowing needs of its customers and fulfill its mission in rural America.

PATRONAGE

Patronage payouts for 2014 totaled a record $468 million—more than half of the bank's earnings for the year. Under our formula-based patronage program, cooperatives and other eligible borrowers receive patronage from the bank equal to 100 basis points of their average qualifying loan balance, 75 percent of which is paid in cash. The remaining 25 percent is distributed in equity, providing customers with an ownership stake in the bank and a voice in the governance of our business. Affiliated Farm Credit associations receive 45 basis points in cash patronage under their own capital plan.

Dependable patronage is a key component of the value proposition CoBank offers its customers as a cooperative bank. It significantly reduces their overall cost of capital, and provides them with funds they can reinvest each year in their businesses to better serve their customers and local communities. We're delighted with the level of patronage our board of directors has approved this year, and we trust our customers also appreciate this important benefit of doing business with a bank that they own.

GOVERNANCE AND BOARD RESTRUCTURING

Since CoBank's merger with U.S. AgBank in January 2012, CoBank has operated with an unusually large board of directors. Our board size expanded to 32 members when the CoBank and AgBank boards were initially combined, and later was reduced modestly as called for in the CoBank-AgBank merger agreement. Our current board structure includes 24 elected directors from six voting regions around the country and between two and five appointed directors.

CoBank's bylaws mandate that the board formally review its governance structure and practices every five years. In 2014, our board appointed a Restructuring Committee to examine every key aspect of governance at CoBank, including board size, director terms, voting methods, the number and geography of voting regions, and eligibility requirements for director candidates. The committee, which included an equal number of current board members and non-board customer representatives, has put forth several recommendations for consideration by our customer-owners in 2015. These recommendations include:

- Reducing the number of elected directors from 24 to 14;
- Maintaining the existing six voting regions, as well as an even balance between modified equity and one-member-one-vote seats;
- Increasing the maximum number of appointed board members from five to six in order to enhance the board's flexibility to fill in experience gaps and ensure a strong diversity of industry viewpoints; and,
- Modifying board experience requirements so there is more balanced representation between directors with agricultural, rural infrastructure and Farm Credit backgrounds.

The Restructuring Committee's recommendations have been approved by the CoBank board, and our customer-owners will vote on the proposed changes to our governance bylaws in the first half of 2015. Shareholders will receive comprehensive information about the Restructuring Committee's recommendations prior to the vote, and we

are also devoting time during our annual customer meetings to a governance overview to ensure our shareholders are fully informed about this bylaw proposal.

Importantly, the Restructuring Committee has recommended a gradual phase-in of the new board structure, with the downsizing of board seats planned to occur over a four-year period beginning in 2016. We believe this approach will help ensure stability for CoBank at the board level and instill confidence in our governance with customers, third-party capital holders, rating agencies, and other key stakeholders.

Strong board oversight is a hallmark of the cooperative model. We think this periodic review of governance at CoBank is an excellent discipline that helps ensure we remain aligned with the industries we serve, the environment in which we conduct our business, and best governance practices.

MISSION FULFILLMENT

As a member of the Farm Credit System, CoBank is committed to serving the full continuum of directly eligible customers and other similar businesses in rural America. The production of our nation's food supply and the fiber that contributes so much to the quality of life, health and well-being of all the citizens of our country, and increasingly those around the world, is dependent on businesses of all sizes and structures. It is the mandated mission of CoBank and our Farm Credit System partners, as a Government Sponsored Enterprise, to meet the needs of this highly diverse customer base and to provide them with the resources they need to produce a safe, secure, nutritious and affordable food supply, as well as deliver strong economic and export growth for our country—irrespective of market conditions.

In addition, CoBank has a unique, dedicated mission to serve a similarly diverse base of rural infrastructure providers across the entire country. The ability of rural businesses and industries to be globally competitive depends on building a robust infrastructure for power, communications and water. The citizens of rural America deserve the same opportunities as those in urban America to create jobs, raise their families and strengthen their communities. The playing field will not be level without the substantial rural infrastructure investments CoBank supports every day.

Still, these ingredients alone won't be enough. That is why we were pleased to be named the anchor investor for the U.S. Rural Infrastructure Opportunity Fund (RIOF) in 2014. As anchor investor, CoBank will lend alongside the RIOF, consistent with our lending authorities and underwriting requirements. We believe this will be an excellent model for the creation of productive public-private partnerships. In this case, it is the shared mission of the United States Department of Agriculture (USDA) and CoBank to accelerate and increase the necessary investment in rural infrastructure. This will be accomplished through a broad outreach by both CoBank and USDA, partnerships with our Farm Credit System partners, and an open invitation to commercial and community banks as well as other investors who genuinely share our concern and excitement about the future of rural America to join us in this vital initiative.

The strength, security and economic well-being of our entire nation are dependent upon a strong rural America. And a strong rural America is dependent upon a strong CoBank and Farm Credit System by its side—day in and day out—irrespective of market conditions.

CORPORATE SOCIAL RESPONSIBILITY

With the full support of our board, CoBank has made a concerted effort to expand its activities in the area of corporate social responsibility over the past few years. We believe it is incumbent on us to provide financial support and other resources to organizations that are important to our customers, to America's rural communities and to those in need in the areas where we have business operations and where our directors and employees live and work.

In 2014, CoBank contributed approximately $7.7 million to nonprofit organizations (including commitments for future years) and another $3.9 million in commercial sponsorships. Program highlights included:

- Sharing Success, a $3 million fund we use to match charitable contributions by our cooperative customers on a dollar-for-dollar basis, up to $5,000 per year. More than 600 of our borrowers took part in the program in 2014;
- America's Best Communities (ABC), a "prize campaign" designed to promote economic development in rural areas. Conceived by Frontier Communications, one of CoBank's largest rural communications customers, the ABC contest offers participating communities a chance to win a total of $10 million in cash awards for submitting innovative proposals that will improve the economic performance of their local communities. CoBank has joined with Frontier and DISH as a major sponsor of the campaign, which will run through 2017;
- Support for land grant and other universities around the country that conduct research in agriculture, energy and other areas vital to rural America; and,
- Rural disaster relief, including contributions to support hunger relief programs in California communities where farm workers have been negatively impacted by continuing drought conditions, as well as wildfire relief in the state of Washington.

The common theme across our entire corporate social responsibility program is rural community development. The vast majority of our commitments and contributions are designed to sustain the health of America's rural communities, in parallel with our broad lending outreach. Detailed information is available in our 2014 corporate social responsibility report, which is being published and distributed to customers as a companion to our annual report. That document, entitled "Growing Rural America," is one we hope you will take time to review in detail. We deeply appreciate the support for these initiatives that we've received from our board, our customers and our Farm Credit partners—and we're especially proud of the positive impact CoBank is having across rural America.

"STRONGER TOGETHER"

The theme of our annual report this year is "Stronger Together." We think those words illustrate the innate resilience of CoBank's cooperative structure, which drives long-term alignment between the bank and the needs and priorities of its customer-owners.

The pages that follow this letter contain profiles of a selection of cooperatives and other businesses from CoBank's customer base, and we hope you take the time to read about these innovative and forward-thinking enterprises. Though they are extremely diverse and operate in different industries and markets, all are focused on creating value for their customers, building market share, positioning themselves for future success, and contributing to the economic strength and well-being of our entire country.

What they also have in common is a strong partnership with CoBank. Our promise to them, as with all our customers, is to serve as their trusted financial partner and deliver to them the credit and financial services they need to thrive and grow—in good times and bad.

BUSINESS OUTLOOK

As we began 2015. the overall U.S. economy was continuing to outperform the rest of the developed world. GDP growth was relatively solid; the job market had improved considerably from the prior year; and housing and equity markets were holding firm. But the market environment also remained full of obstacles for rural industries, including global competition, increasing expectations from customers and the general public, a growing focus on sustainability, global geopolitical risks, volatile currency exchange rates, cybersecurity issues, and the prospect of even more intrusive government regulation. CoBank also faces its own set of challenges, including intense competition from a variety of banks and lenders for the business of our customers, the need for significant investment in people, processes and technologies to meet the ever-increasing demands of our customers competing on a global stage, and artificially low interest rates that negatively impact our returns on invested capital.

Our board and executive management team believe strongly that the best strategy for CoBank is to remain focused on providing value to our customers—as both customers and owners—and on building the bank's financial strength and stability for the long term. Despite market volatility and ongoing change, we remain as optimistic as ever about the prospects for rural America and the essential industries we serve. As always, we remain mindful of the enormous trust our customers place in CoBank as their financial partner.

We thank you for your ongoing support and look forward to reporting back to you on our future progress.

EVERETT M. DOBRINSKI
Chairman

ROBERT B. ENGEL
Chief Executive Officer

"STRONG BOARD OVERSIGHT IS A HALLMARK OF THE COOPERATIVE MODEL."

EVERETT M. DOBRINSKI Chair

Occupation: Farming

Hometown: Makoti, ND

DANIEL T. KELLEY 1st Vice Chair

Occupation: Farming

Hometown: Normal, IL

KEVIN A. STILL 2nd Vice Chair

Occupation: Agribusiness cooperative management

Hometown: Danville, IN

ROBERT M. BEHR

Occupation: Agribusiness cooperative management

Hometown: Lakeland, FL

MILBURN "DAN" CHILDS

Occupation: Farming and livestock

Hometown: Mannsville, OK

WILLIAM M. FARROW, III

Occupation: Banking

Hometown: Chicago, IL

BENJAMIN J. FREUND

Occupation: Farming

Hometown: East Canaan, CT

MARY E. FRITZ

Occupation: Farming and ranching

Hometown: Chester, MT

J. "LESS" GUTHRIE

Occupation: Farming and ranching

Hometown: Porterville, CA

WILLIAM H. HARRIS

Occupation: Farming

Hometown: LeRoy, NY

JAMES A. KINSEY

Occupation: Livestock

Hometown: Flemington, WV

DAVID J. KRAGNES

Occupation: Farming

Hometown: Felton, MN

JIM MAGNUSON

Occupation: Agribusiness cooperative management

Hometown: Sully, IA

JON E. MARTHEDAL

Occupation: Farming

Hometown: Fresno, CA

GARY A. MILLER

Occupation:
Electric cooperative management

Hometown: Douglasville, GA

CATHERINE MOYER

Occupation:
Rural communications management

Hometown: Ulysses, KS

ALARIK MYRIN

Occupation: Farming and ranching

Hometown: Altamont, UT

DAVID S. PHIPPEN

Occupation: Farming

Hometown: Ripon, CA

RONALD J. RAHJES

Occupation: Farming

Hometown: Kensington, KS

DAVID L. REINDERS

Occupation:
Agribusiness cooperative management

Hometown: Sunray, TX

KEVIN G. RIEL

Occupation: Farming

Hometown: Yakima, WA

CLINT E. ROUSH

Occupation: Farming and livestock

Hometown: Arapaho, OK

BARRY M. SABLOFF

Occupation:
Retired, commercial banking

Hometown: Chicago, IL

STEPHANIE HERSETH SANDLIN

Occupation: Attorney

Hometown: Sioux Falls, SD

KENNETH W. SHAW

Occupation: Livestock

Hometown: Mountainair, NM

RICHARD W. SITMAN

Occupation: Retired, retail services

Hometown: Kentwood, LA

WILLIAM A. SQUIRES

Occupation:
Rural communications management

Hometown: Missoula, MT

SCOTT H. WHITTINGTON

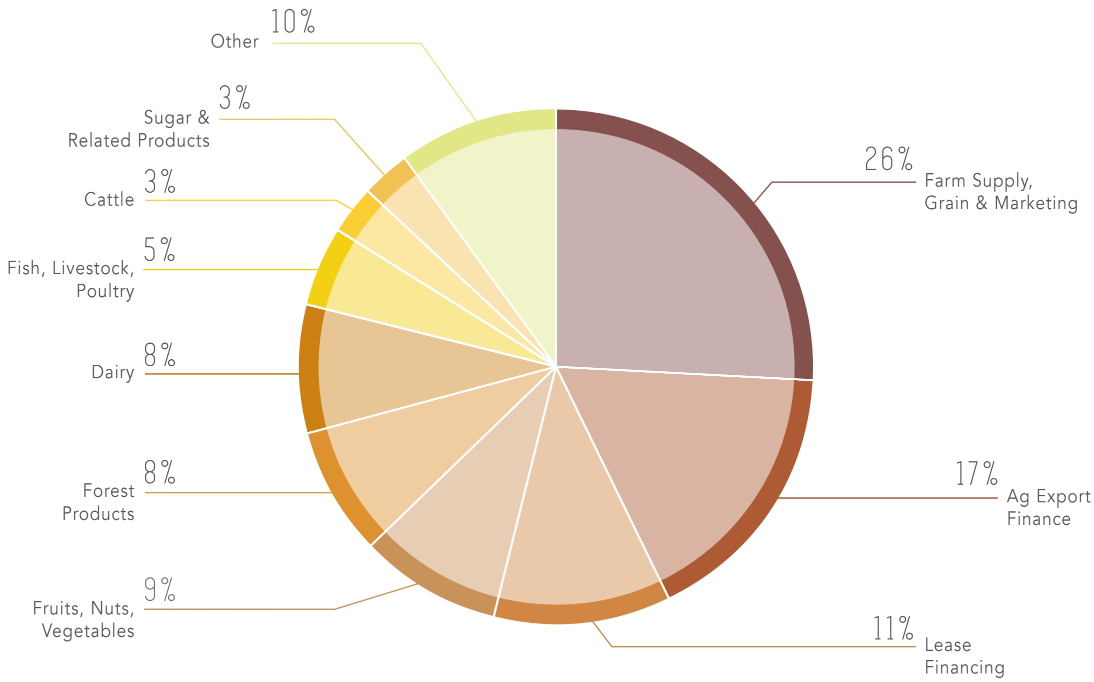
Occupation:
Electric cooperative management

Hometown: Burlington, KS

2015

BOARD OF DIRECTORS

AGRIBUSINESS PORTFOLIO



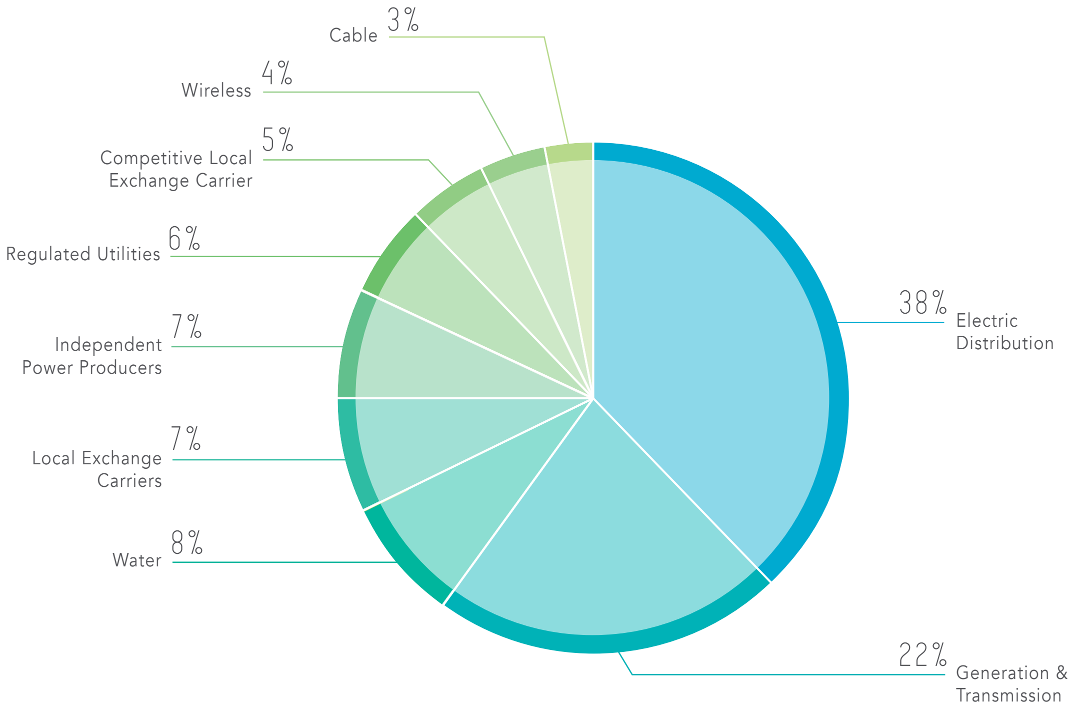
CoBank's Agribusiness operating segment includes the Regional Agribusiness Banking Group, Corporate Agribusiness Banking Group, Agricultural Export Finance Division and Banking Services Group, which includes Farm Credit Leasing. It serves cooperatives and other customers involved in a wide variety of industries, including grain handling and marketing, farm supply, food processing, dairy, livestock, fruits, nuts, vegetables, cotton, biofuels and forest products.

% OF PORTFOLIO: **30%** AGRIBUSINESS

FOR THE YEAR	2014	2013	2012
($ IN MILLIONS)			
PERIOD-END LOANS	$ 24,359	$ 21,182	$ 21,394
AVERAGE LOANS	23,598	21,077	22,209
NET INCOME	386	380	410

AVERAGE LOAN VOLUME **AGRIBUSINESS** | **$23.6** BILLION IN **2014**

RURAL INFRASTRUCTURE PORTFOLIO



CoBank's Rural Infrastructure operating segment includes the following banking divisions: Electric Distribution, Water & Community Facilities; Power, Energy & Utilities; Project Finance; and Communications. It serves rural utilities and other customers across a wide variety of industries, including electric generation, transmission and distribution cooperatives; water and wastewater companies; and broadband, wireline, cable and wireless communications services providers.

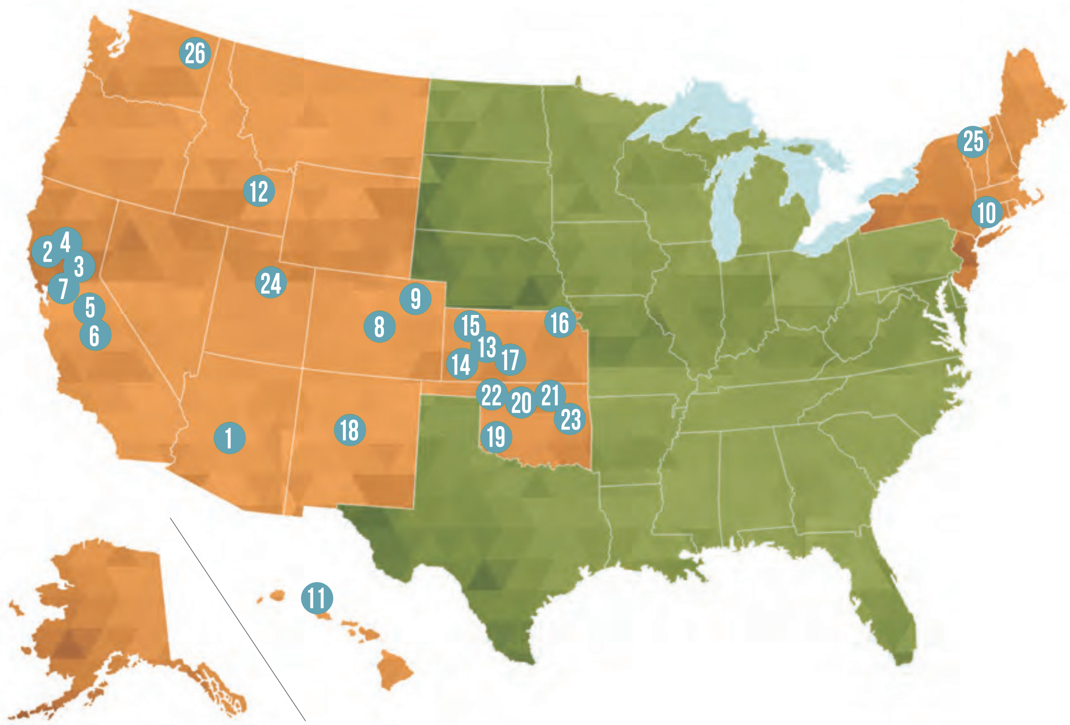
% OF PORTFOLIO: **20%** RURAL INFRASTRUCTURE

Agribusiness | Rural Infrastructure | Strategic Relationships

FOR THE YEAR	2014	2013	2012
($ IN MILLIONS)			
PERIOD-END LOANS	$ 16,104	$ 14,524	$ 13,879
AVERAGE LOANS	15,192	14,215	13,086
NET INCOME	280	230	208

AVERAGE LOAN VOLUME
RURAL INFRASTRUCTURE
$15.2 BILLION IN **2014**

COBANK'S AFFILIATED FARM CREDIT ASSOCIATIONS



ARIZONA

1 **FCS SOUTHWEST**
TEMPE

CALIFORNIA

2 **AMERICAN AGCREDIT**
SANTA ROSA

3 **FARM CREDIT WEST**
ROSEVILLE

4 **FCS OF COLUSA-GLENN**
COLUSA

5 **FRESNO MADERA FARM CREDIT**
FRESNO

6 **GOLDEN STATE FARM CREDIT**
KINGSBURG

7 **YOSEMITE FARM CREDIT**
TURLOCK

COLORADO

8 **FC OF SOUTHERN COLORADO**
COLORADO SPRINGS

9 **PREMIER FARM CREDIT**
STERLING

CONNECTICUT

10 **FARM CREDIT EAST**
ENFIELD

HAWAII

11 **FCS OF HAWAII**
HONOLULU

IDAHO

12 **IDAHO AGCREDIT**
BLACKFOOT

KANSAS

13 **FC OF NESS CITY**
NESS CITY

14 **FC OF SOUTHWEST KANSAS**
GARDEN CITY

15 **FC OF WESTERN KANSAS**
COLBY

16 **FRONTIER FARM CREDIT**
MANHATTAN

17 **HIGH PLAINS FARM CREDIT**
LARNED

NEW MEXICO

18 **FC OF NEW MEXICO**
ALBUQUERQUE

OKLAHOMA

19 **AGPREFERENCE**
ALTUS

20 **CHISHOLM TRAIL FARM CREDIT**
ENID

21 **FC OF ENID**
ENID

22 **FC OF WESTERN OKLAHOMA**
WOODWARD

23 **FCS OF EAST CENTRAL OKLAHOMA**
BROKEN ARROW

UTAH

24 **WESTERN AGCREDIT**
SOUTH JORDAN

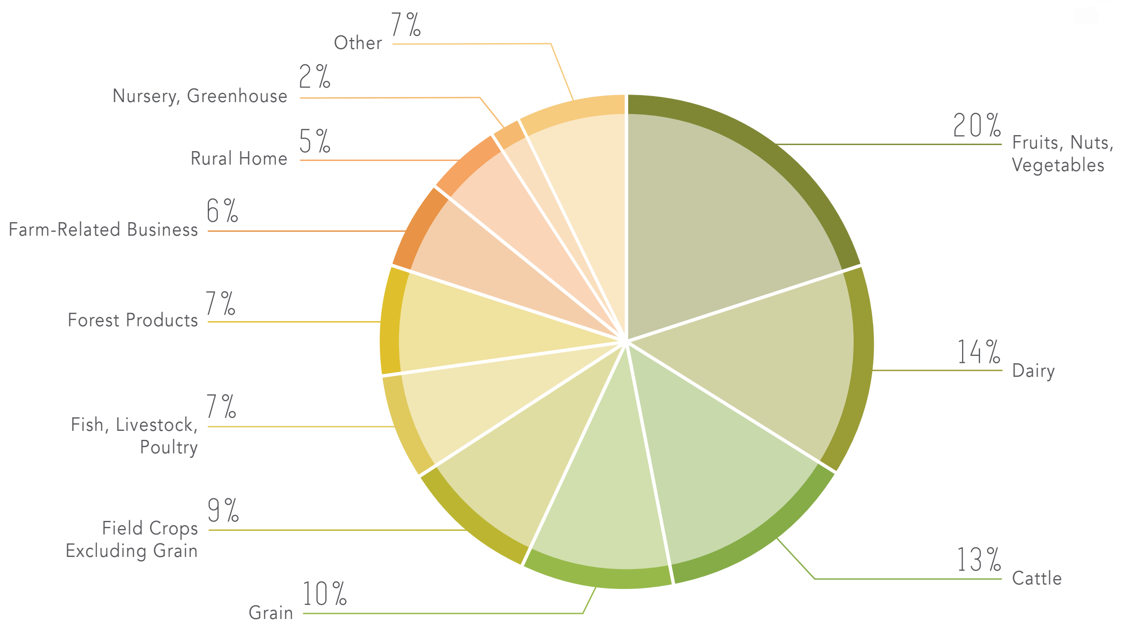
VERMONT

25 **YANKEE FARM CREDIT**
WILLISTON

WASHINGTON

26 **NORTHWEST FARM CREDIT SERVICES**
SPOKANE

STRATEGIC RELATIONSHIPS PORTFOLIO



In addition to providing loans to retail cooperatives and other customers in all 50 states, CoBank serves as a funding bank for 26 affiliated Farm Credit associations across the country. Those associations provide loans and financial services to approximately 75,000 farmers, ranchers and other rural borrowers in 23 states. They serve a diverse array of industries, from fruits, nuts and vegetables to grains and other row crops to dairy, beef, poultry and forest products.

CoBank provides these association customers with wholesale financing as well as other value-added products and services. In turn, the associations provide the bank with added lending capacity by serving as participation partners on large credit transactions.

CoBank also serves as a partner of choice for a number of nonaffiliated Farm Credit associations throughout the country on loan participations and syndications, leasing, and other non-credit services.

% OF PORTFOLIO: **50%** STRATEGIC RELATIONSHIPS

FOR THE YEAR	2014	2013	2012
($ IN MILLIONS)			
PERIOD-END LOANS	$ 39,919	$ 37,897	$ 36,707
AVERAGE LOANS	37,804	36,565	34,976
NET INCOME	244	255	246

AVERAGE LOAN VOLUME

STRATEGIC RELATIONSHIPS

$37.8 BILLION IN **2014**

1 **DANNY POSCH**
Senior Vice President & CFO
MKC

2 **MICHAEL WALTON**
Relationship Manager
CoBank

MKC
Shared growth.
Shared success.

HEADQUARTERS
MOUNDRIDGE
KANSAS

ESTABLISHED
1965

EMPLOYEES
300 FULL TIME

SIZE
5,800
MEMBERS

MKC

Based on numbers alone, MKC has an impressive story to tell: 5,800 farmer-members; 38 elevator locations; almost 40 million bushels of storage capacity.

But MKC—based in Moundridge, Kansas, less than an hour north of Wichita—isn't resting on its laurels. The grain and farm supply cooperative continues to invest in new infrastructure, new services and new technology.

"Working with CoBank allows us to focus on the business at hand, knowing we'll have access to financing when we need it," said David Christiansen, president and chief executive officer at MKC. "They have a good understanding of what we're trying to accomplish with our business strategy and they're committed to helping us achieve it."

Beyond grain storage and marketing, MKC provides feed, agronomy, energy and risk management products to its customers.

Over the past few years, MKC has worked with CoBank to put nearly $238 million of debt capital in place. The co-op has added three new grain elevators to increase storage capacity by 6.4 million bushels—a timely move given the co-op's growth, as well as the record yields being enjoyed by the region's farmers.

"Our strategic vision is for continued growth and ongoing capital asset renewal to better serve our growing customer base," said Danny Posch, senior vice president and chief financial officer. "At the same time, we're committed to customer service and building an exceptional, dedicated team of employees."

In addition to investments in the business, MKC has been a generous contributor to local communities, donating more than $300,000 in the past five years to farm education programs, hunger relief and other worthy causes.

"We believe the cooperative we hand over to the next generation should be positioned to be viable and relevant for the future," Christiansen said. "That means building a stronger business—and stronger communities as well."

HOUWELING'S TOMATOES

Constant innovation and environmental sustainability may not be the first things you think of when you hear "greenhouse tomatoes," but they will be once you've met Casey Houweling.

Houweling's Tomatoes is known for developing the most technically advanced and environmentally friendly greenhouse operations in the world, and now many greenhouse growers globally are using Houweling's patented technologies to emulate their approach. He doesn't spend a lot of time contemplating his success, however. He's constantly thinking of new and better ways to run his business. "It's about the journey, not about reaching a certain goal. There's always more to accomplish," said Houweling.

Adding to established facilities in California and British Columbia, Houweling expanded to Utah last year, building a 28-acre greenhouse with state-of-the-art climate control and sustainable technology he developed through years of experience and a passion to innovate. To finance the project, Houweling relied on a multimillion-dollar loan package led by Farm Credit West, in which CoBank was a strategic partner.

"Farm Credit West has been Houweling's financial partner for more than a decade, but when Casey announced he was expanding into Utah, we came to CoBank for additional financial capacity," said Daniel McClamroch, vice president at Farm Credit West. "We've enjoyed a strategic partnership with CoBank for many years, so the trust and values we share make it comfortable for our customers."

The Utah greenhouse project is unique in its industry. Houweling chose a location next to a power generation facility so he could utilize reclaimed heat and CO^2, important for plant enrichment, that would otherwise be emitted into the atmosphere. This allows the greenhouse to operate with a very low carbon footprint. The first phase of the project will support more than 250,000 plants annually, but there's room for three additional greenhouses at the Utah location in the future.

"We value Farm Credit's understanding of agriculture and the cyclical nature of our industry," said Houweling. "We've built a great relationship, and we know they're committed to our long-term success."

1 **PETE HUFFINE**
Regional
Vice President
CoBank

2 **CASEY HOUWELING**
CEO
Houweling's Tomatoes

3 **DANIEL MCCLAMROCH**
Relationship Manager
Farm Credit West

HOUWELING'S TOMATOES

U.S. HEADQUARTERS
CAMARILLO
CALIFORNIA

ESTABLISHED
1956

EMPLOYEES
700 FULL TIME

SIZE
200 ACRES OF GREENHOUSES

1 **KYLE WEAVER**
Relationship Manager
CoBank

2 **SEAN O'DAY**
Senior Vice President
American AgCredit

3 **BRAD LEAFGREN**
Vice President
American AgCredit

4 **BILL FOX**
Managing Director,
Capital Markets
CoBank

5 **DAN DYE**
CEO
Ardent Mills

6 **BRAD BERENTSON**
CFO
Ardent Mills

7 **BILL STOUFER**
COO
Ardent Mills

Ardent Mills
Nourishing what's next.

HEADQUARTERS
DENVER
COLORADO

ESTABLISHED
2014

EMPLOYEES
2,330
FULL TIME

REACH
AN ESTIMATED 100 MILLION PEOPLE IN NORTH AMERICA BUY OR CONSUME AN ARDENT MILLS PRODUCT EVERY DAY

ARDENT MILLS

Ardent Mills may be the oldest brand new company in agribusiness. As a joint venture of long-time CoBank customers Cargill, CHS and ConAgra Foods, Ardent Mills was founded in 2014 but can nonetheless draw on over 350 years of collective experience from its parent companies.

"It's about building on a collective history, strength and ability to deliver nutritious, high-quality and innovative grain-based solutions. We're carrying that legacy into the future as we begin a new era in grain," said Dan Dye, Ardent Mills' chief executive officer.

Based in Denver, Colorado, Ardent Mills operates a coast-to-coast network of 40 community mills, along with three bakery-mix centers and a specialty bakery. Its products include flours, mixes, blends and specialty products, which are sold to retail and food service channels as well as national and regional food manufacturers across North America.

CoBank partnered with American AgCredit to deliver significant capital support to Ardent Mills' inaugural $1.3 billion financing in 2014. The financing provided initial long-term capital to the joint venture and committed working capital liquidity to help Ardent Mills grow and flourish.

"We needed working capital to cover things like receivables and increasing our wheat inventories," said Dye. "We also returned some of the parent companies' investment." Transaction proceeds will also go toward enhancing and upgrading current facilities as the company focuses on product innovation, process improvements and operating efficiencies.

"We appreciate our shared values and CoBank's commitment to agriculture," said Dye. "We also like the connection CoBank has with local Farm Credit organizations across the country, which offers capacity we'll need as we grow into the future."

CORPORATE AGRIBUSINESS
BANKING GROUP

J.M. HUBER CORPORATION

J.M. Huber Corporation is a classic American success story. Founded by a German immigrant in 1883, it initially provided pigments used in inks for businesses in the communications and advertising industries.

Over the past 130 years, Huber has evolved and expanded. Today it is one of the nation's largest private companies, with products serving a wide range of industry sectors, including food additives and forest products. It has approximately 4,000 employees and operates in more than 20 countries. Notably, the Huber family is now in its fifth generation of involvement with the company.

In 2014, Huber put in place a $660 million credit facility with CoBank and Farm Credit East, one of CoBank's affiliated Farm Credit associations, which was syndicated to partners in the Farm Credit System as well as commercial banks. Proceeds from the transaction will be used to refinance existing high-yield bond debt, the buyout of a lease for a wood products manufacturing facility, and a working capital revolver.

"CoBank and Farm Credit East considered our diversity, our stability and our financial ratios and offered us a unique structure that reduced our interest rate risk and increased our access to capital," said Jeff Prosinski, Huber's chief financial officer. "They were clearly focused on helping us execute our long-term strategy."

Farm Credit East has provided credit to Huber for many years, and has longstanding relationships with members of the Huber family. "Their familiarity with Farm Credit formed a strong foundation for the company to move forward with our financing proposal," said Jim Papai, senior vice president at FCE.

Jonathan Logan, executive vice president of CoBank's Corporate Agribusiness Banking Group, said the Huber transaction is a great example of the Farm Credit value proposition in action.

"Large corporate customers like Huber have substantial capital needs as they implement their business plans and pursue growth opportunities," Logan said. "CoBank and Farm Credit offer significant capacity to meet the needs of these borrowers, along with deep industry knowledge and a commitment to outstanding customer service."

1 **KEVIN DIPPOLD**
Assistant Treasurer
J.M. Huber

2 **JIM PAPAI**
Senior Vice President
Farm Credit East

3 **KYLE WEAVER**
Relationship Manager
CoBank

4 **JEFF PROSINSKI**
CFO
J.M. Huber

5 **BILL FOX**
Managing Director, Capital Markets
CoBank

HUBER
A Family of Solutions

HEADQUARTERS
EDISON
NEW JERSEY

ESTABLISHED
1883

EMPLOYEES
4,000
FULL TIME

OWNERSHIP
FAMILY-OWNED FOR
5 GENERATIONS

ELECTRIC DISTRIBUTION, WATER & COMMUNITY FACILITIES

BANKING DIVISION

1 **TROY MORRIS**
VP Business Relations
Mid-South Synergy

2 **HUNTER HOOK**
Relationship Manager
CoBank

3 **KERRY KELTON**
CEO
Mid-South Synergy

4 **ANDREW DALLMEYER**
VP Finance and Accounting
Mid-South Synergy

5 **KEN GAJDOS**
Relationship Manager
CoBank

MID-SOUTH synergy

HEADQUARTERS
NAVASOTA
TEXAS

ESTABLISHED
1940

EMPLOYEES
123 FULL TIME

INFRASTRUCTURE
20 SUBSTATIONS | **13** WELLS

MID-SOUTH SYNERGY

Texas-based Mid-South Synergy's roots are in the power industry: It was founded in 1940 as an electric cooperative serving rural communities northwest of Houston.

But in the late 1990s, the co-op took the unique step of expanding into the rural water business. Since then, it has invested tens of millions of dollars to install pipes, wells, pumping stations and water storage facilities inside its service territory.

"It has been a great move for us," said Kerry Kelton, Mid-South Synergy's chief executive officer. "Providing water services has enabled us to better serve our membership, and also served as a strong source of growth for our business."

CoBank has long served as a lender to Mid-South, providing loans that have financed the cooperative's electric distribution systems. In 2014, Mid-South again turned to CoBank for $17.5 million in financing for new water infrastructure.

"It made sense to work with a trusted financial partner who knew both of our industries well," Kelton said. "CoBank understands that water utilities require a lot of up-front capital with a longer-term rate of return. They worked with us to structure this deal to best serve our long-term strategy and our success."

"Cooperatives like Mid-South Synergy play a vital role in the rural economy since communities need access to reliable, high-quality water in order to be sustainable and economically strong," said Dave Dornbirer, CoBank sector vice president and manager of the bank's rural water portfolio. "It is extremely gratifying for us to serve as Mid-South's financial partner and to support them as they grow and plan for the future."

EAST MISSISSIPPI EPA

For more than 75 years, East Mississippi Electric Power Association has been providing reliable, affordable electricity to people and businesses inside its service territory, which covers portions of six counties near the Mississippi-Alabama border.

But the cooperative believes its mission is broader than just delivering power. EMEPA also serves the area by investing in local rural economic development projects, and through financial support for a variety of local community programs. In recent years, EMEPA has sponsored a local critical care hospital, a satellite college campus, area volunteer fire departments and leadership training programs for local youth.

"Our corporate motto is 'We Care,' and we try to live up to those words every day," said EMEPA General Manager Wayne Henson. "We play a vital role in the economic health of the communities we serve, and we take our civic obligations seriously."

In 2014, EMEPA worked with CoBank to secure a new $55 million credit facility. Proceeds from the transaction enabled it to refinance an existing loan from the USDA's Rural Utilities Service, shortening the co-op's debt term and lowering interest payments. "CoBank offered us a lower rate and enabled us to trim years off our amortization schedule," said Kevin Hedgpeth, EMEPA's director of accounting and finance.

The transaction also provided funds for working capital and—importantly—a letter of credit for continued investment in local economic development projects. "It's great to have a financial partner like CoBank who understands our business objectives and works with us to get the job done," Henson said.

1 **RANDY CARROLL**
COO
EMEPA

2 **KEVIN HEDGPETH**
Director of Accounting and Finance
EMEPA

3 **DORAN DENNIS**
Relationship Manager
CoBank

4 **WAYNE HENSON**
CEO
EMEPA

HEADQUARTERS
MERIDIAN
MISSISSIPPI

ESTABLISHED
1938

EMPLOYEES
147 FULL TIME

INFRASTRUCTURE
5,590
MILES OF ELECTRIC DISTRIBUTION LINES

COMMUNICATIONS
BANKING DIVISION

1 **JACKIE MALLORY**
Chief Marketing and Sales Officer
Carolina West Wireless

2 **SLAYTON STEWART**
Chief Executive Officer
Carolina West Wireless

3 **THAD SOUTHERS**
Chief Financial Officer
Carolina West Wireless

4 **JUDE O'SULLIVAN**
Chief Communication Officer
Carolina West Wireless

5 **GLORIA HANCOCK**
Relationship Manager
CoBank

CarolinaWest WIRELESS

HEADQUARTERS
WILKESBORO
NORTH CAROLINA

ESTABLISHED
1991

EMPLOYEES
145 FULL TIME

SIZE
80,000
CUSTOMERS

CAROLINA WEST WIRELESS

In rural America, only 60 percent of households have broadband Internet service—10 percent less than those in urban areas. But companies like Carolina West Wireless are helping to close the "digital divide" by delivering broadband to rural residents via mobile devices.

Based in Wilkesboro, North Carolina, the company serves customers in 10 counties in the western part of the state. It is jointly owned by three cooperative communications service providers: Skyline Telephone Membership Corporation, Surry Telephone Membership Corporation and Wilkes Telephone Membership Corporation.

"Our customers like doing business with a local company," said Slayton Stewart, Carolina West Wireless chief executive officer. "At the same time, they expect us to deliver the latest technology and an outstanding experience."

Currently, Carolina West Wireless is increasing the number of cell sites on its network by 50 percent and upgrading its network to 4G, or "fourth generation," technology.

"We recognized that as long as we needed debt to ensure our 4G build, it would be better to go with one institution," Stewart said. "We chose CoBank because of its understanding of small rural community businesses, experience in the regional wireless space, and its reputation in the industry."

"Regional wireless providers like Carolina West Wireless are succeeding by delivering a superior level of service to their customers in a hugely competitive industry," said Rob West, CoBank senior vice president and manager of the bank's Communications Banking Division. "Our mission is to support them with reliable access to financing so they can continue to thrive and achieve their business goals."

POWER, ENERGY & UTILITIES

BANKING DIVISION

GREAT RIVER ENERGY

Great River Energy is one of the largest generation and transmission cooperatives in the country, providing wholesale power to more than 1.7 million members in rural communities across Minnesota and Wisconsin.

It's also one of the most progressive. GRE has invested heavily to add renewable energy to its portfolio of generation facilities, including power from wind, biomass, hydroelectric and anaerobic digesters. In addition, the cooperative has partnered with CoBank to install more than 650 kilowatts of solar arrays at its headquarters and throughout its service territory. That's enough power to meet the needs of 150 homes.

"We have a progressive membership," said Larry Schmid, GRE's chief financial officer. "Wind has been the primary renewable resource for us, but we expect solar to play an important role. As solar proliferates throughout the United States, our members are going to want us to be part of that."

CoBank has served as a lender to GRE since 1999 on a wide variety of projects, including a recent $100 million term loan to fund infrastructure investments serving its 28 member distribution cooperatives. For its solar project, GRE used a lease from CoBank's leasing subsidiary, enabling it to take advantage of a 30 percent federal tax credit on the cost of solar installations.

"We value the relationship we've built with CoBank over the years," Schmid said. "They're responsive and knowledgeable and they understand rural America, which is also who we serve."

Todd Telesz, CoBank senior vice president of the bank's Power, Energy & Utilities Banking Division, noted that CoBank is one of the nation's largest providers of financing for renewable projects with a loan and lease portfolio totaling almost $1 billion.

"Generation and transmission cooperatives across rural America are helping to lead the industry forward in the development and deployment of clean renewable energy sources," Telesz said. "At CoBank, we're proud of the role we play in helping our customer-owners to make these investments, while also ensuring the continued reliability and affordability of electricity for their members."

1 **ANDY BERGRUD**
Solar Project Manager
Great River Energy

2 **LARRY SCHMID**
Vice President & CFO
Great River Energy

3 **TIM FAULKNER**
Treasury Services Manager
Great River Energy

4 **KEITH SCHIELER**
Senior Relationship Manager
CoBank Farm Credit Leasing

5 **JOHN KEMPER**
Relationship Manager
CoBank

GREAT RIVER ENERGY®

A Touchstone Energy® Cooperative

HEADQUARTERS
MAPLE GROVE
MINNESOTA

ESTABLISHED
1999

EMPLOYEES
880 FULL TIME

SIZE
1.7 MILLION MEMBERS

VALUE PROPOSITION

CoBank is a financially strong, DEPENDABLE, cooperative bank that provides credit and financial solutions to rural America. We are KNOWLEDGEABLE, responsive and committed to enhancing our CAPACITY to deliver a superior customer experience and competitively priced products, while maintaining the safety and soundness of the bank for future generations. We consistently demonstrate our FOCUS on rural America, repeatedly strive to be a trusted advisor for our customers and provide a consistent return on their investment and OWNERSHIP in CoBank.

COBANK 2014 FINANCIAL REPORT

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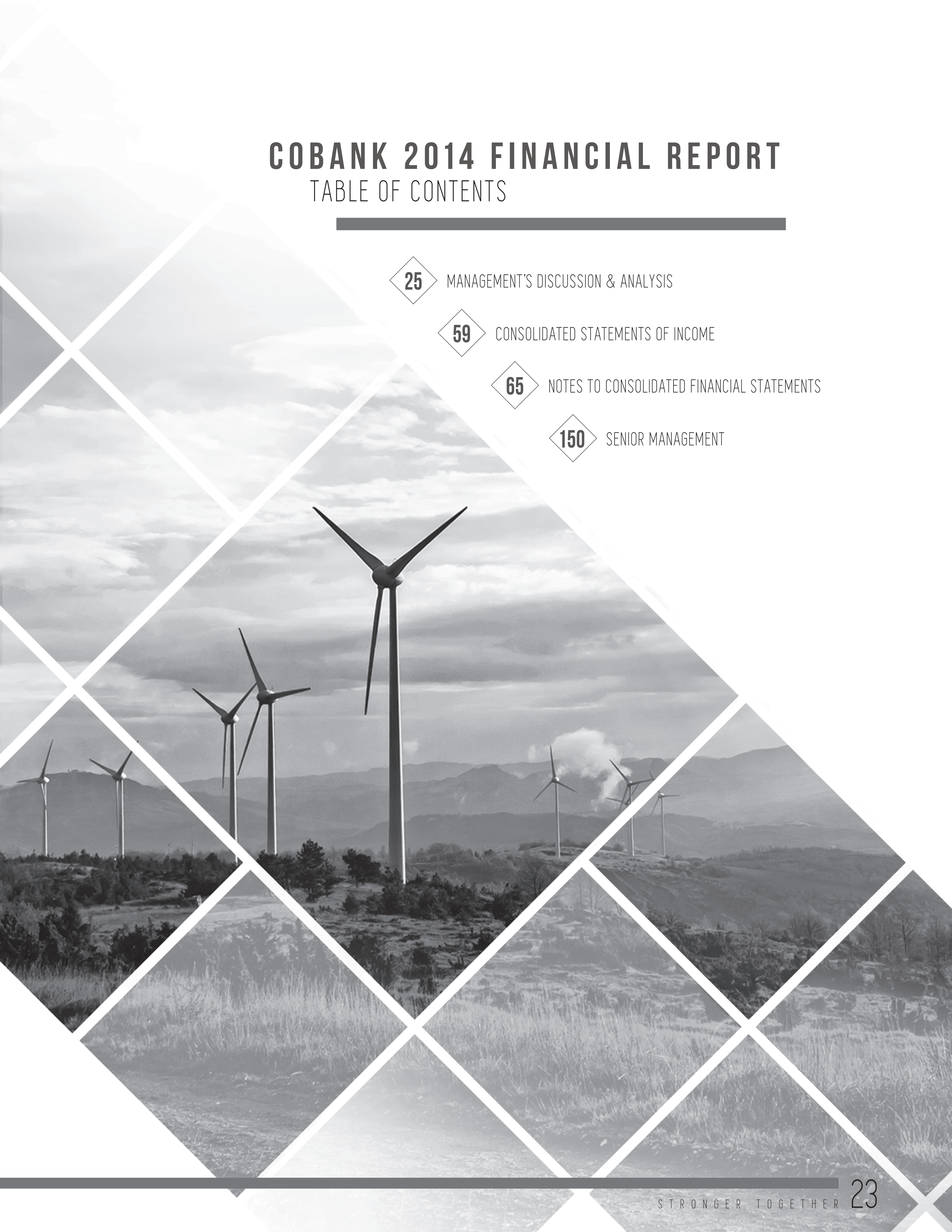
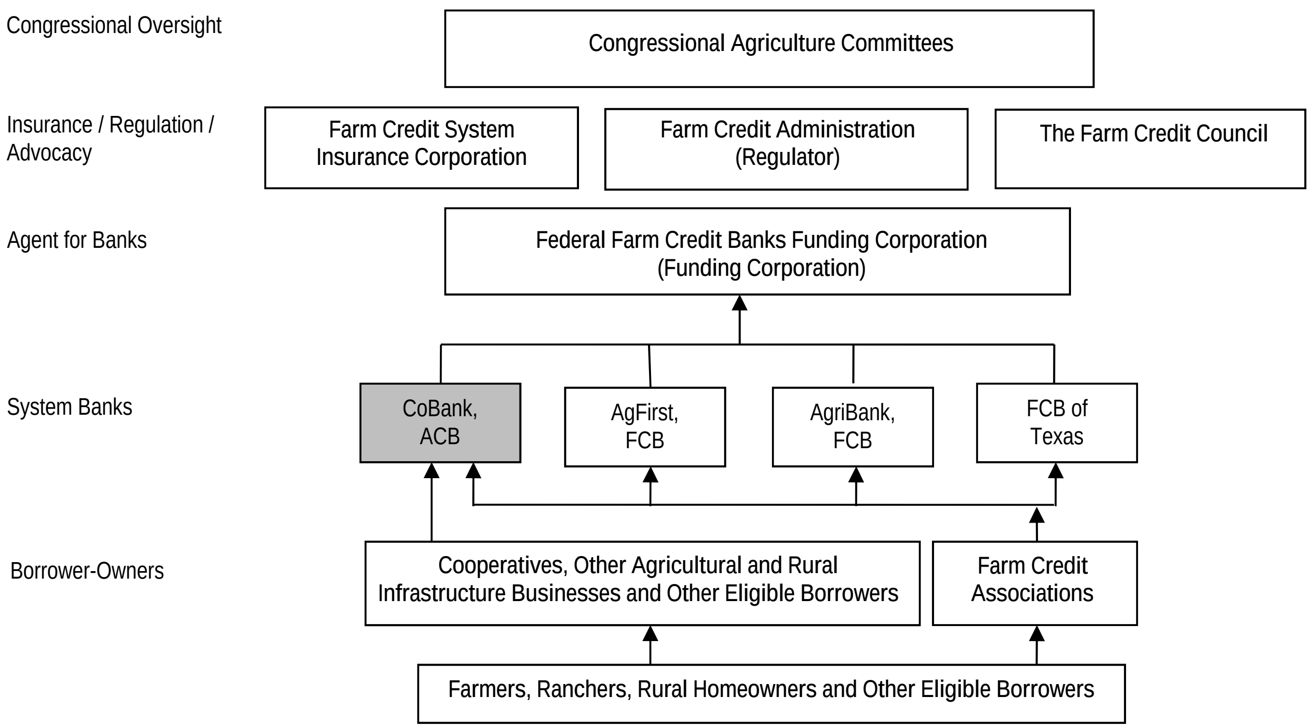


Company Introduction

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 cooperative lending institutions and related service organizations.

Cooperatives are organizations that are owned and governed by the members who use the cooperative's products or services. The System was established in 1916 by the U.S. Congress, and is a Government Sponsored Enterprise (GSE). As a member of a GSE, we have certain attributes that are important to our ability to fulfill our mission to a highly diverse customer base – in good times and bad – irrespective of market conditions. We also fulfill our broader mission as a member of a GSE by supporting rural America in its vital role to provide food security, energy security, economic growth and a high-quality of life to all Americans.

The following chart depicts the structure and ownership of the System.



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 a mission-based lender with authority to make loans and provide related financial services to eligible borrowers in the agribusiness and rural infrastructure industries, and to certain related entities, as defined by the Farm Credit Act. We are not legally authorized to accept deposits. We raise funds for our operations primarily by issuing debt securities through the System's agent, the Federal Farm Credit Banks Funding Corporation (Funding Corporation). Such securities are the joint and several obligations of the four System banks.

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 the primary funding source for certain Associations serving specified geographic regions in the United States (which are also regulated cooperative financial institutions and members of the System). We collectively refer to these entities as our affiliated Associations.

We provide a broad range of loans and other financial services to vital industries through three operating segments:

Agribusiness, Strategic Relationships and Rural Infrastructure.

The information and disclosures contained in this Annual Report to Shareholders primarily relate to CoBank. System annual and quarterly information statements and press releases for the current fiscal year and the two preceding fiscal years, as well as offering circulars relating to Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities), are available for inspection at, or will be furnished without charge upon request to, the Federal Farm Credit Banks Funding Corporation, 10 Exchange Place, Suite 1401, Jersey City, New Jersey 07302; telephone (201) 200-8000. These documents are also available online through the Funding Corporation's website at www.farmcreditfunding.com. This website also provides a link to each System bank's website where financial and other information of each bank can be found.

The accompanying consolidated financial statements exclude financial information of our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the "District." We separately publish certain unaudited combined financial information of the CoBank District, including a condensed statement of condition and statement of income, which can be found on our website at www.cobank.com. Such information is not incorporated by reference into, and should not be viewed as part of, this annual report.

The Federal Agricultural Mortgage Corporation (Farmer Mac) is a federally chartered corporation that was formed to provide a secondary market for a variety of loans made to borrowers in rural America. Although Farmer Mac is examined and regulated by the FCA, it is an entirely separate enterprise, and any reference to "the System" herein does not include Farmer Mac. For more information on Farmer Mac and its relationship with System entities, please see "Relationship with the Federal Agricultural Mortgage Corporation" on page 51.

Financial Condition and Results of Operations

Overview

CoBank's earnings grew to $904.3 million in 2014, a $47.8 million increase compared to 2013 earnings. The increase primarily resulted from an increase in net interest income. Net interest income increased 6 percent, driven by higher average loan volume as well as increased earnings from our balance sheet positioning. A reversal of a portion of our allowance for credit losses also contributed to stronger 2014 earnings. These items were somewhat offset by higher operating expenses, including an increase in Farm Credit Insurance Fund (Insurance Fund) premiums, and a lower level of noninterest income.

Our loans outstanding totaled $80.4 billion as of December 31, 2014, compared to $73.6 billion at the end of 2013. Our average loan volume was $76.6 billion during 2014, compared to $71.9 billion in 2013. The increases in both year-end and average loan volume resulted from increased lending across all three of our operating segments.

Loan quality remained strong throughout 2014. Although adversely classified loans and related accrued interest increased to 1.84 percent of total loans and related accrued interest at December 31, 2014, from 0.71 percent at December 31, 2013, the increase was primarily the result of the downgrade in the credit quality classification of a wholesale loan to one of our affiliated Associations. We do not currently anticipate any losses related to this affiliated Association, which is discussed further beginning on page 110. Excluding the impact of this downgrade, adversely classified loans and related accrued interest represented 0.73 percent of total loans and related accrued interest at December 31, 2014.

Total nonaccrual loans decreased to $130.3 million at December 31, 2014 from $147.8 million at December 31, 2013. As a result of a decline in the level of specific reserves needed for certain Rural Infrastructure loans, we recorded a $15.0 million loan loss reversal in 2014.

Our financial position also remains solid as of December 31, 2014, reflecting strong levels of capital and liquidity. Our shareholders' equity increased to $7.4 billion at year-end 2014, compared to $6.7 billion at year-end 2013. Our permanent capital and core surplus ratios were 15.70 percent and 10.47 percent, respectively, as of December 31, 2014, compared to the regulatory minimum requirements of 7.00 and 3.50 percent, respectively. As of year-end 2014, we held $26.2 billion in investments and cash as a liquidity reserve and our days liquidity was 172 days.

During 2014, we completed two preferred stock transactions which lowered our overall weighted average cost of capital. On October 1, 2014, we redeemed all of our outstanding Series D non-cumulative perpetual preferred stock totaling $136.8 million. The dividend rate for our Series D preferred stock was 11.0 percent through the date of redemption. On November 26, 2014, we issued $300 million of Series H non-cumulative perpetual preferred stock with a dividend rate of 6.20 percent through the expiration of the fixed period on January 1, 2025.

A five-year summary of selected consolidated financial data is shown in the following table.

Five-Year Summary of Selected CoBank Consolidated Financial Data[1]

($ in Thousands)	2014	2013	2012	2011	2010
Consolidated Statement of Income Data					
Net Interest Income	$ 1,231,767	$ 1,163,433	$ 1,238,170	$ 1,071,027	$ 950,845
(Loan Loss Reversal)/Provision for Loan Losses	(15,000)	-	70,000	58,000	60,000
Noninterest Income	124,171	132,085	113,321	117,936	98,559
Operating Expenses	303,800	280,094	263,883	228,270	216,210
Provision for Income Taxes	162,868	158,969	163,691	196,106	159,427
Net Income	$ 904,270	$ 856,455	$ 853,917	$ 706,587	$ 613,767
Net Income Distributed					
Patronage Distributions:					
Common Stock	$ 88,745	$ 76,527	$ 80,472	$ 109,900	$ 90,450
Cash	378,735	338,001	344,516	230,751	194,110
Total Patronage Distributions	467,480	414,528	424,988	340,651	284,560
Preferred Stock Dividends	53,564	62,980	72,065	63,799	63,799
Total Net Income Distributed	$ 521,044	$ 477,508	$ 497,053	$ 404,450	$ 348,359
Consolidated Balance Sheet Data					
Total Loans	$ 80,382,497	$ 73,603,375	$ 71,980,458	$ 46,285,142	$ 49,992,338
Less: Allowance for Loan Losses	481,156	447,126	437,376	388,056	400,744
Net Loans	79,901,341	73,156,249	71,543,082	45,897,086	49,591,594
Investment Securities	24,319,943	21,688,489	17,999,191	12,995,458	12,616,696
Cash	1,855,634	1,335,024	1,253,509	2,771,842	1,922,586
Other Assets	1,351,483	1,464,630	1,681,976	1,625,829	1,695,014
Total Assets	$ 107,428,401	$ 97,644,392	$ 92,477,758	$ 63,290,215	$ 65,825,890
Debt Obligations with Maturities ≤ 1Year	$ 46,267,360	$ 35,653,930	$ 27,796,639	$ 22,019,899	$ 22,271,349
Debt Obligations with Maturities > 1Year	52,217,631	53,708,507	56,715,165	35,084,587	38,052,964
Reserve for Unfunded Commitments	115,680	167,592	157,703	153,919	99,799
Other Liabilities	1,458,067	1,409,747	1,367,107	1,136,277	995,581
Total Liabilities	100,058,738	90,939,776	86,036,614	58,394,682	61,419,693
Preferred Stock	1,125,000	961,750	961,750	700,000	700,000
Common Stock	2,768,546	2,677,485	2,605,933	1,654,314	1,568,989
Unallocated Retained Earnings	3,482,379	3,103,926	2,729,031	2,439,531	2,137,394
Accumulated Other Comprehensive Income (Loss)	(6,262)	(38,545)	144,430	101,688	(186)
Total Shareholders' Equity	7,369,663	6,704,616	6,441,144	4,895,533	4,406,197
Total Liabilities and Shareholders' Equity	$ 107,428,401	$ 97,644,392	$ 92,477,758	$ 63,290,215	$ 65,825,890
Key Financial Ratios					
For the Year:					
Return on Average Common Shareholders' Equity	14.27 %	14.40 %	15.16 %	16.05 %	15.31 %
Return on Average Total Shareholders' Equity	13.07	13.15	14.03	15.02	14.30
Return on Average Assets	0.89	0.91	0.94	1.07	1.03
Net Interest Margin	1.23	1.26	1.41	1.69	1.66
Net (Charge-offs) Recoveries / Average Loans	(0.00)	0.03	(0.02)	(0.03)	(0.13)
Patronage Distributions / Total Average Common Stock Owned by Active Borrowers	18.59	17.53	18.41	22.65	19.77
At Year-end:					
Debt / Total Shareholders' Equity (: 1)	13.58	13.56	13.36	11.93	13.94
Total Shareholders' Equity / Total Assets	6.86 %	6.87 %	6.97 %	7.74 %	6.69 %
Allowance for Credit Losses[2] / Total Loans	0.74	0.84	0.83	1.17	1.00
Permanent Capital Ratio	15.70	16.72	16.14	16.37	14.30
Total Surplus Ratio	14.81	15.74	15.22	16.01	13.96
Core Surplus Ratio	10.47	10.82	10.06	10.02	8.42
Net Collateral Ratio	107.22	107.57	107.08	109.05	108.03

(1) U.S. AgBank, FCB (AgBank), which was also a System bank, merged with and into CoBank effective January 1, 2012. Beginning in 2012, our financial position, results of operations, cash flows and related metrics include the effects of the merger with AgBank. Financial information prior to the date of the merger has not been restated to reflect the impact of the merger.

(2) Includes the allowance for loan losses and the reserve for unfunded commitments.

Net Interest Income

Interest income and interest expense for the major categories of interest-earning assets and interest-bearing liabilities are shown in the following table.

Average Balances and Rates

Year Ended December 31,	2014			2013			2012		
($ in Millions)	Average Balance	Average Rate	Interest Income/ Expense	Average Balance	Average Rate	Interest Income/ Expense	Average Balance	Average Rate	Interest Income/ Expense
Interest-earning Assets									
Total Loans	$ 76,594	2.25 %	$ 1,725	$ 71,857	2.30 %	$ 1,651	$ 70,271	2.42 %	$ 1,704
Investment Securities	23,286	1.50	350	20,341	1.53	312	17,655	1.82	322
Total Interest-earning Assets	$ 99,880	2.08	$ 2,075	$ 92,198	2.13	$ 1,963	$ 87,926	2.30	$ 2,026
Interest-bearing Liabilities									
Bonds and Notes	$ 76,725	1.03 %	$ 792	$ 73,303	1.02 %	$ 750	$ 72,741	1.00 %	$ 730
Discount Notes	13,512	0.13	18	9,935	0.15	15	7,687	0.18	14
Subordinated Debt	905	4.09	37	905	4.09	37	995	4.52	45
Other Notes Payable	1,931	(0.21) *	(4) *	1,777	(0.11) *	(2) *	1,408	(0.07) *	(1) *
Total Interest-bearing Liabilities	$ 93,073	0.91	$ 843	$ 85,920	0.93	$ 800	$ 82,831	0.95	$ 788
Interest Rate Spread		1.17			1.20			1.35	
Impact of Equity Financing	$ 7,011	0.06		$ 6,627	0.06		$ 6,218	0.06	
Net Interest Margin and Net Interest Income		1.23 %	$ 1,232		1.26 %	$ 1,163		1.41 %	$ 1,238

* Average rate was favorably impacted by derivative-related fair value accretion resulting from merger accounting.

Changes in our interest income, interest expense and net interest income due to volume and rate variances for interest-earning assets and interest-bearing liabilities are summarized in the table below.

Changes in Net Interest Income Due to Changes in Average Volume and Interest Rates*

	2014			2013		
($ in Millions)	Increase (Decrease) From Previous Year Due To			Increase (Decrease) From Previous Year Due To		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
Total Loans	$ 108	$ (34)	$ 74	$ 56	$ (109)	$ (53)
Investment Securities	45	(7)	38	42	(52)	(10)
Total Interest Income	153	(41)	112	98	(161)	(63)
Total Interest Expense	66	(23)	43	46	(34)	12
Changes in Net Interest Income	$ 87	$ (18)	$ 69	$ 52	$ (127)	$ (75)

* The change in interest income or expense not solely due to changes in volume or rate has been allocated in proportion to the absolute dollar amount of the change in volume and rate.

Net interest income increased $68.3 million, or 6 percent, to $1,232 million in 2014, compared to $1,163 million in 2013. The increase in net interest income was primarily driven by higher average loan volume as well as increased earnings from our balance sheet positioning. Average loan volume increased $4.7 billion, or 7 percent, in 2014 primarily as a result of growth in lending to food and agribusiness customers in our Agribusiness operating segment, Farm Credit Association customers in our Strategic Relationships operating segment, and rural energy and communications customers in our Rural Infrastructure operating segment.

Average investment securities increased to $23.3 billion in 2014 from $20.3 billion in 2013. The increase in our average investments reflects the need to meet the liquidity requirements of a growing loan portfolio and to execute our balance sheet positioning strategies.

Our net interest margin declined to 1.23 percent in 2014 from 1.26 percent in 2013, and interest rate spread decreased to 1.17 percent in 2014 from 1.20 percent in 2013. The decline in our net interest margin and spread included the impact of lower merger-related accretion as well as slightly lower spreads in many of our lending portfolios, reflective of increased competition for the business of our customers. In addition, earnings on our shareholders’ equity and our investment portfolio continue to be negatively impacted by the low market interest rates prevalent in recent years. These factors were somewhat offset by increased earnings on balance sheet positioning strategies.

Net interest income includes $50.6 million and $83.3 million of net accretion of merger-related asset and liability fair value adjustments for 2014 and 2013, respectively. These amounts resulted from the application of business combination accounting standards in connection with our 2012 merger with U.S AgBank, FCB (AgBank). The amount of net accretion income recognized is expected to continue to decline significantly over the next two years.

In 2013, our net interest income decreased 6 percent to $1,163 million, compared to $1,238 million in 2012. The decrease in net interest income was primarily driven by lower seasonal loan volume in our Agribusiness operating segment and by the low interest rate environment impacting returns on invested capital, our balance sheet positioning and investment securities. Net interest margin declined in 2013 to 1.26 percent from 1.41 percent in 2012, and interest rate spread decreased to 1.20 percent in 2013 from 1.35 percent in 2012. These decreases primarily reflect the impact of lower returns on invested capital, our balance sheet positioning and investment securities.

Provision for Loan Losses (Loan Loss Reversal) and Allowance for Credit Losses

The provision for loan losses (loan loss reversal) reflects our estimate of credit losses inherent in our loan and finance lease portfolios, including unfunded commitments. The allowance for loan losses covers the funded portion of our loans outstanding, while the reserve for unfunded commitments covers losses on unfunded lending commitments. The sum of the allowance for loan losses and the reserve for unfunded commitments is referred to as the allowance for credit losses. We base our allowance for probable and estimable losses on the factors discussed in “Critical Accounting Estimates – Allowance for Credit Losses” on page 55. The tables on page 33 summarize the activity in our allowance for credit losses, by operating segment, for the past five years.

We recorded a $15.0 million loan loss reversal in 2014, primarily reflecting a reduction in specific reserves. The $15.0 million net reversal included a $52.0 million reversal in our Rural Infrastructure operating segment, somewhat offset by a $37.0 million provision for loan losses in our Agribusiness operating segment. The reversal in our Rural Infrastructure operating segment included the impact of a lower level of reserves needed for credit challenges impacting specific customers. In addition, the reversal in our Rural Infrastructure operating segment and the provision for loan losses in our Agribusiness operating segment include the impact of enhancements to our allowance for credit losses methodology to better reflect the credit risk inherent in our lending portfolio.

The $15.0 million net reversal for the year included a $25.0 million reversal in the second quarter of 2014 and a $10.0 million provision for loan losses in the fourth quarter of 2014. The fourth quarter provision reflects modest deterioration in credit quality and growth in our Agribusiness operating segment in the latter part of 2014.

In 2013, we did not record a provision for loan losses. While there was no provision for loan losses on a consolidated basis, we did record a $6.0 million provision for loan losses in our Rural Infrastructure operating segment due to growth in lending to rural energy customers, which was offset by a reversal of $6.0 million of the allowance for credit losses in our Agribusiness operating segment due to improved credit quality.

Adversely classified loans and related accrued interest represented 1.84 percent of total loans and related accrued interest at December 31, 2014, compared to 0.71 percent at December 31, 2013. This increase is primarily the result of the downgrade in the credit quality classification of a wholesale loan to one of our affiliated Associations, which is discussed further beginning on page 110. This downgrade did not impact our provision for loan losses or allowance for credit losses, as we do not currently anticipate any losses related to this affiliated Association. Excluding the impact of this downgrade, adversely classified loans and related accrued interest represented 0.73 percent of total loans and related accrued interest at December 31, 2014.

Total nonaccrual loans decreased to $130.3 million (0.16 percent of total loans) at December 31, 2014 from $147.8 million (0.20 percent of total loans) at December 31, 2013 primarily due to the payoff of several agribusiness and communications loans, the sale of a rural energy loan and the return of an agribusiness loan to accrual status. We recorded charge-offs, net of recoveries, of $2.9 million in 2014 compared to recoveries, net of charge-offs, of $19.6 million in 2013.

In 2012, we recorded a $70.0 million provision for loan losses related to specific credit challenges impacting a small number of customers in our Rural Infrastructure operating segment, further assessment of risk associated with loan concentrations, and general economic weakness. Net charge-offs were $16.9 million in 2012, and nonaccrual loans were $170.2 million at December 31, 2012, or 0.24 percent of total loans.

Our allowance for credit losses was $596.8 million at December 31, 2014, compared to $614.7 million and $595.1 million as of December 31, 2013 and 2012, respectively. The allowance for credit losses represented 0.74 percent of total loans as of the end of 2014, compared to 0.84 percent and 0.83 percent of total loans at December 31, 2013 and 2012, respectively. At December 31, 2014, our allowance for credit losses represented 1.54 percent of non-guaranteed loans excluding loans to Associations, compared to 1.85 percent at December 31, 2013.

Refer to “Corporate Risk Profile – Credit Risk Management” beginning on page 37 for further information on nonperforming loans, charge-offs, loan quality trends and the factors considered in determining the levels of our provision for loan losses and allowance for credit losses.

Noninterest Income

The following table details our noninterest income for each of the last three years.

Noninterest Income ($ in Thousands)			
Year Ended December 31,	2014	2013	2012
Net Fee Income	$ 108,584	$ 118,737	$ 116,801
Prepayment Income	25,079	78,217	49,379
Losses on Early Extinguishment of Debt	(58,316)	(96,839)	(86,718)
Loss on Tender Offer for Subordinated Debt	-	-	(28,460)
Other-Than-Temporary Impairment Losses, Net	-	(2,500)	(17,000)
Other, Net	48,824	34,470	79,319
Total Noninterest Income	$ 124,171	$ 132,085	$ 113,321

Noninterest income is primarily composed of fee income, loan prepayment income and miscellaneous gains and losses, offset by losses on early extinguishment of debt and impairment losses on investment securities.

Total noninterest income decreased in 2014 to $124.2 million, or by 6 percent, from $132.1 million in 2013. The decrease primarily resulted from a greater level of losses on early extinguishment of debt, net of prepayment income, incurred to position our balance sheet and from lower fee income. These factors were somewhat offset by an increase in other noninterest income due to an increased level of patronage income received from other System institutions and gains resulting from the sale of certain investment securities.

Our net fee income, which includes arrangement fees and unused commitment fees, among others, decreased to $108.6 million in 2014 compared to $118.7 million in 2013 primarily due to lower levels of arrangement fees and unused commitment fees in our Agribusiness operating segment.

Prepayment income decreased to $25.1 million in 2014 from $78.2 million in 2013 due to a lower level of customer refinancing activity. We extinguish debt to offset the current and prospective impact of prepayments in our loan and investment portfolios and to maintain a desired mix of interest-earning assets and interest-bearing liabilities. During 2014, we extinguished $615.1 million of Systemwide Debt Securities compared to $797.1 million in 2013. Losses on early extinguishment of Systemwide Debt Securities were $58.3 million in 2014 compared to $96.8 million in 2013. Debt extinguishment losses in excess of prepayment income reflect debt extinguishments to better position our balance sheet in the low interest rate environment, which will reduce our future interest expense.

We recorded no other-than-temporary impairment losses on investment securities in 2014 compared to $2.5 million in 2013. The impairments in 2013 resulted from credit quality deterioration of certain residential mortgage- and asset-backed securities. A portion of the securities impaired in 2013 were non-agency residential mortgage-backed investment securities and were among those identified as credit-impaired investment securities acquired as part of the AgBank merger (discussed further in Note 3 to the accompanying consolidated financial statements). The credit quality of our investment portfolio is discussed in "Liquidity and Capital Resources" beginning on page 52.

Other net noninterest income increased to $48.8 million in 2014 from $34.5 million in 2013 primarily due to an increased level of patronage income received from other System institutions and gains resulting from the sale of certain investment securities.

In 2013, total noninterest income increased by $18.8 million, or 17 percent, from $113.3 million in 2012. The 2012 period included a $28.5 million loss related to a tender offer to purchase a portion of our subordinated debt. In addition, the 2013 period included lower losses on early extinguishment of Systemwide Debt Securities, net of prepayment income, of $18.7 million, and a $14.5 million decrease in other-than-temporary impairment losses on investment securities. These items were partially offset by the decrease in other net noninterest income of $44.8 million as a result of 2012 refunds from the Farm Credit System Insurance Corporation (Insurance Corporation) not recurring in 2013. As described in Note 6 to the accompanying consolidated financial statements, when the Insurance Fund exceeds the statutory 2 percent Secure Base Amount (SBA), the Insurance Corporation is required to reduce premiums and may refund excess amounts. The Insurance Fund ended 2011 above the SBA. In April 2012, the Insurance Corporation approved the distribution of the excess amounts and in May of 2012, such amounts were distributed to the System banks.

Operating Expenses

The following table details our operating expenses for each of the last three years.

Analysis of Operating Expenses ($ in Thousands)			
Year Ended December 31,	2014	2013	2012
Employee Compensation	$ 145,803	$ 148,024	$ 145,999
General and Administrative	24,183	21,517	32,228
Information Technology	25,558	27,020	22,227
Insurance Fund Premium	50,613	36,974	18,349
Travel and Entertainment	18,297	16,019	15,767
Farm Credit System Related	13,935	12,817	13,279
Occupancy and Equipment	8,847	8,330	9,012
Purchased Services	16,564	9,393	7,022
Total Operating Expenses	$ 303,800	$ 280,094	$ 263,883
Total Operating Expenses/ (Net Interest Income + Net Fee Income)	22.7 %	21.8 %	19.5 %
Operating Expenses, Excluding Insurance Fund Premium/ (Net Interest Income + Net Fee Income)	18.9	19.0	18.1

Total operating expenses increased 8 percent in 2014 to $303.8 million, compared to $280.1 million for 2013. The increase included the impact of higher Insurance Fund premium expense driven by an increase in the premium rate as well as growth in our average loan volume.

Employee compensation expense, which includes salaries, incentive compensation and employee benefits, decreased slightly to $145.8 million in 2014 from $148.0 million in 2013 primarily due to lower expense related to retirement plans. As of December 31, 2014, we had 839 employees, compared to 843 at December 31, 2013.

General and administrative expenses increased to $24.2 million in 2014 from $21.5 million in 2013. The increase in general and administrative expenses primarily reflected greater levels of contributions to civic, charitable and other organizations that benefit the people, communities and industries we serve in rural America.

Information technology expenses decreased to $25.6 million in 2014 from $27.0 million in 2013 as a result of a lower level of integration expenses related to our 2012 merger with AgBank.

Insurance Fund premium expenses increased to $50.6 million in 2014 from $37.0 million in 2013 primarily due to an increase in premium rates, which were 12 basis points of average outstanding adjusted insured debt obligations for 2014, compared to 10 basis points for 2013. The increase in Insurance Fund premium rates resulted from growth in overall Farm Credit System assets. CoBank's loan growth from 2013 to 2014 also contributed to the increase in premium expense.

Our travel and entertainment expenses increased to $18.3 million in 2014 from $16.0 million in 2013 due to a greater level of expenditures for customer-facing activities.

Farm Credit System related expenses were $13.9 million in 2014 compared to $12.8 million in 2013. These expenses primarily represent our share of costs to fund the operations of the FCA and the Farm Credit Council (FCC), a national trade organization that represents System entities. Each System institution is assessed a pro rata share of the FCA's total expenses based primarily on each institution's average risk-adjusted assets. FCC costs are generally allocated based on the number of directors that represent each district (a System bank and its affiliated Associations) and the level of bank assets.

Occupancy and equipment expenses increased slightly to $8.8 million in 2014 from $8.3 million in 2013. CoBank has entered into a build-to-suit arrangement for the construction of a new corporate headquarters in Greenwood Village, Colorado. Upon completion of the building, which we anticipate in late 2015, a long-term lease, with CoBank as the lessee, will commence.

Purchased services expenses increased to $16.6 million in 2014 from $9.4 million in 2013 as a result of increased consulting services related to the development of a new cash management platform and other service enhancement initiatives.

Total operating expenses as a percent of net interest income plus net fee income were 22.7 percent in 2014 compared to 21.8 percent in 2013 and 19.5 percent in 2012. Excluding the impact of Insurance Fund premium expense, operating expenses as a percent of net interest income plus net fee income were 18.9 percent in 2014, compared to 19.0 percent in 2013 and 18.1 percent in 2012.

The $16.2 million increase in total operating expenses in 2013 from 2012 included an $18.6 million increase in Insurance Fund premium expense driven by an increase in the premium rate, which was 10 basis points of adjusted insured debt obligations in 2013 compared to five basis points in 2012. Our information technology expenses increased by $4.8 million in 2013 as compared to 2012 due to integration efforts related to our merger with AgBank. Purchased services expenses increased by $2.4 million in 2013, as the 2012 period included credits for post-merger services provided to a System service provider that did not recur in 2013. These items were partially offset by lower general and administrative expenses, which decreased by $10.7 million in 2013 compared to 2012 due to a lower level of contributions to System service organizations to enhance their technology platforms and the impact of a special $5.0 million commitment the Bank made in 2012 to support land grant and other agricultural universities around the country, consistent with our mission to support institutions of importance to rural America.

Provision for Income Taxes

Our provision for income taxes increased to $162.9 million in 2014 from $159.0 million in 2013. Our effective tax rate was 15.3 percent for 2014 compared to 15.7 percent for 2013. Our effective tax rates are less than the applicable federal and state statutory income tax rates due to tax-deductible patronage distributions. In addition, as more fully discussed in Note 1 to the accompanying consolidated financial statements, a portion of CoBank's activities are exempt from income taxes. These tax-exempt activities primarily include lending to Farm Credit Associations. The decrease in our effective tax rate in 2014 resulted from an increase in earnings in nontaxable business activities in 2014.

Our effective tax rate decreased to 15.7 percent for 2013 compared to 16.1 percent for 2012 as a result of an increase in earnings in non-taxable business activities in 2013. Our provision for income taxes was $163.7 million in 2012.

Operating Segment Financial Review

We conduct lending operations through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure. We hold investment securities primarily as a liquidity reserve to support our core lending operations. Net interest income on investment securities and gains or losses on investment securities are allocated to all operating segments, whereas the underlying investment assets are not allocated to the operating segments.

In addition to the operating segments described below, our Banking Services Group (BSG) provides capital markets services, which support our lending divisions. BSG manages syndications and loan sales with approximately 137 financial institutions. In 2014, we syndicated or sold approximately $15.5 billion of loan commitments to System entities and other financial institutions to help meet customers' credit needs and to effectively manage our risk diversification and capital. BSG's Knowledge Exchange Division also provides the Bank and our customers industry specific research and strategic insight to enhance understanding of emerging trends, business opportunities, and risks.

In addition, we provide non-credit products and services including cash management, online banking, mobile banking, commercial credit card and merchant card processing solutions. Revenues generated from non-credit products and services and by BSG, as well as all related operating expenses, are allocated to the operating segments.

Net income by operating segment is summarized in the accompanying table and is more fully disclosed in Note 15 to the accompanying consolidated financial statements. The following tables also provide period-end and average loan amounts.

Net Income by Operating Segment ($ in Thousands)

Year Ended December 31,	2014	2013	2012
Operating Segment:			
Agribusiness	$ 385,529	$ 379,630	$ 409,886
Strategic Relationships	243,532	254,749	245,638
Rural Infrastructure	279,966	229,632	208,199
Total Operating Segments	909,027	864,011	863,723
Corporate/Other	(4,757)	(7,556)	(9,806)
Total	$ 904,270	$ 856,455	$ 853,917

Period-end Loan Portfolio by Operating Segment ($ in Millions)

December 31,	2014	2013	2012	2011	2010
Agribusiness	$ 24,359	$ 21,182	$ 21,394	$ 18,869	$ 22,676
Strategic Relationships(1)	39,919	37,897	36,707	15,236	15,392
Rural Infrastructure	16,104	14,524	13,879	12,180	11,924
Total Loans	$ 80,382	$ 73,603	$ 71,980	$ 46,285	$ 49,992

Average Loan Portfolio by Operating Segment ($ in Millions)

Year Ended December 31,	2014	2013	2012	2011	2010
Agribusiness	$ 23,598	$ 21,077	$ 22,209	$ 23,104	$ 18,896
Strategic Relationships(1)	37,804	36,565	34,976	15,215	15,118
Rural Infrastructure	15,192	14,215	13,086	11,880	11,524
Total Average Loans	$ 76,594	$ 71,857	$ 70,271	$ 50,199	$ 45,538

(1) The merger with AgBank resulted in a $19.5 billion increase in Strategic Relationships loan volume as of January 1, 2012, including $18.9 billion in loans outstanding and $530.9 million in fair value adjustments recorded pursuant to business combination accounting standards.

The following table presents activity in the allowance for credit losses by operating segment.

Analysis of the Allowance for Credit Losses ($ in Thousands)	2014	2013	2012	2011	2010
Beginning of Year	$ 614,718	$ 595,079	$ 541,975	$ 500,543	$ 498,190
Charge-offs:					
Agribusiness	(1,599)	(1,622)	(29,069)	(10,559)	(25,893)
Strategic Relationships	-	-	-	-	-
Rural Infrastructure	(4,618)	(26)	(1,556)	(12,956)	(50,502)
Total Charge-offs	(6,217)	(1,648)	(30,625)	(23,515)	(76,395)
Recoveries:					
Agribusiness	2,040	20,199	11,022	6,527	4,234
Strategic Relationships	-	-	-	-	-
Rural Infrastructure	1,295	1,088	2,707	420	14,514
Total Recoveries	3,335	21,287	13,729	6,947	18,748
Net (Charge-offs) Recoveries	(2,882)	19,639	(16,896)	(16,568)	(57,647)
(Reversal) Provision (Credited) Charged to Earnings:					
Agribusiness	37,000	(6,000)	16,550	37,000	7,167
Strategic Relationships	-	-	-	-	-
Rural Infrastructure	(52,000)	6,000	53,450	21,000	52,833
Total (Reversal) Provision (Credited) Charged to Earnings	(15,000)	-	70,000	58,000	60,000
End of Year	$ 596,836	$ 614,718	$ 595,079	$ 541,975	$ 500,543
Components:					
Allowance for Loan Losses	$ 481,156	$ 447,126	$ 437,376	$ 388,056	$ 400,744
Reserve for Unfunded Commitments	115,680	167,592	157,703	153,919	99,799
Total Allowance for Credit Losses (ACL)	$ 596,836	$ 614,718	$ 595,079	$ 541,975	$ 500,543
ACL/Total Loans	0.74 %	0.84 %	0.83 %	1.17 %	1.00 %
ACL/Non-guaranteed Loans (Excluding Loans to Associations)	1.54	1.85	1.87	1.92	1.60
ACL/Impaired Loans	457	413	345	402	299
ACL/Nonaccrual Loans	458	416	350	402	300
Net (Charge-offs) Recoveries / Average Loans	(0.00)	0.03	(0.02)	(0.03)	(0.13)

Allowance for Credit Losses by Operating Segment ($ in Thousands) December 31,	2014	2013	2012	2011	2010
Agribusiness	$ 434,305	$ 396,864	$ 384,287	$ 385,784	$ 352,816
Strategic Relationships	-	-	-	-	-
Rural Infrastructure	162,531	217,854	210,792	156,191	147,727
Total Allowance for Credit Losses	$ 596,836	$ 614,718	$ 595,079	$ 541,975	$ 500,543

Agribusiness

Overview

The Agribusiness operating segment includes loans and other financial services provided to a diverse market of cooperatives and other businesses in various agricultural sectors including grain handling and marketing, farm supply, fruits, nuts, vegetables, forest products, dairy, livestock, biofuels and food processing. Primary products and services include term loans, revolving lines of credit, trade finance, capital markets services, and cash management and investment products. To enhance portfolio diversification, and to assist System partners in meeting the needs of their increasingly diverse customer base, we purchase participations in agribusiness loans from other System entities and financial institutions.

A portion of Agribusiness loan volume finances seasonal grain inventories, through the use of lines of credit, for grain cooperative customers. This seasonal loan volume is affected by a number of factors, including grain volume, commodity prices, producer selling patterns, transportation availability, and the relationship between cash and futures prices in the grain commodities markets. Agribusiness loan volume generally reaches a seasonal low in late summer or early fall. Harvest financing demands result in loan volume increases beginning in the late fall of each year. Peak loan volume typically occurs early in the year when our cooperative customers pay producers' deferred grain payables.

Our Agribusiness customers face challenges including widely fluctuating supplies of commodities in global markets, changing market demand, increasing regulation and the impact of currency fluctuations. These trends are leading some of our cooperative customers to consolidate and merge, while others are entering into joint ventures, or forming alliances to develop new markets. This consolidation trend has, in some cases, resulted in larger individual and attributed credit commitments, which is consistent with our mission. We meet our customers' financing needs by maintaining appropriate credit exposure to individual customers and partnering with System entities and commercial banks in loan syndications and sales. In addition to addressing the needs of customers impacted by consolidation, we are also focused on the development of new programs to better serve new and start-up cooperatives.

The Agribusiness segment includes our Agricultural Export Finance Division (AEFD), which provides trade finance to support U.S. exporters for international trade of agricultural products. Obligors consist primarily of financial institutions in foreign countries (primarily emerging markets) who support our exporting customers in selling and shipping agricultural products to international markets. In financing the export of U.S. agricultural products, the AEFD utilizes the U.S. government-sponsored export loan guarantee General Sales Manager (GSM) program. As of December 31, 2014, the AEFD had $4.2 billion in loans outstanding, 44 percent of which were guaranteed by the U.S. government under the GSM program, compared to $4.5 billion in loans outstanding as of December 31, 2013, 58 percent of which were guaranteed under the GSM program. The shift in mix toward a higher level of non-guaranteed volume reflects a decline in the competitiveness of the GSM program coupled with our ability to support an increasing level of non-guaranteed export transactions. Expanding the export of U.S. agricultural products is an important component of supporting the U.S. economy and balance of trade.

The Agribusiness segment also includes Farm Credit Leasing Services Corporation (FCL), a wholly-owned subsidiary which provides leases and lease-related products and financial services to agribusinesses, agricultural producers, Association partners, and rural infrastructure companies. As of December 31, 2014, FCL had $2.7 billion in leases outstanding compared to $2.3 billion in leases outstanding as of December 31, 2013.

2014 Performance

Agribusiness loans outstanding totaled $24.4 billion at December 31, 2014, compared to $21.2 billion at December 31, 2013, while average loan volume increased 12 percent to $23.6 billion in 2014 from $21.1 billion in 2013. The increases in outstanding and average loans in 2014 was primarily driven by lending to food and agribusiness customers, but also included increased seasonal loan volume generally due to higher levels of inventory financing at many agricultural cooperatives, increased lending in the protein sector due to strong exports and product demand and higher prices, and the increase in leasing noted above.

As previously mentioned, the level of seasonal lending within our Agribusiness operating segment can fluctuate significantly from period to period and is impacted by numerous factors, including commodity prices and inventory levels. The following table shows five-year price trends for certain grain commodities. Prices represent the yearly high and low "nearby" futures price per bushel for corn, soybeans and wheat. Nearby futures contracts represent those contracts with the nearest settlement date.

Year Ended December 31,	2014	2013	2012	2011	2010
Commodity					
Corn:					
High	$ 5.23	$ 7.41	$ 8.44	$ 8.00	$ 6.30
Low	3.18	4.12	5.51	5.95	3.25
Soybeans:					
High	15.37	16.13	17.89	14.56	13.84
Low	9.04	12.59	11.50	12.70	9.00
Wheat:					
High	7.44	7.91	9.47	8.93	8.08
Low	4.66	6.00	5.90	5.80	4.26

The impact of the decline in commodity prices in 2014 on our seasonal loan volume was more than offset by an increase in inventories at many of our grain cooperative customers.

Our Agribusiness segment generated $385.5 million in net income for 2014, a 2 percent increase from the $379.6 million in net income for 2013. The increase in earnings resulted primarily from a $56.8 million increase in net interest income partially offset by a higher provision for loan losses and increased operating expenses.

The increase in net interest income was a result of greater loan volume, as described above, and an increase in earnings generated from our balance sheet positioning. These factors were somewhat offset by the impact of lower interest rates on returns on invested capital, a slight decrease in lending and investment spreads, and a lower level of accretion of merger-related fair value adjustments.

We recorded a $37.0 million provision for loan losses in our Agribusiness operating segment in 2014, compared to a $6.0 million loan loss reversal recorded in 2013. The 2014 provision was primarily driven by the impact of enhancements to our allowance for credit losses methodology to better reflect the credit risk inherent in our lending portfolios. To a lesser extent, the 2014 provision also reflects a modest deterioration in credit quality and growth in loan volume in the Agribusiness operating segment in the latter part of 2014. The reversal in 2013 reflected improved credit quality and the impact of loan recoveries. Nonaccrual loans decreased to $48.9 million at December 31, 2014 from $53.2 million at December 31, 2013 primarily due to repayments by a small number of customers and the return of a loan to accrual status. Loan recoveries, net of charge-offs, were $0.4 million in 2014 compared to $18.6 million in loan charge-offs, net of recoveries, for 2013. Charge-offs and recoveries in both periods related to a limited number of customers and were not reflective of any significant trend within the Agribusiness operating segment.

Noninterest income in our Agribusiness segment decreased by $3.2 million in 2014 primarily as a result of a decrease in loan arrangement and unused commitment fee income, and an increase in losses on early extinguishment of debt, net of prepayment income. These factors were somewhat offset by an increase in patronage received from other System institutions and gains on the sale of investment securities. Operating expenses in our Agribusiness segment increased by $19.7 million in 2014 primarily due to the increase in Insurance Fund premiums and purchased services expenses described previously. Income tax expense in the Agribusiness operating segment decreased $15.0 million primarily due to the impact of the $37.0 million provision for loan losses in 2014.

Strategic Relationships

Overview

The Strategic Relationships operating segment includes loans from the direct funding relationships we have with our affiliated Association customer-owners and our funding relationships with other System institutions. Our affiliates include Associations operating in 23 states serving the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. These strategic partnerships allow the Bank and our affiliated Associations to work cooperatively to provide credit and non-credit services to a more diverse and demanding set of customers. The Associations' strong commitment to their mission, strong market presence and local relationship management, combined with our complementary product suite and lending capacity, provide the Bank and our affiliated Associations a competitive advantage in attracting and retaining customers. Developing and maintaining strong relationships with Farm Credit Associations and other System institutions is an important strategic focus for the entire Bank. We have seen a number of mergers among affiliated Associations in recent years and expect this activity to continue as Associations look for ways to better fulfill their mission and more efficiently provide products and services to their member owners.

2014 Performance

As of December 31, 2014, loans in the Strategic Relationships operating segment totaled $39.9 billion, including $36.0 billion in wholesale loans to our affiliated Associations and $3.9 billion of participations in wholesale loans made by other System banks to certain of their affiliated Associations, $3.7 billion of which were participations in loans made by the Farm Credit Bank of Texas. As of December 31, 2013, loans in the Strategic Relationships operating segment totaled $37.9 billion. Strategic Relationships average loan volume increased 3 percent to $37.8 billion in 2014 compared to $36.6 billion in 2013. The increases in outstanding and average loan volume were primarily the result of growth in lending to certain affiliated Associations driven by their increased lending to agricultural producers.

Strategic Relationships net income totaled $243.5 million in 2014, a 4 percent decrease from $254.7 million for 2013. The decline in earnings primarily resulted from lower net interest income due to decreases in merger-related accretion and returns on invested capital. These factors were somewhat offset by the increase in loan volume and greater earnings on our balance sheet positioning.

Overall loan quality in Strategic Relationships continues to be very strong. As a wholesale lender to Associations, we benefit from the diversification of the Association loan portfolios and a strong collateral position. In addition, the earnings, capital and loan loss reserves of the Associations provide us a buffer from losses in their respective loan portfolios. Lower spreads in the Strategic Relationships operating segment are commensurate with the lower risk profile and lower regulatory capital requirements. Notwithstanding the 2014 downgrade of an affiliated Association wholesale loan as discussed beginning on page 110, no provisions for loan losses or allowance for credit losses have been recorded related to any of our Association wholesale loans.

Strategic Relationships recorded $2.8 million in noninterest expense in 2014 compared to $1.6 million of noninterest income in 2013. The 2014 net noninterest expense includes the impact of a write down in the carrying value of an office building located in Wichita, Kansas. Operating expenses decreased slightly to $33.7 million in 2014 from $34.2 million in 2013 as the impact of increased Insurance Fund premiums on investment securities allocated to Strategic Relationships was more than offset by lower information services and other operating expenses. Strategic Relationships has no income tax expense as the earnings on its business activities are tax exempt.

Rural Infrastructure

Overview

The Rural Infrastructure operating segment includes loans and other financial services provided to cooperatives and other companies in the power and energy, communications, and water and waste water industries as well as to vital community facilities in rural America. Primary products and services provided include term loans, revolving lines of credit, project financing, capital markets services and cash management and investment products.

There are significant needs for investment in infrastructure to support the businesses and residents in rural America. Traditional investment vehicles, including the capacity of the public sector, are increasingly incapable of meeting those needs. As a part of our congressionally mandated mission, CoBank provides support for rural infrastructure needs, in partnership with other System entities and commercial banks. In addition, CoBank has become the anchor investor in the Rural Infrastructure Opportunity Fund in cooperation with the U.S. Department of Agriculture. As anchor investor, CoBank has committed to lend alongside Rural Infrastructure Opportunity Fund investments, subject to CoBank lending authorities and underwriting requirements. CoBank will continue to pursue additional opportunities to invest in rural infrastructure to allow rural businesses to compete in a global marketplace and to improve the quality of life in rural communities.

Power and energy industry customers include rural electric generation and transmission cooperatives, electric distribution cooperatives, renewable energy providers, independent power producers, investor-owned utilities, and pipeline and local distribution companies. While demand for electricity has grown at relatively low levels in recent years, customers undertaking infrastructure enhancements to meet long-term requirements or to comply with environmental regulations continue to need access to debt capital. Growth in renewable energy projects and environmental mandates also contribute to loan demand from power supply customers. Loan growth has also resulted from opportunities to refinance borrowings from other lenders, particularly in the rural electric cooperative sector.

Communications industry customers include rural local exchange carriers, wireless providers, data transport networks, cable television systems and data centers. In addition, many of the larger communications providers, some of which are publicly-held companies, are vitally important to bringing necessary products and services to rural America through their networks and partnerships with many of our rural customers. We focus on all communications companies that are positioned to provide a range of services, including voice (both wireline and wireless), broadband and video, to rural areas. Growth opportunities may arise from merger and acquisition activity, as consolidation often results from carriers seeking to improve operating efficiencies and gain market share in this highly competitive industry. Capital spending may provide additional growth opportunities as wireline carriers enhance their networks with fiber optics and wireless carriers continue to upgrade to fourth generation (4G) data technology.

Water industry customers include rural water and waste water companies. Capital expenditure growth in this industry continues primarily as a result of the need to replace aging infrastructure and to meet higher standards for water quality. While government programs have traditionally provided grants and financing, some private lending opportunities for construction/interim financing have been created as a bridge to government grants or loans. With the continuing need for plant upgrades and expected limitations on the availability of government funds, we expect private lending to this industry to continue to grow.

In partnership with other System entities and community banks, we provide funding to rural community facilities including rural health care facilities.

2014 Performance

Rural Infrastructure loans outstanding totaled $16.1 billion at December 31, 2014 compared to $14.5 billion at December 31, 2013. Average loan volume increased 7 percent to $15.2 billion in 2014 compared to $14.2 billion in 2013. Growth in Rural Infrastructure outstanding and average loan volume resulted primarily from increased lending to electric distribution, power supply and communications customers.

Rural Infrastructure net income increased 22 percent to $280.0 million for 2014 from $229.6 million for 2013. Rural Infrastructure recorded a $52.0 million loan loss reversal in 2014, compared to a $6.0 million provision for loan losses in 2013. The 2014 loan loss reversal primarily resulted from the impact of enhancements to our allowance for credit losses methodology to better reflect the credit risk inherent in our lending portfolios, as well as a lower level of specific reserves due to improved performance and favorable resolution of a small number of communications and energy loans. The 2013 provision reflected increased exposure due to growth in lending to rural energy customers that occurred in that period.

Net interest income increased $19.3 million in 2014 as compared to 2013, driven by the growth in average loan volume described above as well as greater earnings generated from our balance sheet positioning. These factors were somewhat offset by the impact of lower interest rates on returns on invested capital and lower lending spreads in certain sectors resulting from increased competition. Noninterest income decreased by $3.8 million primarily as a result of slightly lower arrangement fee income and increased losses on early extinguishment of debt, net of prepayment income. These factors were partially offset by gains on the sale of investment securities.

Overall credit quality in our Rural Infrastructure operating segment remains strong. Nonaccrual loans in the Rural Infrastructure segment decreased to $81.4 million at December 31, 2014 from $94.6 million at December 31, 2013 primarily due to the payoff of a small number of communications loans and the sale of a rural energy loan. Rural Infrastructure recorded loan charge-offs, net of recoveries, of $3.3 million in 2014 as compared to loan recoveries, net of charge-offs, of $1.2 million in 2013.

Rural Infrastructure operating expenses increased by $4.4 million in 2014 due to the increases in Insurance Fund premiums and purchased services described previously. Income tax expense in the Rural Infrastructure operating segment increased $18.7 million primarily due to the increase in pre-tax earnings driven by the $52.0 million loan loss reversal.

Corporate Risk Profile

Managing and optimizing risk to our current and anticipated earnings, capital or enterprise value, within our Board approved risk appetite, are essential components of successfully operating our Bank. Our primary risk exposures are: credit, market, liquidity, operational, strategic, and reputation. Credit risk is the risk arising from changes in a customer's or a counterparty's ability or willingness to repay funds borrowed, or otherwise meet agreed-upon obligations. Market risk is the risk arising from movements in interest rates, equity positioning, differences between the timing of contractual maturities, re-pricing characteristics, and prepayments on assets and their related liabilities. Liquidity risk is the risk arising from the Bank's inability to repay its obligations, or issue new obligations to fund borrowers. Operational risk is the risk arising from inadequate or failed internal processes, technology, human errors or misconduct; failure to comply with laws, rules or regulations; or other adverse external events. Strategic risk is the risk arising from adverse business decisions or lack of responsiveness to changes in the banking/operating environment. Reputation risk is the risk arising from negative external perception.

Business segments and support units have the responsibility of identifying, monitoring and managing these risks. Our Risk Management Group provides oversight through measurement, monitoring and assessment processes addressing the Bank's primary risk exposures. The following is a discussion of these risks, and our approach to managing them.

Credit Risk Management

Credit risk exists in our lending, leasing, investing, cash management and derivatives activities. As defined above, credit risk in these activities arises from changes in a customer's or counterparty's ability or willingness to repay funds borrowed or to meet agreed-upon obligations. Credit risk may be further impacted by changes in collateral values, changes in the prevailing economic environment, fraud, defaults on mortgages or other obligations which collateralize mortgage- and asset-backed investment securities, changes in the credit-worthiness of investment obligors or counterparties who insure or guarantee certain investment securities, and declines in the value of underlying collateral securing investment securities, primarily residential real estate.

We actively manage credit risk through a well-defined, Board-approved loan portfolio strategy, a structured and centralized credit approval process, a disciplined risk management process, and a sound credit administration program, while considering our responsibility to fulfill our mission of service to rural America. We have established comprehensive credit guidelines and procedures to ensure consistency and integrity of information related to the credit risk in our loan, lease, investment and derivatives portfolios.

Various groups and committees within CoBank, including our Board of Directors, have a role in managing credit risk, as described below. Our Board of Directors establishes overall lending, investment, derivatives and reserve policies. It also approves the portfolio strategy and reviews loan volume, loan quality trends, significant high-concern or troubled loans, and the credit quality of our investment and derivatives portfolios.

The CoBank Loan Committee (CLC), which is appointed by the CEO, and includes the President, Chief Banking Officer, Chief Credit Officer and senior management of the Credit Group and the lending groups, holds ultimate credit authority as authorized by Board policy. The CLC delegates lending authorities to specific committees or groups of individuals based on size of exposure and risk rating. The CLC also approves certain limits for investment obligors and derivative counterparties. It acts on individual credit actions or administrative matters and approves exceptions to exposure limits if conditions warrant.

The Credit Group is led by the Chief Credit Officer, who reports to the President. The Credit Group manages the credit approval process within concentration limits established for the loan portfolio pursuant to Board policies. As part of the credit approval process, it reviews assigned risk ratings for accuracy and conformity with our established guidelines, and approves limits with respect to investment obligors and derivative counterparties. It also manages significant high-risk or troubled loans.

The Risk Management Group is led by the Chief Risk Officer, who reports to the CEO. The Risk Management group includes the head of Internal Audit and the head of Asset Review, both of whom have a direct reporting responsibility to the Audit Committee of the Board of Directors. The Risk Management Group oversees development of the loan portfolio strategy, the analysis of the allowance for credit losses and other risk-based modeling and metrics. It provides independent reporting to the Board of Directors on the quality of the Bank's assets, the Bank's system of internal controls, and material findings of the Asset Review and Internal Audit Divisions. In addition, the Risk Management Group provides quarterly reporting on the Bank's risk appetite and exposures, as well as an annual risk assessment.

The Asset and Liability Committee (ALCO), which includes the CEO, President, Chief Banking Officer, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Chief Credit Officer and Treasurer, oversees, among other things, credit risk within the investment portfolio. It also reviews counterparty credit risk arising from derivative transactions.

The Country Risk Committee (CRC) is appointed by the CEO, and includes the President, Chief Banking Officer, Chief Risk Officer and the Chief Credit Officer. It oversees the methodologies for setting country risk grades and establishing maximum country limits, as well as the approval of individual country risk grades and limits.

Credit Risk Related to Loans

The key elements of our credit risk management related to lending include our portfolio strategy, the credit approval process, and the use of exposure and concentration limits, each of which is explained below.

<u>Portfolio Strategy</u>

The portfolio strategy provides overall guidance on lending activities and strategies over a three year planning horizon. The objectives of our portfolio strategy are to safely fulfill our lending mission, ensure appropriate portfolio diversification, and optimize returns based on risk and profitability, all within established capital parameters. Our lending mission includes supporting young, beginning and small farmers; local food programs; rural community development; and renewable energy projects. The portfolio strategy helps ensure that CoBank is inclusive in its outreach to all marketplace segments whether it be through lending or investment activities or our corporate social responsibility program.

As part of the annual business and financial planning process, the Board of Directors reviews and approves the Bank's portfolio strategy. Management analyzes performance with respect to the portfolio strategy quarterly and reports the results to the Board of Directors.

<u>Credit Approval</u>

The most critical element in managing and controlling credit risk is the initial decision to make a loan and the resulting structure and terms of the relationship with the borrower.

We place significant emphasis on the evaluation and understanding of a borrower's business and management in the initial credit analysis and the approval process. We emphasize cash flow and repayment capacity as primary sources for repayment of loans, including cash generated from the sale of agricultural commodities as it relates to seasonal lending. Collateral is normally considered a secondary source of repayment. In circumstances where the credit decision places substantial reliance on collateral to repay the loans, independent appraisals may be used to assist in the collateral valuation. Such appraisals are conducted in accordance with FCA regulations and professional appraisal standards.

For wholesale lending within our Strategic Relationships operating segment, the earnings, capital and loan loss reserves of Associations provide us a buffer from losses in their respective loan portfolios. Loans to our affiliated Associations are governed by a General Financing Agreement, as described on page 110.

With the exception of certain small-dollar lease transactions, no individual has sole credit approval authority within CoBank. All approvals or credit actions are required to be formally documented.

Management assigns a risk rating to each borrower based on two measurements: probability of default (PD) risk rating and loss given default (LGD) risk rating. The PD rating system uses a 14-point scale of 1 (highest quality) to 14 (lowest quality). The PD rating is primarily determined by the financial characteristics of the borrower and reflects the probability of default driven by several factors, including business risk, industry risk, management capability and financial condition. The LGD rating is intended to approximate the degree of potential loss in the event the borrower defaults.

<u>Exposure and Concentration Limits</u>

We use exposure limits to manage risk and volatility in the loan portfolio. Exposure to individual borrowers and related entities is managed through a risk matrix that considers the dollar exposure, type of exposure and risk rating of the borrower. Individual borrower exposures are typically established at the time of loan origination or renewal, with risk ratings formally reviewed at least annually. The dollar exposure, risk rating and type of credit extended further determine the delegated level of authority required to approve the credit. These individual borrower exposures are then further subject to total portfolio limits on exposure to different industries and/or countries. Exposure limits for different industries are reviewed quarterly while exposure limits for different countries are reviewed annually. We allow for more frequent evaluation when appropriate. Exceptions to these exposure limits may be granted by the CLC or the CRC if conditions warrant.

We also manage credit exposures and concentrations in our loan portfolio by selling and purchasing loans. Our capabilities in selling and purchasing loans will continue to be critical to dynamically managing the portfolio, maintaining market discipline, meeting our customers' needs and fulfilling our mission.

While we believe these standards, processes and tools are appropriate to manage our credit risk, there is no assurance that significant deterioration in loan quality will not occur, which could reduce our future earnings.

We are limited to making loans and providing related financial services to eligible borrowers in certain specified industries, as mandated by the Farm Credit Act. As a result, we have a concentration of loans to the agricultural and rural infrastructure industries. The significant risk factors affecting credit conditions in these industries within each of our operating segments are described below.

<u>Agribusiness</u>

The relationship of demand for and supply of U.S. agricultural products in the global marketplace can significantly impact the volume, earnings and loan quality of our Agribusiness operating segment.

Volatility in the prices and supplies of agricultural commodities can impact the profitability and loan quality of our Agribusiness customers. Volatility in prices and supplies of agricultural commodities results from, among other factors, seasonal and cyclical weather conditions; the availability of transportation; global production and supply levels; financial investment in the commodity futures markets by non-agricultural interests; and changing export markets and currency exchange rates. Market prices for food products also have a significant effect on a number of customers within our Agribusiness operating segment.

Extreme weather conditions, such as the drought that has impacted portions of the United States during the last few years, can substantially impact harvests and prices of agricultural products and, ultimately, impact the credit quality of some of our agribusiness borrowers as their earnings are pressured or reduced. Although certain crop losses resulting from weather conditions are mitigated for producers by multi-peril crop insurance, not all crops are covered by insurance. To the extent weather adversely impacts the agricultural sector, the risk of loss in our loan portfolio may increase, which could reduce our earnings.

Major international events, including military conflicts; terrorism; political, geopolitical, currency and global economic disruptions; and trade agreements can affect, among other things, the price of commodities or products used or sold by our borrowers or their access to markets. In addition, biological or disease risk in human, livestock or crop populations can impact the supply of and demand for agricultural products. Certain customers also have exposure to counterparties in the commodities exchange markets.

U.S. agriculture has historically received financial support from the U.S. government through direct payments, crop insurance and other benefits. However, congressional efforts to decrease the U.S. budget deficit has resulted in reduced federal support for certain agricultural programs. The Agricultural Act of 2014 (the Farm Bill), which established the U.S. government's agricultural, rural development and nutrition policy for the next five years, was signed into law in February 2014 and eliminated direct payments but expanded certain forms of crop insurance. Although most of our direct customers do not generally receive support payments from federal programs, a significant reduction or elimination of support in the future could have a negative impact on the loan quality of certain borrowers, including Associations, who derive a significant share of their earnings from farmers and other producers who could be affected by such a reduction. Other political, legislative and regulatory activities may also impact the level or existence of certain government programs that support agriculture.

Strategic Relationships

The risk factors previously discussed in the "Agribusiness" section can also affect loan quality at Associations; however, the impact of such factors on farmers and other producers served by Associations may not be the same as the impact on cooperatives and other customers served by our Agribusiness operating segment. The loan quality within our Strategic Relationships operating segment is enhanced by our strong collateral position and the earnings, capital and loan loss reserves of the Associations, which provide a buffer from losses they may have in their loan portfolios.

Rural Infrastructure

Weakness in the general economy, and the rural economy in particular, can reduce commercial and residential demand for services and negatively affect customers in our Rural Infrastructure operating segment.

Fluctuating weather conditions, energy efficiency initiatives, the relative cost and price volatility of various fuel sources, the advent of distributed generation sources and protracted low levels of electricity demand can adversely affect our customers in the energy industry. The pace and degree of the restructuring and optimization of the electric energy industry in the United States may also impact future loan quality. Further, constraints on carbon emissions and other environmental standards could adversely impact energy customers.

The communications industry is affected by significant competition and changing customer demands. Regulatory, legislative and technological changes may impact the future competitive position and markets for the communications industry. These factors may place downward pressure on the loan quality of certain sectors of the communications industry. In addition, decreased cash flows and the resultant impact on asset valuation, the inability to successfully integrate merged or acquired companies, or the lack of availability of debt and equity capital could adversely affect certain communications customers.

The water industry faces high capital expenditure requirements due to environmental regulation, an aging infrastructure and reduced levels of government support. While per capita residential water usage is declining due to conservation measures and increased use of water efficient appliances, rates continue to rise. Heavy reliance on user fees to build and maintain water infrastructure could adversely affect certain water customers.

Credit Quality Conditions and Measurements in Our Loan Portfolio

The following table presents loans and related accrued interest receivable classified by management pursuant to our regulator's Uniform Loan Classification System, as a percent of total loans and related accrued interest.

Loan Quality Ratios

	December 31, 2014			December 31, 2013		
	Wholesale Loans (1)	Commercial Loans (2)	Total Bank	Wholesale Loans (1)	Commercial Loans (2)	Total Bank
Acceptable	97.76 %	96.62 %	97.20 %	100.00 %	96.77 %	98.43 %
Special Mention	-	1.92	0.96	-	1.76	0.86
Substandard	2.24	1.38	1.80	-	1.36	0.66
Doubtful	-	0.08	0.04	-	0.11	0.05
Loss	-	-	-	-	-	-
Total	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

(1) Represents loans in our Strategic Relationships operating segment

(2) Represents loans in our Agribusiness and Rural Infrastructure operating segments

The level of adversely classified loans ("Substandard", "Doubtful" and "Loss") increased from 0.71 percent of total loans and related accrued interest at December 31, 2013 to 1.84 percent at December 31, 2014 largely due to the downgrade of an $891.3 million wholesale loan to one of our affiliated Associations, which is discussed further beginning on page 110. Pursuant to our regulatory requirements, we classify our wholesale loans using the same credit rating methodology as is used with our commercial loans. Our loans to affiliated Associations are collateralized by substantially all of the Association assets, and the earnings, capital and loan loss reserves of the Associations provide us a buffer against losses in their retail loan portfolios. While the downgrade resulted from a sudden significant increase in delinquencies in a discrete portion of that Association's retail loan portfolio, as a result of the collateralization and other mitigating factors described above, we do not currently anticipate any losses on that Association's wholesale loan. As of December 31, 2014, CoBank has not made any provision for loan loss or recorded any allowance for credit loss related to any of our wholesale loans.

Notwithstanding the aforementioned downgrade, our overall loan quality continued to be strong in 2014. Excluding the impact of the downgrade, adversely classified loans and related accrued interest represented 0.73 percent of total loans and accrued interest at December 31, 2014, which is relatively consistent with year-end 2013 levels.

Summary of High-Risk Assets ($ in Thousands)

December 31,	2014	2013	2012	2011	2010
Nonaccrual Loans	$ 130,340	$ 147,849	$ 170,207	$ 134,862	$ 166,973
Accruing Loans 90 Days or More Past Due	239	972	2,513	114	681
Restructured Loans	-	-	-	-	-
Total Impaired Loans	130,579	148,821	172,720	134,976	167,654
Other Property Owned	230	2,246	5	469	7,398
Total High-Risk Assets	$ 130,809	$ 151,067	$ 172,725	$ 135,445	$ 175,052

Total nonaccrual loans were $130.3 million at December 31, 2014 compared to $147.8 million at December 31, 2013. The decrease in 2014 was primarily due to the payoff of several agribusiness and communications loans, the sale of a rural energy loan and the return of an agribusiness loan to accrual status. Our nonaccrual loans are typically composed of a relatively small number of customers, and as such, the balances can fluctuate period to period based on a similarly small number of transactions. Nonaccrual loans as a percent of our total loan portfolio were 0.16 percent as of December 31, 2014 compared to 0.20 percent at December 31, 2013. Over the past 10 years, nonaccrual loans have averaged 0.32 percent of the total loan portfolio.

Total loan charge-offs, net of recoveries, were $2.9 million in 2014 compared to total loan recoveries, net of charge-offs, of $19.6 million in 2013. Gross charge-offs in 2014 were $6.2 million compared to $1.6 million in 2013, and were primarily associated with a small number of communications customers.

Our allowance for credit losses totaled $596.8 million and represented 0.74 percent of total outstanding loans as of the end of 2014, compared to 0.84 percent at December 31, 2013. At December 31, 2014, our allowance for credit losses represented 1.54 percent of non-guaranteed loans outstanding, excluding loans to Associations, compared to 1.85 percent at December 31, 2013.

As part of our overall assessment of risk in the loan portfolio and the allowance for credit losses as of December 31, 2014, we have considered a wide variety of factors, including volatile commodity prices and supplies; global economic uncertainty; drought conditions that continue to impact portions of the United States; a significant level of industry, borrower and attributed concentration risk resulting from our defined mission of service to rural America; and the imprecision inherent in estimating losses within our loan portfolio.

See "Critical Accounting Estimates – Allowance for Credit Losses" on page 55 for a more complete description of our process to determine the adequacy of our allowance for credit losses.

Credit Risk Related to Investments and Derivatives

We minimize credit risk in our investment portfolio by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies. At year-end 2014, 49 percent of our $24.3 billion investment portfolio consisted of securities that carry a full faith and credit guarantee of the U.S. government. Such securities include mortgage-backed securities (MBS) issued by the Government National Mortgage Association (Ginnie Mae), Export-Import Bank of the United States securities and U.S. Treasury and other debt securities, including loans backed by the Small Business Administration. Approximately 48 percent of our investment portfolio consisted of securities issued by government agencies that carry the implicit backing of the U.S. government, including MBS issued by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and Farmer Mac.

FHA/VA wrapped and non-wrapped "reperformer" MBS are investment securities where residential mortgage loans serving as collateral were cured after a default. The underlying loans supporting the FHA/VA wrapped "reperformer" MBS are approximately 90 percent government guaranteed or insured, and are further supported by guarantees from either Fannie Mae or Freddie Mac. These investment securities are included within our U.S. agency MBS portfolio. The underlying loans supporting the FHA/VA non-wrapped reperformer MBS are also approximately 90 percent government guaranteed or insured but have no guarantees from Fannie Mae or Freddie Mac.

Credit risk in our investment portfolio primarily relates to the 3 percent of the portfolio composed of FHA/VA non-wrapped reperformer MBS, non-agency MBS, ABS and corporate bonds. The portfolio of FHA/VA non-wrapped reperformer MBS carry unique credit risks, which stem from any potential deficiencies in documentation or lack of compliance with servicing requirements on underlying loans that could make such loans ineligible for guarantees or insurance.

Credit risk in our investment portfolio could also arise from the inability of guarantors and third-party providers of other credit enhancements, such as bond insurers or Farmer Mac, to meet their contractual obligations to us.

We recorded no other-than-temporary impairment losses on investment securities in 2014, compared to $2.5 million in 2013 and $17.0 million in 2012. The credit quality of our investment portfolio as of December 31, 2014 and impairment losses on investment securities are more fully discussed in "Liquidity and Capital Resources" beginning on page 52.

Our counterparty credit risk arising from derivative transactions is managed within credit methodologies and limits approved by the CLC. Managing counterparty exposure is more fully discussed in "Counterparty Exposure" on page 46.

Market Risk Management

We are subject to market risk, defined as the risk to current or anticipated earnings or capital arising from movements in interest rates. This risk primarily arises from our equity positioning and differences in the timing between the contractual maturities, repricing characteristics, and prepayments of our assets and the liabilities funding these assets. This risk can also arise from embedded caps in certain of our investments and differences between the interest rate indices used to price and fund our assets. Our asset/liability management objective is to manage the mix of interest-earning assets and interest-bearing liabilities to reduce interest rate risk and stabilize our net interest income while optimizing profitability and insulating shareholders' equity from significant adverse fluctuations in market interest rates. While we actively manage our interest rate risk position within policy limits approved by the Board of Directors using strategies established by our ALCO, and within our risk appetite, there can be no assurance that changes in interest rates will not adversely impact our earnings and capital.

The following is a more detailed description of our primary interest rate risks and strategies used to mitigate those risks.

Equity Positioning Risk

Shareholders' equity serves as an interest-free source of funding for the balance sheet and thus requires that we make decisions about the maturity mix of the assets funded by it. Using equity to fund short-term assets results in increased volatility of net interest income, whereas using equity to fund long-term assets results in increased volatility in the market value of our equity. During 2014, 2013 and 2012, we chose to use this equity to fund intermediate-term assets (generally, maturing equally over the next five to seven years) to balance the risks to net interest income and market value of equity. In January 2014, the ALCO approved a strategy to increase the positioning of equity from equally over five years to equally over seven years as a result of changes in interest rate expectations.

Repricing Risk

Mismatches in interest rate repricing and maturities of assets and liabilities arise from the interaction of customer business needs, our investment portfolio composition and the mix of liabilities funding these assets. Modeling and measurement imprecision also contribute to repricing risk. In addition, we may also undertake funding strategies designed to maximize earnings on our asset/liability position in certain interest rate environments, including using short-term liabilities to fund longer-term assets. Any such strategies are managed within the established sensitivity limits discussed beginning on page 44.

Exposure to changes in the level and direction of interest rates is managed by adjusting the Bank's mix of interest-sensitive assets and liabilities through various strategies and through the utilization of interest rate risk management products, including interest rate swaps and other financial instruments (derivatives). We do not use derivatives for speculative or trading purposes. Refer to page 45 for additional information related to derivatives.

Prepayment/Extension Risk

Prepayment risk in our loan portfolio exists in loans that are considered fully prepayable, which represents approximately 21 percent of total fixed-rate loans. Prepayment risk in this portfolio results when intermediate and longer-term fixed interest rates fall and prepayments increase as borrowers refinance to a lower rate. Prepayments can adversely impact loan portfolio income to the extent prepayments exceed the level of fixed-rate callable debt in the portfolio. This funding can be called in lower-rate environments, thus allowing liabilities to reprice to a lower rate. Approximately 67 percent of our fully prepayable loan portfolio is funded with callable debt, which lowers prepayment risk.

The remaining 79 percent of fixed-rate loans contain, at a minimum, make-whole prepayment penalties. These provisions require a borrower to compensate us for the cost we incur in retiring debt funding associated with loan prepayments. This allows us generally to fund our loan assets with debt of similar maturities to manage the risk of prepayments in the loan portfolio.

Extension risk in the loan portfolio occurs when long-term interest rates rise and prepayments decrease more than expected causing the underlying loans to pay down at a slower rate. Loan portfolio income will be negatively impacted as additional higher-rate term funding is required to continue to fund extended loans.

Prepayment risk in the investment portfolio results when long-term interest rates fall and prepayments increase as underlying borrowers refinance their mortgages to a lower rate. Prepayments adversely affect investment portfolio income in a falling interest rate environment because investments are partially funded with non-callable debt and any proceeds from prepaid investments will be reinvested at a lower interest rate. Prepayment risk in our investment portfolio is low based on the type and average life of securities. Purchases of MBS are currently subject to a price risk eligibility test based on a stressed interest rate environment. The test is designed to manage our exposure to prepayment risk at the time of investment purchase. In addition, our fixed-rate MBS (other than hybrid adjustable-rate mortgage securities), generally contain some embedded prepayment protection in the form of PAC (planned amortization class) bands. These PAC securities are structured so that principal payments are expected to follow a predetermined schedule as long as the prepayments of the underlying collateral fall within a prescribed band. Over time, these bands may erode resulting in an incremental increase in prepayment risk within the investment portfolio.

We also fund a portion of our fixed-rate prepayable investment portfolio with short-term liabilities and term fixed-rate callable debt that provide a partial hedge against prepayment risk in certain falling interest rate environments. The rate we pay on these liabilities reprices downward with a drop in short-term and intermediate-term interest rates. In addition, we are able to retire the short-term liabilities if prepayments increase on the funded assets independent of movements in interest rates.

Extension risk in the investment portfolio occurs when long-term interest rates rise and prepayments decrease more than expected causing the underlying investment securities to pay down at a slower rate than initially expected. In this scenario, investment portfolio income will be negatively impacted as additional higher-rate term funding is required to continue to fund extended securities. Extension risk in the investment portfolio is moderate based on the type and average life of securities purchased. In the same way PAC bands protect against prepayment risk, they also serve to limit extension risk as the amortization of these securities is defined as long as prepayments of the underlying collateral fall within a prescribed band.

Cap Risk

Cap risk is embedded in the floating-rate MBS in our investment portfolio and to a lesser extent floating-rate loans. When short-term interest rates rise, the interest rate paid by the floating-rate MBS or floating-rate loan may become capped and limit the amount of income paid by the asset while underlying funding costs are not capped. Exposure to cap risk is managed by monitoring the concentration of strike levels in our floating-rate MBS and floating-rate loans and related interest rate shock sensitivities. We also purchase interest rate caps and other derivatives to manage cap risk. In addition, we have the ability to reduce cap risk by selling our floating-rate investment securities.

Basis Risk

Basis risk arises due to the differences between the interest rate indices used to price our assets and the indices used to fund those assets. We manage our basis risk through match funding, when possible, and using derivatives (primarily interest rate swaps) and other funding strategies. However, some basis risk will always exist as unanticipated loan volume changes cause an excess or shortage of some forms of funding.

Measurement and Monitoring of Market Risk

Risk Management is responsible for independently measuring and monitoring market risk. We utilize several key risk measurement and monitoring tools to assist in the management of market risk. These include interest rate gap analysis, duration gap analysis, sensitivity analysis of net interest income and market value of equity, and net interest income forecasting, each of which is described in further detail in the following pages.

Interest Rate Gap Analysis

The interest rate gap analysis shown in the following table presents a comparison of interest-earning assets and interest-bearing liabilities in defined repricing timeframes as of December 31, 2014. The interest rate gap analysis is a static indicator that does not reflect future changes in repricing characteristics and may not necessarily indicate the sensitivity of net interest income in a changing interest rate environment.

Interest Rate Sensitivity Analysis at December 31, 2014 ($ in Millions)

	One Month or Less	Over One Month Through Six Months	Over Six Months Through One Year	Over One Year Through Five Years	Over Five Years and Not Rate Sensitive	Total
Interest-earning Assets:						
Floating-rate Loans:						
Adjustable-rate/Indexed-rate Loans	$ 18,184	$ 2,288	$ 115	$ 107	$ -	$ 20,694
Administered-rate Loans	15,182	-	-	-	-	15,182
Fixed-rate Loans:						
Fixed-rate Loans [1]	8,923	6,027	2,222	7,960	10,029	35,161
Fixed-rate Loans, Prepayable [2]	698	680	803	4,712	2,322	9,215
Nonaccrual Loans	-	-	-	-	130	130
Total Loans	42,987	8,995	3,140	12,779	12,481	80,382
Investment Securities	7,068	2,671	2,197	8,965	3,419	24,320
Total Interest-earning Assets [3]	$ 50,055	$ 11,666	$ 5,337	$ 21,744	$ 15,900	$ 104,702
Interest-bearing Liabilities:						
Callable Bonds and Notes	$ 78	$ 32	$ 30	$ 3,661	$ 3,079	$ 6,880
Noncallable Bonds and Notes [4]	35,008	15,197	10,180	17,776	10,670	88,831
Bonds, Medium Term Notes and Discount Notes [4]	35,086	15,229	10,210	21,437	13,749	95,711
Effect of Interest Rate Swaps, Forwards, Futures, etc.	9,865	(1,635)	(2,313)	(5,817)	(100)	-
Cash Investment Services Payable and Other Interest-bearing Liabilities	2,774	-	-	-	-	2,774
Total Interest-bearing Liabilities	$ 47,725	$ 13,594	$ 7,897	$ 15,620	$ 13,649	$ 98,485
Interest Rate Sensitivity Gap (Total Interest-earning Assets less Total Interest-bearing Liabilities)	$ 2,330	$ (1,928)	$ (2,560)	$ 6,124	$ 2,251	$ 6,217
Cumulative Gap	$ 2,330	$ 402	$ (2,158)	$ 3,966	$ 6,217	
Cumulative Gap/Total Interest-earning Assets	2.22 %	0.38 %	(2.06) %	3.79 %	5.94 %	

[1] Prepayment penalties apply that compensate CoBank for economic losses

[2] Freely prepayable or only minimal prepayment penalties apply

[3] Does not include $1.9 billion in cash as of December 31, 2014

[4] Includes subordinated debt and certain other bonds and notes

The preceding table excludes $1.9 billion of cash as of December 31, 2014. While cash is not considered an interest-earning asset, we include our cash balance in the sensitivity analysis discussed below, as we would invest such funds in overnight or other highly-liquid investments if market rates increased. Our interest rate sensitivity position at December 31, 2014 may be characterized as "asset sensitive" to net interest income risk. Our net interest income will generally be favorably impacted in rising interest rate environments.

We continually monitor interest rates and have the ability to reposition our balance sheet as a result of anticipated interest rate changes. If we expected a meaningful change to interest rates, we could shift our position in short order.

Duration Gap Analysis

The duration gap is the difference between the estimated durations of assets and liabilities, which is calculated using an asset/liability model. The duration gap summarizes the extent to which estimated cash flows for assets and liabilities are matched, on average, over time. A positive duration gap means there is increased market value exposure to rising interest rates over the long-term because it indicates that the duration of our assets exceeds the duration of our liabilities. A negative duration gap indicates increased exposure to declining interest rates over the long-term because the duration of our assets is less than the duration of our liabilities. We apply the same interest rate process, prepayment models, and volatility assumptions to generate the portfolio duration gap that we use in our sensitivity analysis, which is discussed below. The duration gap provides a relatively concise and simple measure of the interest rate risk inherent in our balance sheet, but it is not directly linked to expected future earnings performance. Our aggregate positive duration gap was 2.2 months at December 31, 2014 and 1.3 months at December 31, 2013.

Sensitivity Analysis

We use asset/liability models to evaluate the dynamics of our balance sheet and to estimate earnings volatility under different interest rate scenarios. Our analysis includes calculating the impact of significant increases or decreases in interest rates on net interest income, over a 12 month period, and the estimated market value of equity. Our modeling practices have been consistently applied in each of the three years presented in this report.

Our analysis estimates the effect of immediate and sustained parallel shifts in the yield curve (called "shocks") of 100, 200 and 300 basis points. Pursuant to regulation and our Board policy, when the three-month Treasury rate is below 4 percent, as it was for each of the periods presented, we perform a shock equal to one-half the three-month Treasury rate. This resulted in downward shocks of -2 basis points, -4 basis points, and -3 basis points at December 31, 2014, 2013, and 2012, respectively. Due to extremely low short-term interest rates, these downward shock scenarios, while required by policy, are not considered meaningful. When analyzing net interest income at risk, we also estimate the effect of gradual upward or downward changes in market rates (called "ramps") over a one year period of 100, 200 and 300 basis points, where possible.

The following table summarizes the impact of interest rate changes on net interest income and the market value of equity. Market value of equity is the net present value of all future cash flows discounted to a valuation date, using discounting factors derived from observed market rates on the same valuation date. In all cases, the underlying assumptions and hedging strategies are held constant so that results are comparable from scenario to scenario. However, actual results would differ to the extent changes in strategy were undertaken to mitigate the unfavorable impact of interest rate changes.

Net Interest Income at Risk

December 31,	2014	2013	2012
Scenario:			
- 300 bp shock	n/a	n/a	n/a
- 200 bp shock	n/a	n/a	n/a
- 100 bp shock	n/a	n/a	n/a
- 4 bp shock	n/a	(0.1) %	n/a
- 3 bp shock	n/a	n/a	(0.1) %
- 2 bp shock	(0.1) %	n/a	n/a
+ 100 bp shock	3.0	0.3	0.6
+ 200 bp shock	4.5	0.1	(0.7)
+ 300 bp shock	5.9	(0.1)	(2.0)
- 300 bp ramp	n/a	n/a	n/a
- 200 bp ramp	n/a	n/a	n/a
- 100 bp ramp	n/a	n/a	n/a
+ 100 bp ramp	1.7	0.3	1.2
+ 200 bp ramp	2.1	0.2	1.5
+ 300 bp ramp	2.5	-	1.4

Market Value of Equity at Risk

December 31,	2014	2013	2012
Scenario:			
- 300 bp shock	n/a	n/a	n/a
- 200 bp shock	n/a	n/a	n/a
- 100 bp shock	n/a	n/a	n/a
- 4 bp shock	n/a	0.1 %	n/a
- 3 bp shock	n/a	n/a	0.3 %
- 2 bp shock	0.1 %	n/a	n/a
+ 100 bp shock	(3.9)	(3.0)	(4.7)
+ 200 bp shock	(7.9)	(6.0)	(10.0)
+ 300 bp shock	(11.7)	(9.0)	(15.4)

Our net interest income is only slightly impacted in the rising interest rate scenarios due to a well-matched interest sensitive asset and liability balance sheet position over the next 12 months. The adverse impact of lower interest rate scenarios is limited by the current historically low level of rates and the low probability that rates could decline further. Our Board limits the amount of adverse change to net interest income and market value of equity under a 200 basis point rate shock. The limit for market value of equity was 15 percent and the limit for net interest income was 10 percent for all three years presented. At December 31, 2014, 2013 and 2012, we were within our policy limits as detailed in the preceding table.

Forecasting

We update our asset/liability model monthly with information on loans, investment securities, borrowings and derivatives. This "current position" is the starting point for all analysis. The current position data is then combined with base case business plan assumptions and independent, interest rate forecasts to derive our estimates of future net interest income. Generally, we set assumptions on pricing, maturity characteristics and funding mix using trend analysis of actual asset and liability data.

Net interest income projections are derived utilizing different interest rate scenarios to assess the sensitivity of net interest income to changing interest rates. We obtain independent interest rate projections designed around economic forecasts that estimate the most likely path of interest rates for the planning horizon and alternate views of an expanding economy and a slowing economy. In addition, we review scenarios based on the market's implied forward rates and unchanged rates as of the period of analysis. We also review the impact on net interest income of parallel and nonparallel shifts in the yield curve over different time horizons.

Use of Derivatives

We use derivatives as an integral part of our market risk management activities. To achieve risk management objectives and satisfy the financing needs of our borrowers, we execute various derivative transactions with other financial institutions. Derivatives (primarily interest rate swaps) are used to manage liquidity and the market risk arising from maturity and repricing mismatches between assets and liabilities. In addition, we execute foreign exchange spot and forward contracts to manage currency risk on our relatively nominal amount of loans denominated in foreign currencies. The notional amounts of derivatives, weighted average interest rates to be received and paid, and fair values at December 31, 2014, are shown in the following table. We also discuss derivatives in Note 12 to the accompanying consolidated financial statements.

Derivative Financial Instruments at December 31, 2014 ($ in Millions)

Derivative Product	Notional Amount	Weighted Average Receive Rate	Weighted Average Pay Rate	Fair Value
Receive Fixed Swaps	$ 14,329	2.10 %	0.38 %	$ 271
Receive Fixed Amortizing Swaps	2,263	2.41	0.23	84
Pay Fixed Swaps	900	0.24	1.00	1
Pay Fixed Amortizing Swaps	2,263	0.23	2.15	(54)
Interest Rate Options	2,961	-	-	38
Foreign Currency Spots and Forwards	208	-	-	4
Total	$ 22,924	1.84 %	0.60 %	$ 344

The following section includes a summary of our derivatives portfolio by strategy and further explanation of each strategy.

Notional Amounts of Derivative Financial Instruments by Strategy ($ in Millions)

December 31,	2014	2013	2012
Liquidity Management	$ 7,750	$ 10,800	$ 13,304
Equity Positioning	2,216	2,545	2,489
Options Risk Management [1]	2,427	2,423	2,880
Customer Transactions	10,351	8,945	7,445
Foreign Currency Risk Management [2]	180	232	243
Total	$ 22,924	$ 24,945	$ 26,361

[1] Excludes $534 million, $261 million and $169 million of interest rate options at December 31, 2014, 2013 and 2012, respectively, which are classified as customer transactions.

[2] Excludes $28 million, $47 million and $49 million of foreign currency spot and forward contracts at December 31, 2014, 2013 and 2012, respectively, which are classified as customer transactions.

The total notional amount of our derivatives portfolio decreased by $2.0 billion in 2014. The decrease is primarily due to reduced usage of derivatives for purposes of managing our liquidity. Over the past three years, market conditions have allowed for better execution of term floating-rate debt instead of issuing term fixed-rate debt and using interest rate swaps to effectively convert such debt to a floating rate. An increasing level of customer derivative activity somewhat offset this impact.

Liquidity Management

Interest rate swaps are executed to improve liquidity, primarily by effectively converting specific longer-term fixed-rate bonds and notes into floating-rate debt indexed to LIBOR or similar short-term rates. The fixed rate received on the swap largely offsets the fixed rate paid on the associated debt leaving a net floating rate payment on the swap. This allows us to issue longer-term debt and still match fund the predominantly short-term repricing nature of our interest-sensitive asset portfolio. Liquidity risk management is discussed further beginning on page 47.

Equity Positioning

We also use interest rate swaps to manage market risk as it relates to investment of our equity. If the cash flows of loans and investments on the balance sheet do not create the targeted maturity for the investment of our equity, we enter into receive-fixed interest rate swaps to produce the desired equity investment maturity profile.

Options Risk Management

In the course of managing risk in our investment portfolio, and to a lesser extent our loan portfolio, we periodically hedge cap risk embedded within our floating-rate investments and loans by entering into derivative transactions.

Customer Transactions

Derivatives are offered to customers as a service to enable them to modify or reduce their interest rate and foreign exchange risk by transferring such risk to us. We offset this risk transference by concurrently entering into offsetting agreements with counterparties.

Foreign Currency Risk Management

We enter into foreign exchange spot and forward contracts to manage currency risk on our relatively nominal amount of loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon the repricing or maturity date of the loan.

Counterparty Exposure

The use of derivative instruments exposes us to counterparty credit risk. Credit risk associated with derivatives is measured based on the replacement cost that would be incurred should the counterparties with contracts in a net gain position with respect to CoBank fail to perform. We minimize this risk by diversifying our derivative positions among various counterparties, using master netting agreements, and requiring collateral with zero thresholds and daily posting to support credit exposures with active counterparties. We evaluate the creditworthiness of each counterparty, establishing individual credit exposure limits, and deal exclusively with derivative counterparties that have an investment grade credit rating from a major credit rating agency. In addition, we monitor counterparty credit default swap spreads and other market-related information which may indicate reduced creditworthiness of a counterparty. Credit default swap spreads are taken into account in establishing counterparty limits.

We estimate that the amount of losses related to derivatives we could be exposed to in the event of nonperformance by dealer counterparties to our derivative positions, net of collateral held by us, was $3.6 million, $6.7 million and $12.8 million at December 31, 2014, 2013 and 2012, respectively.

We measure counterparty credit risk daily based on the current fair market values of our derivative positions. Employees who are independent of the derivative portfolio management function monitor the derivative exposures against approved limits. Exceptions to approved limits, along with a plan detailing actions to address limit overages, are reported to the CLC. Changes to the counterparty limits must be approved by the CLC.

We also perform stress tests on the derivative portfolio using asset/liability pricing models to analyze the potential effects of market rate changes on fair value, including extreme rate changes. The forward interest rate curves used to project the future expected cash flows for the derivative positions are modeled under potential scenarios which increase and decrease interest rates within a 99 percent confidence interval. These extreme rate scenarios are then used to further evaluate potential counterparty credit risk and to establish placement limits.

Notwithstanding our credit evaluation process and the maintenance of collateral agreements with our derivative counterparties, the failure of a counterparty to perform on its obligations could negatively impact our earnings. Furthermore, although our credit evaluations consider the possibility of default by a counterparty, our ultimate exposure to default by a counterparty could be greater than expected.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) requires many derivative transactions to be cleared through a central clearinghouse and traded on regulated exchanges or other multi-lateral platforms. As required under the Dodd-Frank Act, the Commodity Futures Trading Commission considered and exempted System institutions from these new requirements for qualifying transactions. CoBank currently transacts our derivatives directly with counterparties and retains exposure to them, which we mitigate as described above.

The following table details the notional amount of our derivatives and related exposure to dealer counterparties classified by their Standard & Poor's Rating Services (S&P) credit rating as of December 31, 2014.

Derivative Counterparty Exposure ($ in Millions)

	AAA	AA	A	Below A
Exposure to Counterparties in Net Gain Position	$ -	$ 112	$ 184	$ -
Collateral Held	-	112	180	-
Exposure, Net of Collateral	$ -	$ -	$ 4	$ -
Total Notional Amount	$ -	$ 7,007	$ 10,751	$ -
Total Number of Counterparties	-	6	12	-

The notional amount of our derivatives and related exposure to customer counterparties were $5.2 billion and $133.9 million, respectively, at December 31, 2014 compared to $4.5 billion and $89.6 million, respectively, at December 31, 2013. Customer derivative agreements are secured through our loan agreements.

Liquidity Risk Management

Liquidity risk is the risk arising from an inability to repay or issue obligations to fund borrowers and operations on a timely basis. We must continually raise funds to provide credit and related services to customers, repay maturing debt obligations and meet other obligations. Our primary sources of liquidity are the ability to issue Systemwide Debt Securities and the use of available cash. Additionally, if necessary, we could convert high credit quality liquid investments to cash.

We monitor our liquidity position by assuming no ability to issue debt and calculating the number of days into the future we could meet maturing debt obligations by using available cash and eligible investments. System banks are required by regulation to maintain a minimum of 90 days of liquidity (cash and readily marketable investments generally discounted by 5 to 10 percent of market value) on a continuous basis and to establish an incremental liquidity reserve. At December 31, 2014, our liquidity was 172 days, compared to 181 days at December 31, 2013. During 2014, we averaged 169 days of liquidity compared to an average of 194 days in 2013.

FCA regulations require each System bank to maintain a three-tiered liquidity reserve. The first tier consists of a sufficient amount of cash and cash-like instruments to cover each bank's maturing debt for 15 days. The second and third tiers contain highly liquid instruments sufficient to cover each bank's maturing debt for the next 15 and subsequent 60 days, respectively. In addition, the banks are required to establish an incremental liquidity reserve comprised of eligible investments, which can be drawn upon during an emergency and which is sufficient to cover each bank's liquidity needs beyond 90 days. CoBank has established a minimum liquidity standard of 150 days, which is 60 days greater than the 90 days resulting from the tier one through tier three regulatory standards.

As a result of the System's credit quality and standing in the capital markets as a GSE, we have traditionally maintained ready access to debt-funding, notwithstanding volatility in the credit markets and negative credit rating actions in 2011 by rating agencies relative to the long-term U.S. sovereign credit rating and the System's long-term debt rating, as discussed in "Other Risk Factors" beginning on page 49.

Our liquidity management objectives are to provide a reliable source of funding to borrowers, meet maturing debt obligations, provide additional liquidity if market conditions deteriorate and to fund operations on a cost-effective basis. Approximately 64 percent of our interest-earning assets mature or reprice in one year or less with 48 percent maturing or repricing in one month or less. Match-funding these assets from a maturity perspective would create an unacceptable concentration of short-term liabilities. Instead, we manage this risk by issuing longer-term debt and swapping this debt from a fixed to floating rate using derivative transactions, as previously described, or by issuing term floating-rate debt. By so doing, we reduce the need to fund maturing liabilities on any given business day to a more manageable level. While we believe that sufficient resources are available to meet liquidity management objectives through our debt maturity structure, holdings of liquid assets and access to the capital markets via the Funding Corporation, the volatility of our loan volume causes our liquidity needs to vary significantly from day to day.

The amounts and maturities of our debt obligations are set forth in the table below.

Debt Maturities as of December 31, 2014 ($ in Millions)

	Book	Par
1 Day [1]	$ 2,774	$ 2,774
2-7 Days	327	327
8-30 Days	3,033	3,033
31-90 Days	8,239	8,238
91-180 Days	12,639	12,636
181-365 Days	19,255	19,200
1-5 Years	37,932	37,616
Over 5 Years	14,286	14,161
Total	$ 98,485	$ 97,985

[1] Includes $238.6 million of cash collateral payable to derivative counterparties that does not have a stated maturity date.

See Notes 6 and 16 to the accompanying consolidated financial statements for information regarding interest rates and maturities of Systemwide Debt Securities, and contingencies.

Due to the often volatile funding needs of certain customers, in particular Agribusiness customers impacted by seasonal borrowing requirements and changing commodity prices and supplies, we provide a significant amount of revolving loan commitments. At December 31, 2014, commitments to extend credit and commercial letters of credit were $26.8 billion and $364.2 million, respectively. In addition, we provide standby letters of credit, which guarantee payment or performance of an obligation. As of December 31, 2014, the maximum amount of future payments that could potentially be required under standby letters of credit was $1.5 billion. Since many of these commitments may expire without being drawn, the total commitments do not necessarily represent future cash requirements. Our exposure to many of these commitments is mitigated by borrowing base requirements contained in loan agreements. See Note 11 to the accompanying consolidated financial statements for a full discussion of financial instruments with off-balance sheet risk.

Our liquidity plan covers certain contingencies in the event our access to normal funding sources is disrupted. We purchase only high credit quality investments to ensure our investment portfolio is readily marketable and available to serve as a source of contingent funding. Our investment portfolio may also be used as collateral to borrow funds to cover maturing liabilities. Pursuant to FCA regulations, non-agency MBS and ABS, which include our FHA/VA non-wrapped reperformer MBS, that are no longer rated triple-A by at least one major rating agency, corporate bonds that no longer carry one of the two highest ratings by at least one major rating agency or any investment whose market value is less than 80 percent of book value must be excluded from our liquidity reserve. As a result, as of December 31, 2014, $643.6 million of securities were not included in our liquidity reserve. Another $154.1 million of investment securities, primarily representing Farmer Mac MBS, are not included in our liquidity reserve as of December 31, 2014, pursuant to regulation.

We have identified certain portions of our loan portfolio that we believe could be sold or participated in the event our access to normal funding mechanisms is disrupted. These loans serve as an additional source of contingent funding. We also maintain uncommitted lines of credit with various financial institutions that could provide liquidity during unanticipated short-term disruptions in funding. However, it is uncertain whether we would be able to sell or participate loans or fully utilize uncommitted lines of credit in the event of a systemic funding disruption.

An additional source of liquidity is cash provided by our operating activities (primarily generated from net interest income in excess of operating expenses), which totaled $883.1 million, $903.1 million and $884.0 million in 2014, 2013 and 2012, respectively.

The assets of the Insurance Fund would be used to repay maturing Systemwide Debt Securities, to the extent available, if no other sources existed to repay such debt. The Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2015, unless otherwise extended. The decision whether to seek funds from the Federal Financing Bank is in the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System.

Operational Risk Management

Operational risk is the risk arising from inadequate or failed internal processes, technology, human errors or misconduct; failure to comply with laws, rules or regulations; or adverse external events. We utilize a risk management framework, business policies and processes, and employee training and disclosures to manage operational risk. Under this framework, business segments and support units have direct and primary responsibility and accountability for identifying, controlling and monitoring operational risk. Managers maintain controls with the objective of providing proper transaction authorization and execution, proper system operations, safeguarding of assets from misuse or theft, fraud monitoring and ensuring the reliability of financial and other data. Employees receive regular training on business ethics, fraud identification and prevention, compliance with laws and regulations, and information security. Employees are also subject to standards of conduct requirements in the performance of their job responsibilities, including the periodic disclosure of potential conflicts of interest. We also mitigate operational risk through the use of insurance coverages.

Information security risk at financial institutions has increased in recent years as a result of the proliferation of new technologies and the increased activities of organized crime, hackers and other external parties. CoBank and its customers, like many other financial institutions and their customers, have been the target of cyber-attacks aimed at committing fraud. Various retail companies and financial institutions have reported being victims of cyber-attacks, resulting in, among other things, customer data being compromised, confidential material being disclosed and website service being disrupted. Cybersecurity and the continued development and enhancement of our controls, processes and systems to protect our information systems and data remain a priority for CoBank. To date we have not experienced any material losses relating to cyber-attacks. Although we believe we have robust information security procedures and controls, our information systems, as well as those our customers use to access our services, may become the target of further cyber-attacks, which could result in material losses. Our risk and exposure to cyber-attacks remain heightened, in part due to the evolving nature of such attacks.

Business continuity and disaster recovery planning are important mitigants to potential operational risks. Each critical business unit, as well as our Information Technology Division, is required to develop, maintain and test such plans at least annually to ensure that continuity and recovery activities, if needed, could sustain critical functions including systems and information supporting customers and business operations. While we believe that we have designed effective business continuity policies and procedures, there is no absolute assurance that business disruption or operational losses would not occur in the event of a disaster.

Our Risk Management Group is responsible for coordinating the completion of ongoing risk assessments and ensuring that operational risk management is integrated into business decision-making activities. In addition, this group, in coordination with the Audit Committee of the Board of Directors, determines the scope and level of review performed by the internal audit and asset review functions. Our internal audit function validates the system of internal controls through risk-based, regular and ongoing audit procedures, and reports on the effectiveness of internal controls to executive management and the Audit Committee of the Board of Directors. In addition, the CEO reports annually to the Audit Committee of the Board of Directors on the current state of the Bank's risks and controls. The asset review function evaluates the adequacy and effectiveness of the Bank's internal control processes related to loan quality, credit administration and risk identification.

To enhance our governance and internal controls, we apply policies and procedures that mirror the material provisions of the Sarbanes-Oxley Act of 2002, including section 404, *Management Assessment of Internal Controls Over Financial Reporting.*

Strategic and Reputation Risk Management

Strategic risk is the risk to current or anticipated earnings, capital, or enterprise value arising from adverse business decisions or lack of responsiveness to changes in the banking/operating environment and is a function of the Bank's strategic goals and business strategies. Reputation risk is the risk arising from negative external perception and is inherent in all business activities. Like all businesses, the Bank is subject to a wide variety of reputation risks both within and outside its control, including credit difficulties with individual customers or industries, business disputes, lawsuits, credit market disruptions, regulatory events, spurious criticism by competitors and public allegations of misconduct. As a member of the System, the Bank could be indirectly impacted by events that damage the reputation of another System entity. Competitors could engage in public criticism of the Bank and the System in an attempt to limit our market activities and lending authorities.

Effective Board governance, strong management, solid business plan execution and overall achievement of CoBank's mission are key controls in ensuring strategic alignment and managing and mitigating the Bank's reputation risk.

The Board has adopted leading industry practices in its governance of CoBank. Consistent with these practices, CoBank directors are required to meet established qualifications standards prior to standing for election. Directors are required to complete initial training upon election and subsequent training during their tenure. To maintain strong governance, the Board conducts an annual self-evaluation and a periodic peer evaluation. As part of its ongoing processes, the Board periodically convenes a restructuring committee to review current governance practices and make recommendations for changes to those practices to ensure a strong and equitable governance structure is maintained. A restructuring committee was convened in 2014 and its recommendations have been approved by the Board of Directors. If the governance bylaw changes implementing these recommendations are approved by shareholders, the changes will be implemented beginning on January 1, 2016.

CoBank's executive management team possesses the requisite banking skills, financial expertise and sophistication to run the Bank. CoBank identifies and develops leaders from within the organization through talent management and training processes, and attracts high-quality talent from external sources.

The Bank has a variety of initiatives in place to ensure that customer-owners are communicated with openly and have access to the information they need to accurately evaluate the Bank's overall business and financial performance. Furthermore, customers, Farm Credit partners and others have regular access to members of the Board of Directors and management through numerous meetings and events held by the Bank throughout the year, which helps to ensure the Bank is aligned with the interests of its members.

The controls and processes surrounding credit risk, market risk, liquidity risk and operational risk mitigate reputation risk by lowering the likelihood of significant problems in each of those areas. In addition, the Bank has a formal crisis communications plan in place in order to help it manage communications with stakeholders if an unplanned, reputation-impacting event occurs.

We place considerable emphasis on ethical behavior and ensure that our directors and employees receive regular training related to business ethics, fraud identification and prevention, compliance with laws and regulations, and information security. In addition, as discussed on page 145 each year all employees certify their compliance with our Associate Responsibilities and Conduct Policy. Senior officers and other senior professionals with financial reporting or critical decision making responsibilities also annually certify compliance with the Bank's code of ethics.

As a mission-based lender, CoBank is committed to mission objectives that expand market penetration into an increasingly diverse customer base. Our Board-directed activities include supporting causes and programs that support people and communities in need as well as the industries we serve across rural America. By further strengthening relationships with key stakeholders and enriching service to rural America, CoBank's corporate social responsibility program contributes to maintaining a positive reputation in the marketplace.

Finally, the Bank actively supports and participates in various committees which manage the System's reputation and business practices. These committees, which consist of representatives from Farm Credit banks and Associations, coordinate business and operational issues across System institutions.

Other Risk Factors

Joint and Several Liability for the Debt of the Farm Credit System

Farm Credit System banks and Associations are not authorized to accept deposits and therefore cannot use deposits as a funding source. Instead, banks raise funds for their operations primarily through Systemwide Debt Securities issued on the banks' behalf by the Funding Corporation. Systemwide Debt Securities are the joint and several liabilities of the System banks and are not obligations of, nor are they guaranteed by, the U.S. government or any agency or instrumentality thereof, other than the System banks. Under the Farm Credit Act, each System bank is primarily liable for the portion of the Systemwide Debt Securities issued on its behalf. At December 31, 2014, we were primarily liable for $94.8 billion of Systemwide Debt Securities. Additionally, each System bank is contingently liable for Systemwide Debt Securities of the other System banks. At December 31, 2014, the total aggregate principal amount of the outstanding Systemwide Debt Securities was $225.4 billion.

Although the System banks have established mutual covenants and measures, which are monitored on a quarterly basis, there is no assurance that these would be sufficient to protect a System bank from liability should another System bank default and the Insurance Fund be insufficient to cure the default. See Note 6 to the accompanying consolidated financial statements for a more complete description of the interbank agreements among the System banks.

The Insurance Fund, which totaled $3.8 billion as of December 31, 2014, is available from the Insurance Corporation to ensure the timely payment by each System bank of its primary obligations on Systemwide Debt Securities and can also be used by the Insurance Corporation for its operating expenses and for other mandatory and permitted purposes. Under the Farm Credit Act, before joint and several liability can be invoked, available amounts in the Insurance Fund would first be exhausted. There is no assurance, however, that the Insurance Fund would have sufficient resources to fund a System bank's defaulted obligations. If the Insurance Fund was insufficient, then the remaining System banks would be required to pay the default amount in proportion to their respective available collateral positions. Available collateral approximates the amount of total shareholders' equity of the System banks. The Insurance Corporation does not insure any payments on our subordinated debt, preferred stock or common stock. See Note 6 to the accompanying consolidated financial statements for more information about the Insurance Fund.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2015, unless otherwise extended. The decision whether to seek funds from the Federal Financing Bank is at the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System.

To the extent we must fund our allocated portion of another System bank's portion of the Systemwide Debt Securities due to a default, our earnings and total shareholders' equity would be reduced, possibly materially.

Reforms Impacting Government Sponsored Enterprises or Tax-Exempt Business Activities Could Have an Adverse Impact on our Cost Structure

The System is a GSE and, as a member of the System, CoBank benefits from ready access to debt funding and favorable debt-funding costs. Our individual credit ratings are also positively impacted by the GSE status of the System. In addition, as provided in our charter, portions of our business activities, including lending to Associations, are exempt from many forms of taxation, including federal income taxes.

As a direct result of the financial difficulties experienced by the housing-related GSEs, with both Fannie Mae and Freddie Mac having been placed into conservatorship by the U.S. government, GSE status has been and will continue to be a topic of debate and concern to various stakeholders, including the public and Congress. Congressional deliberations over structural reform of the housing-related GSEs began in 2011 and are likely to continue for a number of years. The System has not been the subject of this specific congressional scrutiny, nor is it subject to the jurisdiction of the same congressional committees as the housing-related GSEs. However, we believe there is at least some risk that further efforts to regulate GSEs could impact the System's status or erode some of the GSE-related benefits that it currently enjoys, including favorable funding costs and funding flexibility.

Additionally, the current debate over federal income tax reform could ultimately lead to the elimination of the tax-exempt status of certain of our business activities, which would increase the amount of income tax we are required to pay.

Our Funding Costs Could Be Negatively Impacted by Downgrades of the Long-Term U.S. Sovereign Credit Rating and the System's Long-Term Debt Rating

As a member of the System, we have historically benefited from the favorable funding costs and funding flexibility associated with the debt securities issued through the Funding Corporation. The credit ratings of GSEs, including the System, are influenced by the sovereign credit rating of the United States. In 2011, S&P downgraded the long-term sovereign credit rating of the United States from AAA to AA+. As a result, S&P also lowered its long-term debt rating of the System from AAA to AA+. The ratings of individual System banks rated by S&P, including CoBank, were not affected. Both Moody's Investors Service (Moody's) and Fitch Ratings Inc. (Fitch) currently maintain the triple-A ratings for U.S. government and agency securities. Any future downgrades could negatively impact funding costs, earnings and funding flexibility for CoBank and other System institutions.

Our Funding is Dependent Upon the System's Ability to Access the Capital Markets

The primary source of liquidity for CoBank and the other System institutions is the ability to issue Systemwide Debt Securities. This access has provided the System with a dependable source of low cost debt. The System's ability to continue to issue Systemwide Debt Securities depends, in part, on the conditions in the capital markets, which are outside the System's control. As a result, the System cannot make any assurances that it will be able to issue low cost debt or any debt at all. If the System cannot issue low cost debt or cannot access the capital markets, CoBank's funding would be negatively impacted, which would have a negative effect on our financial condition and results of operations, which could be material.

We are Subject to Liquidity Risk with Respect to Certain Investments and Derivatives

We are subject to liquidity risk in the course of our investing activities, particularly with respect to our investments in non-agency MBS and ABS, FHA/VA non-wrapped reperformer MBS and corporate bonds, which together represent approximately 3 percent of our investment securities held for liquidity. In volatile market conditions, it could be difficult to sell such investments, if the need arises, and the discounts from face value would likely be significant. In addition, because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for the investments.

Our derivative contracts require the Bank or its counterparties to post cash or securities as collateral when the fair values of the derivatives change based on changes in interest rates. The collateral exchanged between parties occurs daily with zero posting thresholds for all dealer counterparties. As a result of these derivative contracts, we are exposed to liquidity risk when changes in interest rates require us to post collateral to our counterparties. As of December 31, 2014, our counterparties had posted $238.6 million in cash and $60.1 million in securities as collateral with us.

CoBank and its Affiliated Associations Face Intense Competition

CoBank and its affiliated Associations face intense competition, primarily from commercial banks, thrift institutions, insurance companies, finance companies and mortgage banking companies. Future results may become increasingly sensitive to fluctuations in the volume and cost of lending activities. There can be no assurance that CoBank and its affiliated Associations will be able to continue to compete successfully in the markets they serve.

We are Subject to Legal Proceedings and Legal Compliance Risks

We are subject to a variety of legal proceedings and legal compliance risks. We are at times being reviewed by the FCA and other governmental authorities, which could lead to enforcement actions, fines and penalties or the assertion of private litigation claims and damages. While we believe that we have adopted appropriate risk management and compliance programs, legal and compliance risks will continue to exist and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, will arise from time to time.

The FCA Has Proposed Changes to the System's Capitalization Regulations

Under the Dodd-Frank Act, which was signed into law in 2010, the federal banking agencies, the U.S. Securities and Exchange Commission, the Commodity Futures Trading Commission and a variety of other regulatory agencies are required to adopt a broad range of new rules and regulations that will significantly reform the supervision and regulation of the financial services industry. These federal agencies have been given significant discretion in drafting and implementing rules and regulations, and consequently, much of the impact of the Dodd-Frank Act may not be known for many more months or years. The Dodd-Frank Act largely preserves the authority of the FCA as the System's regulator by excluding System institutions from certain of the law's provisions.

Additionally, the Basel Committee on Banking Supervision (the Basel Committee) released consultative proposals in 2009 aimed at strengthening global capital and liquidity regulations. The Basel Committee adopted revised versions of the consultative proposals as definitive frameworks in 2010, and made further revisions in 2011. This framework is often referred to as "Basel III." In 2013, the U.S. banking agencies approved final changes that substantially amended their regulatory capital requirements to, among other things, implement Basel III in the United States effective January 1, 2014, with mandatory compliance deferred until January 1, 2015 for banks that are not advanced approach banks.

On May 8, 2014, the FCA approved a proposed rule to modify the regulatory capital requirements for System banks, including CoBank, and Associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as government-sponsored enterprises;
- 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 Act.

As currently drafted, the proposed rule would, among other things, eliminate the core surplus and total surplus requirements and introduce common equity tier 1, tier 1 and total capital (tier 1 + tier 2) risk-based capital ratio requirements. The proposal would add a minimum tier 1 leverage ratio for all System institutions, which would replace the existing net collateral ratio for System banks. In addition, the proposal would establish a capital conservation buffer, modify and expand risk weightings and, for System banks only, require additional public disclosures. The revisions to the risk weightings of exposures would include alternatives to the use of credit ratings, as required by the Dodd-Frank Act. The proposed effective date is January 1, 2016.

The public comment period ended on February 16, 2015. While uncertainty exists as to the final form of the proposed rule, based on our preliminary assessment, we do not believe the new rule will impose any significant constraints on our business strategies or growth prospects.

Relationship with the Federal Agricultural Mortgage Corporation

Farmer Mac is a federally chartered corporation that was established to create a secondary market for agricultural mortgages and other loans. Since its formation, Farmer Mac's business model has evolved such that it now retains on its balance sheet agricultural mortgages, rural electric loans and other loans similar to System entities. Although Farmer Mac is statutorily defined as an institution of the Farm Credit System and is examined and regulated by the FCA, it is financially and operationally separate and distinct from the System, and any reference to “the System” herein does not include Farmer Mac. Neither CoBank nor any other System entity is liable for any debt or obligation of Farmer Mac. Further, the assets of the Insurance Fund do not support any debt or obligation of Farmer Mac nor do the System’s independent credit ratings apply to Farmer Mac, which has not been rated by any NRSRO. Except for contractual obligations arising from business transactions between Farmer Mac and certain System institutions, Farmer Mac is not liable for any debt or obligation of any System entity, including Systemwide Debt Securities, either directly or on a joint and several basis.

We believe that if Farmer Mac, as an institution of the Farm Credit System, were to experience financial difficulty, it could create financial, reputational, political and regulatory risk to the System.

Our Ability to Attract and Retain Qualified Board Members, Senior Officers and Employees is Critical to Successfully Fulfilling Our Mission

The success of CoBank is dependent on the talents and efforts of our Board members, senior officers and employees, and the competition for individuals who possess the requisite knowledge of the banking, agricultural and other relevant industries is intense. The failure to attract and retain qualified Board members, senior officers and employees could adversely affect our business performance, competitive position and the ability to fulfill our mission.

Liquidity and Capital Resources

Funding

We use our capital in addition to short-term and long-term debt to fund our assets. Our debt consists primarily of Systemwide Debt Securities issued on CoBank’s behalf by the Funding Corporation. Refer to Notes 6 and 7 to the accompanying consolidated financial statements for additional information regarding our debt obligations.

As a member of the System, CoBank has traditionally maintained ready access to debt funding. As of December 31, 2014, Systemwide Debt Securities were rated AAA by Moody’s and Fitch, and AA+ by S&P.

Investment Securities and Cash

Investment securities and cash are primarily held for the purposes of maintaining a liquidity reserve. In accordance with Board-approved policies, we purchase high credit quality investment securities with the aim of ensuring that the investment portfolio is readily marketable and available to serve as a source of liquidity in the event of disruption to our normal funding sources.

Investment securities totaled $24.3 billion at December 31, 2014, an increase of $2.6 billion from December 31, 2013 due to growth needed to meet the liquidity requirements of a growing loan portfolio and to execute our balance sheet positioning strategies. Our cash balance was $1.9 billion at December 31, 2014 compared to $1.3 billion at December 31, 2013.

The following table summarizes our investment securities and related unrealized gains/losses by asset class.

Investment Securities ($ in Millions)

December 31, 2014	Amortized Cost	Fair Value	Unrealized Gains (Losses)
U.S. Treasury Debt	$ 7,587	$ 7,625	$ 38
U.S. Agency Debt	5,649	5,680	31
Residential Mortgage-Backed:			
Ginnie Mae	1,460	1,472	12
U.S. Agency	7,581	7,587	6
FHA/VA Non-Wrapped Reperformer	403	391	(12)
Non-Agency	149	166	17
Commercial Mortgage-Backed:			
U.S. Agency	1,007	1,007	-
Agricultural Mortgage-Backed:			
Farmer Mac	153	150	(3)
Asset-Backed	71	96	25
Corporate Bonds	145	146	1
Total	$ 24,205	$ 24,320	$ 115
December 31, 2013			
U.S. Treasury Debt	$ 5,501	$ 5,504	$ 3
U.S. Agency Debt	4,458	4,459	1
Residential Mortgage-Backed:			
Ginnie Mae	2,101	2,123	22
U.S. Agency	8,554	8,495	(59)
FHA/VA Non-Wrapped Reperformer	443	440	(3)
Non-Agency	201	221	20
Agricultural Mortgage-Backed:			
Farmer Mac	182	179	(3)
Asset-Backed	127	152	25
Corporate Bonds	116	115	(1)
Total	$ 21,683	$ 21,688	$ 5

At each reporting period, we perform impairment assessments of our investment securities based on evaluations of both current and future market and credit conditions and expected cash flows of these securities. Subsequent changes in market and credit conditions or expected cash flows could change these evaluations.

As all of our investment securities are classified as “available for sale”, we recognize changes in the fair value of our investment securities in accumulated other comprehensive income (loss), a component of shareholders’ equity, unless losses are credit-related and considered other-than-temporary, in which case that portion of the loss is recorded in earnings. We recorded unrealized gains on our investment securities of $110.6 million in 2014 compared to unrealized losses of $261.2 million in 2013, respectively. The unrealized gains and losses recorded in both periods primarily related to the impact of changes in market interest rates on the valuations of fixed-rate securities.

Credit risk in our investment portfolio primarily relates to our securities that do not carry an explicit or implied government guarantee, which are FHA/VA non-wrapped reperformer MBS (i.e., investment securities where residential mortgage loans serving as collateral were cured after a default), non-agency MBS, ABS and corporate bonds. These securities collectively total $799.0 million (fair value) or 3 percent of our total investment securities as of December 31, 2014. Credit risks associated with the portfolio of FHA/VA non-wrapped reperformer MBS and certain other investment securities are discussed on page 40. Credit risk in our investment portfolio also arises from the inability of guarantors and third-party providers of other credit enhancements to meet their contractual obligations to us.

We recorded no impairment losses in 2014 as compared to $2.5 million in impairment losses in 2013. The 2013 impairment losses related to one FHA/VA non-wrapped reperformer MBS and three non-agency MBS.

Derivatives

As described previously, we use derivatives in part to manage our liquidity position. Derivatives are recorded at fair value as assets or liabilities in the accompanying consolidated balance sheets. Changes in the fair value of these derivatives are accounted for as gains or losses through current period earnings or as a component of accumulated other comprehensive income (loss), depending on the use of the derivatives and whether they qualify for hedge accounting treatment. Net changes in the fair value of derivatives and hedged items recorded in the accompanying consolidated statements of income totaled gains of $15.4 million and $12.0 million for 2014 and 2013, respectively. Changes in the fair value of derivatives recorded as other comprehensive income (loss) totaled losses of $38.5 million in 2014 and gains of $9.2 million in 2013.

Capital

We believe that a sound capital position is critical to our long-term financial success and future growth. Our shareholders' equity is mainly composed of common and preferred stock and retained earnings, and totaled $7.4 billion and $6.7 billion at December 31, 2014 and 2013, respectively. The increase in 2014 was primarily due to our earnings of $904.3 million, $32.3 million in other comprehensive income, and a $158.5 million net increase in preferred stock, partially offset by $378.7 million in cash patronage and $53.6 million in preferred stock dividends. Other comprehensive income for 2014 was driven by changes in the fair values of fixed-rate investment securities due to changes in market interest rates.

Our shareholders have approved measures allowing CoBank to issue up to $1.5 billion outstanding of preferred stock, subject to FCA approval, at any time through September 2018. These measures allow us to access outside capital more quickly and efficiently in response to dynamic market conditions, without the necessity of obtaining shareholder approval for each issuance. As of December 31, 2014, we had $1.1 billion of preferred stock outstanding.

On October 1, 2012, we redeemed all of our outstanding Series A and Series B cumulative perpetual preferred stock totaling $363.3 million. We used available cash to effectuate these redemptions. The dividend rates for our Series A and Series B preferred stock were 7.814 percent and 7.0 percent, respectively. On October 4, 2012, we issued $400 million of Series F non-cumulative perpetual preferred stock. We used the proceeds from the Series F preferred stock to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. Dividends on Series F preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate equal to 6.25 percent from the date of issuance up to, but excluding, October 1, 2022. Thereafter, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 4.557 percent.

On April 19, 2013, we issued $200 million of Series G non-cumulative perpetual preferred stock. We used the net proceeds from the Series G preferred stock issuance to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. Dividends on the Series G preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate equal to 6.125 percent.

On July 1, 2013, we redeemed all of our outstanding Series C non-cumulative perpetual preferred stock totaling $200 million. We used available cash to effectuate this redemption. The dividend rate for our Series C preferred stock was 11.0 percent through the date of redemption.

On October 1, 2014, we redeemed all of our outstanding Series D non-cumulative perpetual preferred stock totaling $136.8 million. We used available cash to effectuate this redemption. The dividend rate for our Series D preferred stock was 11.0 percent through the date of redemption.

On November 26, 2014, we issued $300 million of Series H non-cumulative perpetual preferred stock. We used the proceeds from the Series H preferred stock to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. Dividends on Series H preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate equal to 6.20 percent from the date of issuance up to, but excluding, January 1, 2025. Thereafter, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 3.744 percent.

All of our outstanding preferred stock is included in permanent capital, total surplus, and core surplus for regulatory capital purposes. In addition, all of our outstanding preferred stock ranks equally, both as to dividends and upon liquidation, and senior to all of our outstanding common stock.

For regulatory capital purposes, subject to certain limitations, subordinated debt is included in permanent capital and total surplus and excluded from liabilities in the net collateral ratio. We had $904.7 million of subordinated debt outstanding at December 31, 2014 and 2013, respectively. Of the $904.7 million of subordinated debt outstanding at December 31, 2014, $742.8 million was eligible to be included in regulatory capital.

In December 2012, we purchased $95.3 million of our 7.875 percent fixed rate Series 2008A subordinated notes through a cash tender offer. As a result, we incurred a loss of $28.5 million, which is recorded as a component of noninterest income in the consolidated statement of income for the year ended December 31, 2012. Our subordinated debt is discussed in Note 7 to the accompanying consolidated financial statements.

We may from time to time seek to retire our outstanding debt or equity securities through calls, cash purchases and/or exchanges, in open market purchases, privately negotiated transactions or otherwise. Such calls, repurchases or exchanges, if any, will depend on prevailing market conditions, the Bank's capital position and liquidity requirements, contractual restrictions, changes to capital regulations and other factors.

FCA regulations include requirements to maintain regulatory capital at or above minimum levels for our permanent capital ratio, total surplus ratio, core surplus ratio, and net collateral ratio. The calculation of these ratios is summarized in Note 8 to the accompanying consolidated financial statements. If these standards are not met, the FCA could impose restrictions, including limiting our ability to pay patronage distributions, retire equities and pay preferred stock dividends. As displayed in the following table, at December 31, 2014, 2013 and 2012, we exceeded the minimum regulatory requirements, which are noted parenthetically.

Selected Capital Information ($ in Millions)

December 31,	2014	2013	2012
Total Shareholders' Equity	$ 7,370	$ 6,705	$ 6,441
Total Shareholders' Equity/Total Assets	6.86 %	6.87 %	6.97 %
Permanent Capital Ratio (7.0%)	15.70	16.72	16.14
Total Surplus Ratio (7.0%)	14.81	15.74	15.22
Core Surplus Ratio (3.5%)[1]	10.47	10.82	10.06
Net Collateral Ratio (104.0%)[2]	107.22	107.57	107.08

[1] Effective January 1, 2015, the FCA requires us to maintain a minimum core surplus ratio of 5.59 percent during a period in which we include a portion of our common stock as core surplus.

[2] The regulatory minimum net collateral ratio is 103.0 percent, but the FCA requires the higher 104.0 percent during a period in which we have subordinated debt outstanding.

Pursuant to FCA guidance, a portion of our common stock is included in core surplus, subject to certain conditions. This inclusion will continue on a temporary basis until December 31, 2017 or the point at which the FCA changes its capital regulations in a manner that would be inconsistent with this treatment. The FCA requires that we also calculate our core surplus ratio excluding common stock and has established a 3.0 percent minimum for such ratio. As of December 31, 2014, our core surplus ratio excluding common stock was 8.86 percent.

In accordance with the Farm Credit Act, cooperatives and other eligible borrowers are required to purchase equity in CoBank as a condition of borrowing. Eligible borrowers that borrow on a patronage basis have voting rights while they are active borrowers. Generally, for borrowers other than affiliated Associations, the minimum initial borrower investment is equal to the lesser of one thousand dollars or 2 percent of the amount of the loan. The minimum initial investment is generally received by CoBank in cash at the time the borrower receives the loan proceeds. Affiliated Associations provide an initial and ongoing voting stock investment of 4 percent of their average outstanding loan balance. Collectively, the customer-owners that hold voting stock elect our Board of Directors. We operate on a cooperative basis and return a significant portion of our earnings to our customer-owners in the form of patronage distributions.

In conjunction with the annual business and financial planning process, the Board of Directors reviews and approves a capital adequacy plan which includes target levels for capital and capital ratio baselines. When reviewing the capital adequacy plan and setting an appropriate target equity level, the Board considers the following: the Bank's overall risk profile; capital composition; loan volume projections; anticipated future capital needs; and the Bank's capital levels in comparison to commercial banks and regulatory minimum capital standards. As of December 31, 2014, the Board-established capital ratio baselines were 11 percent for the permanent capital and total surplus ratios, 7 percent for the core surplus ratio, and 6 percent for the core surplus ratio excluding common stock. The Board also balances the amount required to properly capitalize the Bank with the desire to distribute a level of patronage that provides appropriate returns to our customer-owners. The Board may increase or decrease these patronage levels (provided we remain within the regulatory capital minimums) based on its ongoing evaluation of the Bank's business. As a result, there is no assurance that patronage will remain at current levels.

As part of our business planning process, we perform stress tests to examine the Bank's financial condition and performance, including capital levels, under a variety of market and economic environments, including unanticipated loan growth and prolonged periods of financial and loan quality stress. These stress tests, which include severe scenarios, illustrate the Bank's ability to continue to maintain compliance with regulatory requirements while continuing to fulfill our mission. Results of these stress tests are reviewed with the Board of Directors.

Capital Plans

We have four capital plans that govern the level of capital investment required by customer-owners. These include a plan for cooperative customers, a plan for affiliated Associations, a plan for nonaffiliated entities and a plan for loan participations purchased from System entities.

The targeted equity level for the cooperative capital plan is 8 percent of the 10-year historical average loan volume. Additionally, when a borrower's loans are paid in full, stock is retired over a 10-year loan base period beginning in the year following loan payoff, subject to Board approval and compliance with minimum regulatory capital requirements. The targeted patronage rate for the cooperative capital plan is 100 basis points of the current year average loan volume. For the 2014 patronage, the cash portion of patronage will be 75 percent for all cooperative capital plan members, as it was for 2013 and 2012. The remaining portion is paid in common stock.

The capital plan for loan participations purchased from System entities is similar to the cooperative capital plan described above.

The targeted equity level for the affiliated Association capital plan is 4 percent of the one-year historical average loan volume. There is no stock retirement feature for this capital plan. The targeted patronage rate for the affiliated Association capital plan is 45 basis points of the current year average loan volume, with all patronage being paid in cash.

The targeted equity level for the nonaffiliated entities capital plan is 4 percent of the five-year historical average loan volume. Additionally, when these borrowers' loans are paid in full, stock is retired over a five-year loan base period beginning in the year following loan payoff, subject to Board approval and compliance with minimum regulatory capital requirements. The targeted patronage rate for the nonaffiliated entity capital plan is 45 basis points of the current year average loan volume. The cash portion of patronage is 20 percent for all nonaffiliated entity capital plan members, with the remaining portion paid in common stock.

All patronage payments and retirements of equity require the prior approval of our Board of Directors, which may increase or decrease such payments based upon the Bank's current or projected business performance and capital levels. In addition, patronage payments can only be made if the Bank is in compliance with minimum regulatory capital requirements and preferred stock dividends for the immediately preceding period have been paid in full.

Patronage distributions are made in the form of cash and common stock, as shown in the following table. Eligible shareholders will receive patronage distributions from CoBank for 2014 in the first quarter of 2015. Patronage distributions for 2014 were higher than 2013 primarily as a result of loan growth in each of our operating segments.

Patronage Distributions ($ in Thousands)

Year Ended December 31,	2014	2013	2012
Common Stock	$ 88,745	$ 76,527	$ 80,472
Cash	378,735	338,001	344,516
Total Patronage Distributions	$ 467,480	$ 414,528	$ 424,988
Patronage Distributions/ Total Average Common Stock Owned by Active Borrowers	18.59 %	17.53 %	18.41 %

Critical Accounting Estimates

Management's discussion and analysis of the financial condition and results of operations are based on the Bank's consolidated financial statements, which we prepare in accordance with accounting principles generally accepted in the United States of America. In preparing these financial statements, we make estimates and assumptions. Our financial position and results of operations are affected by these estimates and assumptions, which are integral to understanding reported results.

Note 1 to the accompanying consolidated financial statements contains a summary of our significant accounting policies. We consider certain of these policies to be critical to the presentation of our financial condition, as they require us to make complex or subjective judgments that affect the value of certain assets and liabilities. Some of these estimates relate to matters that are inherently uncertain. Most accounting policies are not, however, considered critical. Our critical accounting policies relate to determining the level of our allowance for credit losses and the valuation of financial instruments with no ready markets (primarily derivatives and certain investment securities). Management has reviewed these critical accounting policies with the Audit Committee of the Board of Directors.

Certain of the statements below contain forward-looking statements, which are more fully discussed on page 58.

Allowance for Credit Losses

Our allowance for loan losses is an adjustment to the value of our total loan and finance lease portfolio for inherent credit losses related to outstanding balances. We provide line of credit financing to customers to cover short-term and variable needs, the usage of which, particularly for farm supply and grain marketing customers, is influenced by a number of factors, including changing commodity prices and supplies. As a result, we have significant unfunded commitments for which we maintain a separate reserve. This reserve is reported as a liability on the Bank's consolidated balance sheet. We refer to the combined amounts of the allowance for loan losses and the reserve for unfunded commitments as the "allowance for credit losses."

Our allowance for credit losses reflects our assessment of the risk of probable and estimable loss related to outstanding balances and unfunded commitments in our loan and finance lease portfolio. The allowance for credit losses is maintained at a level consistent with this assessment, considering such factors as loss experience, portfolio quality, portfolio concentrations, production conditions, modeling imprecision, our mission, and economic and environmental factors specific to our business segments.

The allowance for credit losses is based on our regular evaluation of our loan and finance lease portfolio. We establish the allowance for credit losses via a process that begins with estimates of probable loss within the portfolio. Our methodology consists of analysis of specific individual credits and evaluation of the remaining portfolio. We evaluate significant individual credit exposures, including adversely classified loans, based upon the borrower's overall financial condition, resources, payment record and projected viability. We also evaluate the prospects for support from any financially viable guarantors and the estimated net realizable value of any collateral. Senior-level committees approve specific credit and reserve-related activities. The Audit and Risk Committees of the Board of Directors review the allowance for credit losses on a quarterly basis, and the Board of Directors approves the year-end allowance for credit losses.

In the fourth quarter of 2014, we enhanced our process for estimating the allowance for credit losses. These enhancements included updating the probability of default and loss given default factors applied to non-impaired commercial loans; using a statistical model to estimate losses related to concentration risk by comparing CoBank's portfolio characteristics to a more typical commercial loan portfolio; and adjusting certain factors used in estimating losses related to unfunded lending commitments to better reflect industry-specific risks. While these changes did not materially impact the overall level of the allowance for credit losses, they did impact the distribution of the allowance for credit losses between our Agribusiness and Rural Infrastructure operating segments.

Our determination of the allowance for credit losses for commercial loans is sensitive to the assigned risk ratings and probabilities of default, assumptions surrounding loss given default and the overall level of exposure within our loan portfolio. Changes in these components underlying this critical accounting estimate could increase or decrease our provision for loan losses. Such a change would increase or decrease net income and the related allowance for loan losses and reserve for unfunded commitments, which could have a material effect on the Bank's financial position and results of operations.

To analyze the impact of assumptions on our provision for loan losses and the related allowance for credit losses, we changed a critical assumption to reflect the impact of deterioration or improvement in loan quality. In the event that 10 percent of loans (calculated on a pro-rata basis across all risk ratings), excluding loans to Associations and guaranteed loans, experienced downgrades or upgrades of one risk rating category, the provision for loan losses and related allowance for credit losses would have increased or decreased by $30.3 million at December 31, 2014.

Valuation of Financial Instruments with No Ready Markets and Other-Than-Temporary Impairment Analyses

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. All of our investment securities and derivative instruments are reported at their estimated fair value on the accompanying consolidated balance sheets. We also estimate the amount of other-than-temporary impairment for certain investment securities.

As discussed in Note 13 to the accompanying consolidated financial statements, we maximize the use of observable inputs when measuring fair value. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs primarily reflect our estimates about market data.

The fair value of 97 percent of our investment securities is determined by a third-party pricing service that uses valuation models to estimate current market prices. For the remainder of our investment securities, market value is calculated internally using third-party models. Inputs and assumptions related to all of these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding non-binding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

The fair value of our derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer or extinguish a derivative liability in active markets among willing participants at the reporting date. Estimated fair value is determined through internal market valuation models. These models use an income approach and incorporate benchmark interest rate curves, volatilities, counterparty credit quality, and other inputs that are observable directly or indirectly in the marketplace. For derivative transactions with dealers, we compare internally calculated derivative valuations to counterparty results. The fair value of collateral assets and liabilities related to derivative contracts is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

Credit risk in our portfolio of investment securities is primarily limited to the 3 percent of securities that do not carry an explicit or implied government guarantee. In instances where the fair value of investment securities is less than the carrying value, we estimate the component of unrealized losses attributable to credit losses. The third-party model we use to estimate these losses requires assumptions related to collateral, including prepayments, defaults and loss severity.

All models used for these financial statement estimates or for independent risk monitoring purposes are periodically reviewed and validated in accordance with our policies.

The degree of management judgment involved in determining the fair value and impairment of a financial instrument is dependent upon the availability of observable market inputs. For financial instruments that trade actively and have observable market prices and inputs, there is minimal subjectivity involved. When observable market prices and inputs are not fully available, management judgment is necessary to estimate fair value and impairment. Changes in market conditions may reduce the availability of market prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. When market data is not available, we use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement and level of impairment, if any. Changes in assumptions could affect these estimates.

At December 31, 2014, approximately 23 percent of total assets, or $24.9 billion, consisted of financial instruments recorded at fair value. Approximately 97 percent of these financial instruments used valuation methodologies involving market-based or market-derived information to measure fair value. The remaining 3 percent of these financial instruments were measured using model-based techniques, consisting of our Farmer Mac MBS, FHA/VA non-wrapped reperformer MBS, and a small portion of agency MBS. At December 31, 2014, less than 1 percent of total liabilities, or $360.0 million, consisted of financial instruments recorded at fair value, the substantial majority of which are valued using methodologies involving market-based or market-derived information. The fair value of investment securities with other-than-temporary impairment losses was $175.0 million at December 31, 2014.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. As such, a substantial majority of our contracts would be excluded from the scope of this new guidance. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. We are reviewing the guidance to determine the effect, if any, on our consolidated financial position, results of operations or cash flows.

Merger Study

On January 1, 2012 AgBank was merged with and into CoBank. The merger was approved by the FCA with various conditions, including a requirement to commission an independent study to determine whether the merger achieved the proposed benefits outlined in the merger disclosure package provided to shareholders in 2011, and how effectively the continuing bank integrated the constituent banks' processes, operations, policies, culture and functions impacted by the merger. The independent study concluded the proposed benefits were substantially achieved and the merger integration process was effective despite modest delays in integrating the technology platforms. The merger resulted in a financially resilient bank with an enhanced capacity to meet the evolving needs of its customers, safely and soundly and throughout economic, agricultural, and rural infrastructure business cycles. Specifically, the study concluded the merged bank has improved asset and earnings diversification, positioning it to withstand economic adversity better than if the individual merging banks remained standalone institutions. This financial strength benefits stockholders, including affiliated Farm Credit Associations, through improved products and services, as well as more consistent and predictable patronage returns. In December 2014, the CoBank Board of Directors received and reviewed the independent study of the merger and accepted the report as submitted by the external consultant. The independent study did not contain any recommendations, and no follow-up actions are required by CoBank with respect to the independent study.

Business Outlook

Notwithstanding our strong financial performance in 2014, we face market conditions that could make the lending and earnings environment less favorable for CoBank in the future. Growth in the U.S. economy remains modest and the global markets are volatile, particularly given heightened geopolitical risks. Long-term interest rates remain low by historical standards and continue to negatively impact the returns on invested capital and investment securities. Monetary policy changes by the Federal Reserve and other central banks around the world create further uncertainty regarding interest rates and asset valuations. Greater liquidity in debt funding markets and a renewed focus by banks on commercial lending has intensified competition across most of the industries we serve. Agricultural commodity prices have declined sharply and remain subject to volatility driven by weather conditions, transportation constraints and other factors. Customers in many of the industries we serve are impacted by unpredictable commodity prices and agricultural yields, fluctuations in the value of the U.S. dollar, weather and ongoing political and regulatory uncertainty. Many of our energy customers are impacted by slow growth in demand in most parts of the country, price volatility of various fuel sources, emerging regulation of carbon emissions and increasing renewable energy and distributed generation sources. Rapidly changing technology and customer demands create uncertainty in the communications industry. These challenges could reduce the credit quality and/or influence the level of loan demand in certain sectors of our loan portfolio.

We continue to focus on delivering the credit and financial services our customers need to thrive and grow, enhancing our enterprise risk management capabilities and maintaining our financial strength. We believe that our strong capital, liquidity and earnings will continue to provide the capacity to serve customers in volatile market conditions and to effectively lower the net cost of borrowing for our customers through consistent and reliable patronage payments. We will continue our disciplined approach to managing risk and will closely monitor asset quality. We will also continue to maintain prudent expense discipline. Nevertheless, we will make the necessary investments in people, processes, systems and activities to strengthen our value proposition, to meet the needs of our customers by enhancing the delivery platforms for our products, and to better fulfill our mission in rural America.

Under the guidance of our Board of Directors and through the focus of a proven executive management team, we expect to achieve continued success by creating mutually beneficial partnerships with other System institutions, increasing market share, maintaining effective access to the agency debt capital markets, educating policy makers and other key stakeholders of the critical mission of the Farm Credit System, optimizing current lending authorities and being open to strategic alliances with financial services and other organizations.

Forward Looking Statements

Certain of the statements contained in this annual report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially from those included in the forward-looking statements that relate to our plans, projections, expectations and intentions. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "estimate," "plan," "project," "may," "will," "should," "would," "could" or similar expressions. Although we believe that the information expressed or implied in such forward-looking statements is reasonable, we can give no assurance that such projections and expectations will be realized or the extent to which a particular plan, projection or expectation may be realized. These forward-looking statements are based on current knowledge and are subject to various risks and uncertainties, including, but not limited to:

- Changes that negatively impact the agricultural, energy, communications, water and leasing industries;
- The level of interest rates and relationships between various interest rate indices and actions taken by the Federal Reserve to manage the monetary policy of the United States;
- Currency fluctuations that impact the value of the U.S. dollar in global markets;
- Adverse food safety and weather events, disease, and other unfavorable conditions that periodically occur and impact agricultural productivity and income;
- Changes in levels of global crop production, exports, usage and inventories;
- Credit performance of the loan portfolio;
- Performance of underlying collateral, including farmland values;
- Loan portfolio growth and seasonal factors;
- Weak U.S. economic conditions;
- Weaknesses in other developed and emerging economies;
- Government policies and political developments in the United States and other countries in which we do business;
- Geopolitical uncertainties that may impact the industries we lend to, or, economic, fiscal or monetary conditions;
- Changes in the U.S. government's support of the Farm Credit System, the agricultural industry, agricultural exports and rural economies;
- Legislative or regulatory actions that affect current and ongoing operations of the banking, financial services, agricultural, energy, communications, water and leasing industries;
- Legislative or regulatory actions that affect our relationships with our employees;
- Regulatory actions, including amendments to, and interpretations of, risk-based capital guidelines;
- Actions taken by the U.S. Congress relative to Government Sponsored Enterprises (GSEs), including the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal Agricultural Mortgage Corporation (Farmer Mac);
- Actions taken by the U.S. government to manage U.S. fiscal policy, including tax reform;
- A decrease in the credit outlook or ratings of U.S. government debt and agency debt, including Systemwide Debt Securities;
- Cybersecurity risks, including a failure or breach of our operational or security systems or infrastructure, that could adversely affect our business, financial performance and reputation;
- Changes in assumptions underlying the valuations of financial instruments;
- Changes in the bases for our estimates underlying the allowance for credit losses;
- Failure of our investment portfolio to perform as expected or deterioration in the credit quality of such investments;
- The resolution of legal proceedings and related matters;
- Environmental-related conditions or laws impacting our lending activities;
- Nonperformance by counterparties under our derivative contracts; and
- Our ability to continue to partner with various System entities in light of ongoing consolidation within the System.

We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Consolidated Statements of Income
CoBank, ACB

($ in Thousands)

Year Ended December 31,	2014	2013	2012
Interest Income			
Loans	$ 1,724,406	$ 1,651,245	$ 1,703,877
Investment Securities	350,205	311,943	321,730
Total Interest Income	2,074,611	1,963,188	2,025,607
Interest Expense	842,844	799,755	787,437
Net Interest Income	1,231,767	1,163,433	1,238,170
(Loan Loss Reversal)/Provision for Loan Losses	(15,000)	-	70,000
Net Interest Income After (Loan Loss Reversal)/Provision for Loan Losses	1,246,767	1,163,433	1,168,170
Noninterest Income			
Net Fee Income	108,584	118,737	116,801
Prepayment Income	25,079	78,217	49,379
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 Income/Loss	-	(648)	(16,028)
Net Other-Than-Temporary Impairment Losses Included in Earnings	-	(2,500)	(17,000)
Other, Net	48,824	34,470	79,319
Total Noninterest Income	124,171	132,085	113,321
Operating Expenses			
Employee Compensation	145,803	148,024	145,999
General and Administrative	24,183	21,517	32,228
Information Technology	25,558	27,020	22,227
Insurance Fund Premium	50,613	36,974	18,349
Travel and Entertainment	18,297	16,019	15,767
Farm Credit System Related	13,935	12,817	13,279
Occupancy and Equipment	8,847	8,330	9,012
Purchased Services	16,564	9,393	7,022
Total Operating Expenses	303,800	280,094	263,883
Income Before Income Taxes	1,067,138	1,015,424	1,017,608
Provision for Income Taxes	162,868	158,969	163,691
Net Income	$ 904,270	$ 856,455	$ 853,917

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

Consolidated Statements of Comprehensive Income

CoBank, ACB

($ in Thousands)

Year Ended December 31,	2014	2013	2012
Net Income	$ 904,270	$ 856,455	$ 853,917
Other Comprehensive Income (Loss), Net of Tax (Note 2):			
Net Change in Unrealized Losses/Gains on Investment Securities Not Other-Than-Temporarily Impaired	44,975	(160,740)	6,060
Net Change in Unrealized Losses/Gains on Other-Than-Temporarily Impaired Investment Securities	49,695	(50,861)	43,118
Net Change in Unrealized Losses/Gains on Interest Rate Swaps and Other Financial Instruments	(31,214)	9,015	(5,301)
Net Pension Adjustment	(31,173)	19,611	(1,135)
Other Comprehensive Income (Loss)	32,283	(182,975)	42,742
Comprehensive Income	$ 936,553	$ 673,480	$ 896,659

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

Consolidated Balance Sheets
CoBank, ACB

($ in Thousands)

As of December 31,		2014		2013		2012
Assets						
Total Loans	$	80,382,497	$	73,603,375	$	71,980,458
Less: Allowance for Loan Losses		481,156		447,126		437,376
Net Loans		79,901,341		73,156,249		71,543,082
Cash		1,855,634		1,335,024		1,253,509
Investment Securities		24,319,943		21,688,489		17,999,191
Accrued Interest Receivable		348,405		369,021		360,839
Interest Rate Swaps and Other Financial Instruments		455,656		674,022		1,005,115
Other Assets		547,422		421,587		316,022
Total Assets	$	107,428,401	$	97,644,392	$	92,477,758
Liabilities						
Bonds and Notes	$	97,580,306	$	88,457,752	$	83,607,119
Subordinated Debt		904,685		904,685		904,685
Accrued Interest Payable		271,070		290,903		295,776
Interest Rate Swaps and Other Financial Instruments		111,620		121,307		157,880
Reserve for Unfunded Commitments		115,680		167,592		157,703
Other Liabilities		1,075,377		997,537		913,451
Total Liabilities		100,058,738		90,939,776		86,036,614
Commitments and Contingent Liabilities (Note 16)						
Shareholders' Equity						
Preferred Stock		1,125,000		961,750		961,750
Common Stock		2,768,546		2,677,485		2,605,933
Unallocated Retained Earnings		3,482,379		3,103,926		2,729,031
Accumulated Other Comprehensive Income (Loss)		(6,262)		(38,545)		144,430
Total Shareholders' Equity		7,369,663		6,704,616		6,441,144
Total Liabilities and Shareholders' Equity	$	107,428,401	$	97,644,392	$	92,477,758

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

Consolidated Statements of Cash Flows
CoBank, ACB

($ in Thousands)

Year Ended December 31,	2014	2013	2012
Cash Flows Provided by Operating Activities			
Net Income	$ 904,270	$ 856,455	$ 853,917
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
(Loan Loss Reversal)/Provision for Loan Losses	(15,000)	-	70,000
Deferred Income Taxes	63,363	56,917	(30,639)
Depreciation and Amortization/Accretion, Net	89,974	63,900	(37,123)
(Gains) Losses on Impaired Investments	(4,206)	2,500	17,000
Decrease (Increase) in Accrued Interest Receivable	20,616	(8,182)	29,992
(Increase) Decrease in Other Assets	(111,507)	(87,526)	117,099
Decrease in Accrued Interest Payable	(19,833)	(4,873)	(40,217)
(Decrease) Increase in Other Liabilities	(7,536)	52,158	(60,253)
Net Gains on Interest Rate Swaps and Other Financial Instruments	(7,193)	(3,777)	(8,513)
Proceeds from Termination of Interest Rate Swaps	1,518	-	-
Purchase of Interest Rate Caps	(28,486)	(22,375)	(15,120)
Other	(2,893)	(2,125)	(12,102)
Net Cash Provided by Operating Activities	883,087	903,072	884,041
Cash Flows Used in Investing Activities			
Net Increase in Loans	(6,852,202)	(1,696,797)	(5,823,665)
Net Cash Acquired in Business Combination	-	-	225,859
Investment Securities:			
Purchases	(8,861,038)	(11,899,833)	(12,276,503)
Proceeds from Maturities and Prepayments	6,209,275	7,930,676	12,190,661
Proceeds from Sales	27,293	-	-
Net Cash Used in Investing Activities	(9,476,672)	(5,665,954)	(5,683,648)
Cash Flows Provided by Financing Activities			
Bonds and Notes Proceeds	72,019,124	109,082,008	63,645,063
Bonds and Notes Retired	(62,750,106)	(104,483,913)	(59,857,913)
Net Increase (Decrease) in Notes Payable and Other Interest-bearing Liabilities	86,099	659,527	(132,556)
Subordinated Debt Retired	-	-	(95,315)
Preferred Stock Issued, Net	295,214	195,555	394,196
Preferred Stock Redemptions	(136,750)	(200,000)	(363,250)
Preferred Stock Dividends Paid	(55,523)	(65,245)	(71,938)
Common Stock Issued	35,755	26,639	27,011
Common Stock Retired	(33,426)	(31,221)	(34,124)
Cash Patronage Distribution Paid	(346,192)	(338,953)	(229,900)
Net Cash Provided by Financing Activities	9,114,195	4,844,397	3,281,274
Net Increase (Decrease) in Cash	520,610	81,515	(1,518,333)
Cash at Beginning of Year	1,335,024	1,253,509	2,771,842
Cash at End of Year	$ 1,855,634	$ 1,335,024	$ 1,253,509

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

Supplemental Consolidated Statements of Cash Flows Information
CoBank, ACB

($ in Thousands)

Year Ended December 31,	2014	2013	2012
Supplemental Noncash Investing and Financing Activities			
Net Change in Accrued Purchases of Securities	$ 48,595	$ (48,595)	$ -
Change in Unrealized Gains/Losses on Investment Securities, Before Taxes	109,870	(261,244)	65,689
Patronage in Common Stock	88,745	76,527	80,472
Issuance of Preferred Stock Related to Merger	-	-	225,000
Issuance of Common Stock Related to Merger	-	-	878,260
Supplemental Noncash Fair Value Changes Related to Hedging Activities			
Decrease in Interest Rate Swaps and Other Financial Instrument Assets	$ 218,366	$ 331,093	$ 43,514
Decrease in Bonds and Notes Related to Hedging Activities	(209,211)	(331,676)	(171,359)
(Decrease) Increase in Interest Rate Swaps and Other Financial Instrument Liabilities	(9,687)	(36,573)	20,935
Supplemental Disclosure of Cash Flow Information			
Interest Paid	$ 857,828	$ 802,315	$ 743,578
Income Taxes Paid	134,133	178,429	93,880

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

Consolidated Statements of Changes in Shareholders' Equity
CoBank, ACB

($ in Thousands)

	Preferred Stock	Common Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2011	$ 700,000	$ 1,654,314	$ 2,439,531	$ 101,688	$ 4,895,533
Comprehensive Income			853,917	42,742	896,659
Preferred Stock:					
Dividends			(72,065)		(72,065)
Issuance in Connection with Merger	225,000				225,000
Other Issuance	400,000		(5,804)		394,196
Redemptions	(363,250)				(363,250)
Common Stock:					
Issuance in Connection with Merger		878,260			878,260
Other Issuances		27,011			27,011
Redemptions		(34,124)			(34,124)
Patronage Distribution:					
Cash			(344,516)		(344,516)
Common Stock		80,472	(80,472)		-
Net Fair Value Adjustments Related to Merger (Note 3)			(61,560)		(61,560)
Balance at December 31, 2012	$ 961,750	$ 2,605,933	$ 2,729,031	$ 144,430	$ 6,441,144
Comprehensive Income (Loss)			856,455	(182,975)	673,480
Preferred Stock:					
Dividends			(62,980)		(62,980)
Issuance	200,000		(4,445)		195,555
Redemption	(200,000)				(200,000)
Common Stock:					
Issuances		26,639			26,639
Redemptions		(31,221)			(31,221)
Patronage Distribution:					
Cash			(338,001)		(338,001)
Common Stock		76,527	(76,527)		-
Other		(393)	393		-
Balance at December 31, 2013	$ 961,750	$ 2,677,485	$ 3,103,926	$ (38,545)	$ 6,704,616
Comprehensive Income			904,270	32,283	936,553
Preferred Stock:					
Dividends			(53,564)		(53,564)
Issuance	300,000		(4,786)		295,214
Redemption	(136,750)				(136,750)
Common Stock:					
Issuances		35,755			35,755
Redemptions		(33,426)			(33,426)
Patronage Distribution:					
Cash			(378,735)		(378,735)
Common Stock		88,745	(88,745)		-
Other		(13)	13		-
Balance at December 31, 2014	$ 1,125,000	$ 2,768,546	$ 3,482,379	$ (6,262)	$ 7,369,663

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

Note 1 – Description of Business and Summary of Significant Accounting Policies

Description of Business

CoBank, ACB (CoBank or the Bank) is one of the four banks of the Farm Credit System (System). CoBank 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 (GSE). We are federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act), and are 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 the primary funding source for certain Associations serving specified geographic regions in the United States (which are regulated financial institutions and members of the System). We collectively refer to these entities as our affiliated Associations.

Our wholly-owned leasing subsidiary, Farm Credit Leasing Services Corporation (FCL), specializes in lease financing and related services for a broad range of equipment, machinery, vehicles and facilities.

In conjunction with other System entities, the Bank jointly owns three service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the FCS Building Association and the Farm Credit Association Captive Insurance Corporation. The Funding Corporation issues, markets and processes Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities) and also provides financial management and reporting services for the combined entities of the System. The FCS Building Association leases premises and equipment to the FCA as required by the Farm Credit Act. The Farm Credit Association Captive Insurance Company is a reciprocal insurer that provides insurance services such as directors and officers liability, fiduciary liability and a bankers bond to System organizations.

We have a minority ownership interest in AgVantis, Inc., which is chartered under the Farm Credit Act as a service organization to provide a range of support and technology services to certain Associations. We also have small equity interests in certain other System banks and Associations as required in connection with the purchase and sale of participation loans.

Copies of CoBank's financial reports are available on request by calling or visiting one of our banking center locations and through our website at www.cobank.com. Copies of financial reports of our affiliated Associations and the System are available on their respective websites.

Merger with U.S. AgBank

On January 1, 2012, U.S. AgBank, FCB (AgBank) merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank. CoBank, FCB was formed in connection with the merger and preserves the statutory tax exemption applicable to Farm Credit Banks. Effective January 1, 2012, CoBank transferred its nontaxable activities to CoBank, FCB and began conducting its Title I lending business (primarily funding of Farm Credit Associations) through CoBank, FCB. Refer to Note 3 for additional information on the merger with AgBank.

Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of CoBank, CoBank, FCB and FCL. All significant intercompany accounts and transactions have been eliminated.

The accompanying consolidated financial statements exclude financial information of our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the "District." We separately publish certain unaudited combined financial information of the CoBank District, including a condensed statement of condition and statement of income, which can be found on our website at www.cobank.com. Such information is not incorporated by reference into, and should not be considered part of, this annual report.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry. These principles require us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates. Significant estimates are discussed in these notes to the consolidated financial statements, as applicable. Certain reclassifications have been made to amounts reported in previous years to conform to the 2014 presentation.

Loans

We report loans, excluding leases, at their principal amount outstanding and accrue interest income based upon the daily principal amount outstanding. For loans purchased at a discount, we amortize unearned income using the straight-line method, which approximates the interest method. We defer loan origination fees and costs, and amortize them over the life of the related loan as an adjustment to yield.

Except as otherwise noted, leases are included with loans in the consolidated financial statements and related notes. We record leases as either direct financing or operating leases. Under direct financing leases, unearned finance income from lease contracts represents the excess of gross lease receivables over the cost of leased equipment, net of estimated residual values. Residual values, which are reviewed at least annually, represent the estimated amount to be received at lease termination from the disposition of leased assets. We amortize net unearned finance income to interest income using the interest method. Under operating leases, property is recorded at cost and depreciated on a straight-line basis over the lease term to an estimated residual or salvage value. We recognize revenue as earned ratably over the term of the operating lease.

In the normal course of business, we manage lending credit exposures by selling or syndicating loans to System entities and other financial institutions. Such transactions include the transfer of participating interests, as defined pursuant to GAAP. We account for these transactions as sales and, accordingly, the assets transferred are not recognized in our consolidated balance sheets.

The accounting for loans obtained in the merger with AgBank is described in Note 3.

Impaired Loans

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loans. Impaired loans include loans that are in nonaccrual status, restructured, or past due 90 days or more and still accruing interest.

We do not accrue interest income on impaired loans unless they are adequately secured and in the process of collection. When interest accruals are suspended, accrued and unpaid interest income is reversed with current year accruals charged to earnings and prior year amounts charged off against the allowance for loan losses.

For nonaccrual loans, we primarily apply cash receipts against the outstanding principal balance. If collectability of the loan balance is fully expected and certain other criteria are met, we recognize interest payments as interest income. We may return such loans to accrual status when the borrower is current, has demonstrated payment performance, collection of future payments is fully expected and there are no unrecovered charge-offs.

Accruing restructured loans are those for which the contractual terms and conditions have been amended or otherwise revised to incorporate certain monetary concessions because the borrower is experiencing financial difficulty. We place the loan in nonaccrual status if the borrower’s ability to meet the revised contractual terms is uncertain.

We establish an impairment reserve if the fair value of assets held for operating leases decreases to below book value and such difference is not recoverable.

Allowance for Loan Losses and Reserve for Unfunded Commitments

Our allowance for loan losses is an adjustment to the value of our total loan and finance lease portfolio for inherent credit losses related to outstanding balances. We also maintain a separate reserve for unfunded commitments which is reported as a liability on the Bank’s consolidated balance sheet. The reserve for unfunded commitments represents an additional reserve for binding commitments to extend credit and for commercial letters of credit. We had $26.8 billion and $364.2 million of commitments to extend credit and commercial letters of credit, respectively, at December 31, 2014. The amount of our allowance for loan losses and reserve for unfunded commitments can fluctuate based on the seasonal nature of borrowings in the agriculture industry, which is impacted by various factors including changing commodity prices and supplies. We refer to the combined amounts of the allowance for loan losses and the reserve for unfunded commitments as the “allowance for credit losses.” At December 31, 2014, our allowance for credit losses totaled $596.8 million, of which $481.1 million related to the allowance for loan losses and $115.7 million related to the reserve for unfunded commitments.

The allowance for credit losses is maintained at a level we consider sufficient to absorb losses inherent in the loan and finance lease portfolio and in unfunded commitments. We base the allowance for credit losses on our regular evaluation of these portfolios.

To determine our allowance for credit losses, we divide our loans and finance leases into two broad categories: those that are impaired and those that are not. A loan or finance lease is impaired when, based on current information and events, it is probable that we will not collect all amounts due under the contractual terms. Impairment of loans and finance leases is measured based on the fair value of the collateral, if the loan or finance lease is collateral dependent, or the present value of expected future cash flows discounted at the effective interest rate of the contract. In limited cases, we base the impairment on observable market prices. Changes in the financial condition of our borrowers and in the general economy will cause these estimates, appraisals and evaluations to change.

For loans and finance leases that are not individually assessed for impairment, we establish an allowance for credit losses for losses that are both probable and estimable as of the balance sheet date. The evaluation of this portion of our portfolio generally considers default rates from industry data, internal risk ratings, loss given default assumptions, historical recovery rates, specific industry conditions, weather conditions, general economic and political conditions, and changes in the character, composition and performance of the portfolio, among other factors. We also consider overall portfolio indicators, including trends in internally risk-rated exposures, classified exposures, and historical charge-offs and recoveries. Additionally, we consider borrower, industry, geographic and portfolio concentrations, including current developments within operating segments, and modeling imprecision. Changes in these factors, or our assumptions and estimates thereof, could result in a change in the allowance and could have a direct and material impact on the provision for loan losses and our results of operations. The total allowance for credit losses is available to absorb probable and estimable credit losses within our entire portfolio.

We increase or decrease the allowance for credit losses by recording a provision or reversal for loan losses in the statement of income. We record loan losses against the allowance for loan losses when management determines that any portion of the loan or finance lease is uncollectible. We add subsequent recoveries, if any, to the allowance for loan losses. Transfers between the allowance for loan losses and the reserve for unfunded commitments can occur in conjunction with funding a seasonal line of credit or other loan and decreasing a related unfunded commitment or, conversely, receiving a loan payment and increasing a related unfunded commitment. Newly-executed loan commitments will also increase this liability.

We also assess the credit risk associated with off-balance sheet loan commitments and letters of credit and determine the appropriate level of reserve for unfunded commitments that should be recorded.

In the fourth quarter of 2014, we enhanced our process for estimating the allowance for credit losses. These enhancements included updating the probability of default and loss given default factors applied to non-impaired commercial loans; using a statistical model to estimate losses related to concentration risk by comparing CoBank's portfolio characteristics to a more typical commercial loan portfolio; and adjusting certain factors used in estimating losses related to unfunded lending commitments to better reflect industry specific risks. While these changes did not materially impact the overall level of the allowance for credit losses, they did impact the distribution of the allowance for credit losses between our Agribusiness and Rural Infrastructure operating segments.

Cash

For purposes of these financial statements, cash represents deposits at banks which are used for operating or liquidity purposes.

Investment Securities

We classify investment securities as available-for-sale and report them at their estimated fair value. We have no trading or held-to-maturity securities. We amortize or accrete purchased premiums and discounts using the constant yield method, which approximates the interest method, over the terms of the respective securities. We report unrealized gains and losses, net of applicable income taxes and credit losses, in the accumulated other comprehensive income (loss) component of shareholders' equity on the consolidated balance sheets. We use the specific identification method for determining cost in computing realized gains and losses on sales of investment securities.

We evaluate investments in a loss position to determine if such a loss is other-than-temporary. If losses are deemed to be other-than-temporary, we record the portion related to credit losses in earnings and the portion related to all other factors in other comprehensive income (loss). For additional information, refer to Note 5.

The accounting for investment securities obtained in the merger with AgBank is described in Note 3.

Premises and Equipment

We carry premises and equipment at cost less accumulated depreciation and amortization. We provide for depreciation and amortization on the straight-line method over the estimated useful lives of the assets. We record gains and losses on dispositions in current operating results. We record maintenance and repairs to operating expenses when incurred and capitalize improvements.

We capitalize leased property and equipment meeting certain criteria and depreciate such assets using the straight-line method over the terms of the respective leases.

As part of the January 1, 2012 merger with AgBank, we acquired an office building located in Wichita, Kansas. Effective as of December 31, 2013, we classified the building as an asset held for sale. We wrote the value of the building down to its then estimated fair value of $8.5 million and recorded a loss of $1.2 million, which is included in "Other Noninterest Income" in the consolidated statement of income for the year ended December 31, 2013. In 2014, we recorded an additional loss of $1.8 million to reflect the estimated fair value of $6.7 million for the building as of December 31, 2014.

CoBank has entered into a build-to-suit arrangement for the construction of a new corporate headquarters in Greenwood Village, Colorado. Upon completion of the building, which is anticipated in late 2015, a long-term lease, with CoBank as the lessee, will commence. Rental payments associated with the lease are anticipated to total approximately $103.6 million over a 15-year term. As of December 31, 2014, we had advanced $27.9 million to fund the construction of the building, which is classified as an "Other Asset" in the accompanying consolidated balance sheet.

Mineral Rights

As a result of our merger with AgBank, we own mineral rights in Arizona, California, Colorado, Kansas, Nevada, New Mexico, Oklahoma and Utah. As required by the merger agreement, the net earnings from these mineral rights are passed on directly to certain Associations formerly affiliated with AgBank. Mineral income is primarily generated from royalties on natural gas and crude oil production, leasing bonuses and rental payments. This income may vary from year to year based on fluctuations in energy demand, prices and production. In 2014, net mineral income passed directly to these Associations totaled $17.2 million compared to $15.5 million in 2013 and $13.7 million in 2012. As a result of the agreement to pass the net earnings from mineral rights to certain Associations, these mineral rights have no carrying value in our consolidated balance sheet.

Derivative Financial Instruments and Hedging Activities

We record derivatives as assets or liabilities at their fair value on the consolidated balance sheets. We record changes in the fair value of a derivative in current period earnings or accumulated other comprehensive income (loss), depending on the use of the derivative and whether it qualifies for fair value or cash flow hedge accounting. For derivatives not designated as hedging instruments, we record the related change in fair value in current period earnings.

We formally document all relationships between derivatives and hedged items, as well as risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to assets and liabilities on the consolidated balance sheet or to forecasted transactions.

We also formally assess (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives are expected to remain effective in future periods. We typically use regression analyses or other statistical analyses to assess the effectiveness of hedges. Hedge accounting is discontinued prospectively if: (i) it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (ii) the derivative expires or is sold, terminated or exercised; or (iii) management determines that the fair value or cash flow hedge designation is no longer appropriate.

If we determine that a derivative no longer qualifies as an effective fair value or cash flow hedge, or if management removes the hedge designation, we continue to carry the derivative on the balance sheet at fair value, with changes in fair value recognized in current period earnings as part of noninterest income. For discontinued cash flow hedges, we amortize the component of other comprehensive income (loss) to net interest income over the original term of the hedge contract. For additional information, refer to Note 12.

Fair Value Measurements

Our fair value measurements represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability (an exit price) in active markets among willing participants at the reporting date. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The classification of assets and liabilities measured at fair value within the disclosure hierarchy is based on three levels of inputs to the fair value measurement process, which are described in Note 13.

Fair Value of Guarantor's Obligations

We provide standby letters of credit, which are irrevocable undertakings to guarantee payment of a specified financial obligation. As a guarantor, we recognize a liability for the fair value of the obligation undertaken in issuing the guarantee. Our liability for the fair value of these obligations is determined by applying a risk-adjusted spread percentage to those obligations.

Employee Benefit Plans

Our employee benefit plans are described in Note 9. The net expense for employee benefit plans is recorded as employee compensation expense. For defined benefit pension plans, we use the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

The anticipated costs of benefits related to postretirement health care and life insurance are accrued during the period of the employees' active service and are classified as employee compensation expense.

Income Taxes

CoBank operates as a non-exempt cooperative, which qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, amounts distributed as qualified patronage distributions to borrowers in the form of cash or stock may be deducted from taxable income. We base provisions for income taxes for financial reporting purposes only on those taxable earnings that will not be distributed as qualified patronage distributions.

CoBank, FCB is a wholly-owned subsidiary of CoBank. Beginning in 2012, substantially all of the Bank's tax-exempt activities reside in CoBank, FCB.

We record deferred tax assets and liabilities for temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases except for our nontaxable entity. We measure these deferred amounts using the current marginal statutory tax rate on the taxable portion of our business activities. Calculating deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings. We expect to fully realize deferred tax assets based on the projected level of future taxable income and other factors.

See Note 10 for further information regarding income taxes.

Subsequent Events

We have evaluated subsequent events through March 11, 2015, which is the date the financial statements were issued.

Note 2 – Recently Issued or Adopted Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued guidance requiring an entity to measure obligations resulting from joint and several liability arrangements as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. For public entities, the new guidance is effective for fiscal years beginning after December 15, 2013 (and interim reporting periods within those years). For nonpublic entities, the guidance is effective for the first annual period ending on or after December 15, 2014, and interim and annual periods thereafter.

As described in Note 6 to the consolidated financial statements, all Systemwide Debt Securities are the joint and several liabilities of the System banks. CoBank adopted the new standard in 2014 and accounts for its joint and several liabilities for all Systemwide Debt Securities as a contingent liability. We do not record a liability unless it is probable that we will be required to pay an amount and that amount can be reasonably estimated. Given the current financial condition of System banks, the adoption of this new guidance did not have an effect on our consolidated financial position, results of operations or cash flows.

In December 2011 and in January 2013, the FASB issued guidance creating new disclosure requirements about the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, with retrospective application required. We adopted the new requirements in the first quarter of 2013. The adoption did not impact our consolidated financial position, results of operations or cash flows. We disclose the gross amounts of our derivative exposures and related cash collateral balances in our consolidated balance sheet. Adoption of this guidance had a minimal impact on our disclosures, which are contained in Note 12.

In February 2013, the FASB finalized guidance requiring entities to disclose certain information about changes in accumulated other comprehensive income. The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for non-public entities for annual periods beginning after December 15, 2013. We adopted these provisions in 2013. Refer to Note 8 for disclosure of amounts reclassified out of accumulated other comprehensive income and the effects of any reclassifications on net income. The adoption of these provisions did not impact our consolidated financial position, results of operations or cash flows.

Note 3 – Merger with U.S. AgBank, FCB

Effective January 1, 2012, AgBank was merged with and into CoBank. As a result of the merger, the number of our affiliated Associations increased from four to 29 as of the merger date, and now includes Associations in 23 states serving the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. (The total number of our affiliated Associations has declined to 26 subsequent to the merger with AgBank as a result of Association mergers.) The effects of the merger with AgBank are included in our results of operations, balance sheet, average balances and related metrics beginning in 2012.

On January 1, 2012, in connection with the merger, each share of outstanding common stock of AgBank was exchanged for one-twentieth of a share of common stock of CoBank. In addition, AgBank's preferred stock was exchanged for a new series of CoBank preferred stock with substantially the same terms and conditions. These transactions are further explained in Note 8.

The merger was accounted for under the acquisition method of accounting, as prescribed by Accounting Standards Codification (ASC) 805, Business Combinations (ASC 805). Pursuant to these rules, CoBank acquired the assets and assumed the liabilities of AgBank at their acquisition-date fair value. The fair value of the net identifiable assets acquired ($1.04 billion) was substantially equal to the fair value of the equity interests exchanged in the merger. As a result, no goodwill was recorded. In addition, no material amounts of intangible assets were acquired. A net decrease of $61.6 million was recorded in retained earnings related to the merger.

The following condensed statement of net assets acquired reflects the fair value assigned to AgBank's net assets as of the acquisition date. There were no subsequent changes to these fair values.

($ in Millions)

Condensed Statement of Net Assets Acquired

		January 1, 2012
Assets		
Net Loans	$	20,200
Cash		226
Investment Securities		4,832
Accrued Interest Receivable		113
Interest Rate Swaps and Other Financial Instruments		85
Other Assets		100
Total Assets	$	25,556
Liabilities		
Bonds and Notes	$	24,306
Accrued Interest Payable		81
Other Liabilities		127
Total Liabilities	$	24,514
Fair Value of Net Assets Acquired	$	1,042

Fair value adjustments to AgBank's assets and liabilities included a $553.0 million increase to loans and a $700.4 million increase to bonds and notes to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences are being accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis, with the majority being recognized in diminishing amounts in the first five years following the merger. We expect to collect the substantial majority of the contractual amounts of the acquired loans, which totaled $19.7 billion at January 1, 2012.

In connection with the merger, we acquired investment securities with a contractual outstanding principal and interest balance of $5.2 billion. We recorded these investments on our consolidated balance sheet at an estimated fair value of $4.8 billion, consisting of U.S. Treasury and agency debt securities of $643.9 million, U.S. agency mortgage-backed securities (MBS) of $3.2 billion, Federal Agricultural Mortgage Corporation (Farmer Mac) MBS of $252.9 million, FHA/VA non-wrapped reperformer MBS (i.e., investment securities where residential mortgage loans serving as collateral were cured after a default) of $554.1 million, non-agency MBS of $132.7 million, and asset-backed securities (ABS) of $58.5 million.

We determined that certain of the acquired FHA/VA non-wrapped reperformer MBS, non-agency MBS and ABS had evidence of credit quality deterioration such that it is probable that we will be unable to collect all contractually required payments. These investments, which we refer to as acquired credit-impaired investment securities, are subject to the provisions of ASC 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, pursuant to which the difference between contractually required payments and the cash flows expected to be collected at acquisition is considered a "non-accretable amount." This difference is neither accreted into income nor recorded on our consolidated balance sheet. The excess of cash flows expected to be collected over fair value is referred to as "accretable amounts" and is recognized in interest income over the remaining life of the investment using the effective yield method, with the majority being recognized in diminishing amounts in the first five years following the merger. The following table displays information related to the acquired credit-impaired investment securities.

($ in Millions)

Information about Acquired Credit-Impaired Investment Securities as of January 1, 2012

Contractually Required Payments Including Interest	$	1,104
Non-accretable Amount		(103)
Cash Flows Expected to be Collected*		1,001
Accretable Amounts		(261)
Fair Value of Acquired Credit-Impaired Investment Securities	$	740

* Represents the undiscounted expected principal and interest cash flows

At each reporting period we evaluate estimated cash flows expected to be collected from acquired credit-impaired investment securities. Increases in expected cash flows will generally result in an increase in interest income over the remaining life of the investment. Decreases in expected cash flows due to credit deterioration will generally result in other-than-temporary impairment charges recognized in earnings. During 2013 and 2012, we recorded $1.5 million and $7.0 million, respectively, in impairment losses related to certain securities that were among those identified as credit-impaired investment securities acquired as part of the AgBank merger.

($ in Millions)

Changes in Accretable Amounts of Acquired Credit-Impaired Investment Securities

	2014	2013	2012
Balance at January 1	$ (165)	$ (210)	$ (261)
Interest Recognized in Earnings	32	43	44
Reclassifications from Nonaccretable Amount for Investments with Improvements in Expected Cash Flows	-	-	-
Total Other-Than-Temporary Impairment Losses Included in Earnings	-	2	7
Balance at December 31	$ (133)	$ (165)	$ (210)

The carrying amount of acquired credit-impaired investment securities was $509.9 million, $585.9 million and $678.0 million at December 31, 2014, 2013 and 2012, respectively.

Note 4 – Loans, Loan Quality and Allowance for Credit Losses

Loans Outstanding

Loans outstanding by operating segment are shown below.

($ in Millions)

December 31,	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
Agribusiness	$ 24,359	30 %	$ 21,182	29 %	$ 21,394	30 %
Strategic Relationships	39,919	50	37,897	51	36,707	51
Rural Infrastructure	16,104	20	14,524	20	13,879	19
Total	$ 80,382	100 %	$ 73,603	100 %	$ 71,980	100 %
Loans Purchased	$ 13,493		$ 11,113		$ 9,574	
Loans Sold	14,274		11,791		10,915	

We have loans outstanding in all 50 states as well as 30 foreign countries and a limited number of U.S. territories. Our agricultural export finance loan portfolio, which is included in our Agribusiness operating segment, reflects concentration in U.S. government-sponsored trade financing programs which guarantee payment in the event of default by the borrower of generally 98 percent of loan principal outstanding and varying percentages of interest due. Of the $4.2 billion in agricultural export finance loans outstanding as of December 31, 2014, 44 percent were guaranteed by the U.S. government under one of these trade financing programs, primarily the General Sales Manager program of the U.S. Department of Agriculture's Commodity Credit Corporation.

We make loans to customers in various industries. For the years ended December 31, 2014, 2013 and 2012, total loans outstanding (excluding direct wholesale loans to Associations) did not exceed 10% for any specific industry.

Loans to our affiliated Associations represented 45 percent of total loans outstanding at December 31, 2014, and 46 percent of total loans outstanding at both December 31, 2013 and 2012. As of December 31, 2014, our affiliated Associations provided financing and other financial services to farmer-owners for rural real estate, equipment, working capital, agricultural production and operating purposes in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. Participations in loans made by other System banks to their affiliated Associations represented 5 percent of our total loans outstanding at December 31, 2014, 2013 and 2012.

Unamortized loan premiums and discounts, and unamortized deferred loan fees and costs totaled $55.8 million, $57.3 million and $63.2 million as of December 31, 2014, 2013 and 2012, respectively.

Allowance for Credit Losses

The following tables present the changes in the components of our allowance for credit losses and the details of the ending balances. The allowance for credit losses includes the allowance for loan losses and the reserve for unfunded commitments. The elements of our allowance for credit losses are presented by operating segment.

	Agribusiness	Strategic Relationships(1)	Rural Infrastructure	Total
December 31, 2014				
Allowance for Loan Losses				
Beginning Balance	$ 284,967	$ -	$ 162,159	$ 447,126
Charge-offs	(1,599)	-	(4,618)	(6,217)
Recoveries	2,040	-	1,295	3,335
Provision (Reversal) for Loan Losses	37,000	-	(52,000)	(15,000)
Transfers (to) from Reserve for Unfunded Commitments(2)	7,225	-	44,687	51,912
Ending Balance	329,633	-	151,523	481,156
Reserve for Unfunded Commitments				
Beginning Balance	111,897	-	55,695	167,592
Transfers (to) from Allowance for Loan Losses(2)	(7,225)	-	(44,687)	(51,912)
Ending Balance	104,672	-	11,008	115,680
Allowance for Credit Losses	$ 434,305	$ -	$ 162,531	$ 596,836
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	$ 13,100	$ -	$ 18,462	$ 31,562
Collectively Evaluated for Impairment	421,205	-	144,069	565,274
Total	$ 434,305	$ -	$ 162,531	$ 596,836
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 48,905	$ 40,014,387	$ 81,436	$ 40,144,728
Collectively Evaluated for Impairment	24,367,561	-	16,088,110	40,455,671
Total	$ 24,416,466	$ 40,014,387	$ 16,169,546	$ 80,600,399
December 31, 2013				
Allowance for Loan Losses				
Beginning Balance	$ 277,595	$ -	$ 159,781	$ 437,376
Charge-offs	(1,622)	-	(26)	(1,648)
Recoveries	20,199	-	1,088	21,287
Provision for Loan Losses	(6,000)	-	6,000	-
Transfers (to) from Reserve for Unfunded Commitments(2)	(5,205)	-	(4,684)	(9,889)
Ending Balance	284,967	-	162,159	447,126
Reserve for Unfunded Commitments				
Beginning Balance	106,692	-	51,011	157,703
Transfers (to) from Allowance for Loan Losses(2)	5,205	-	4,684	9,889
Ending Balance	111,897	-	55,695	167,592
Allowance for Credit Losses	$ 396,864	$ -	$ 217,854	$ 614,718
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	$ 8,550	$ -	$ 46,500	$ 55,050
Collectively Evaluated for Impairment	388,314	-	171,354	559,668
Total	$ 396,864	$ -	$ 217,854	$ 614,718
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 53,249	$ 38,015,890	$ 94,600	$ 38,163,739
Collectively Evaluated for Impairment	21,178,897	-	14,492,660	35,671,557
Total	$ 21,232,146	$ 38,015,890	$ 14,587,260	$ 73,835,296

	Agribusiness	Strategic Relationships[1]	Rural Infrastructure	Total
December 31, 2012				
Allowance for Loan Losses				
Beginning Balance	$ 269,317	$ -	$ 118,739	$ 388,056
Charge-offs	(29,069)	-	(1,556)	(30,625)
Recoveries	11,022	-	2,707	13,729
Provision for Loan Losses	16,550	-	53,450	70,000
Transfers (to) from Reserve for Unfunded Commitments[2]	9,775	-	(13,559)	(3,784)
Ending Balance	277,595	-	159,781	437,376
Reserve for Unfunded Commitments				
Beginning Balance	116,467	-	37,452	153,919
Transfers (to) from Allowance for Loan Losses[2]	(9,775)	-	13,559	3,784
Ending Balance	106,692	-	51,011	157,703
Allowance for Credit Losses	$ 384,287	$ -	$ 210,792	$ 595,079
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	$ 10,656	$ -	$ 50,500	$ 61,156
Collectively Evaluated for Impairment	373,631	-	160,292	533,923
Total	$ 384,287	$ -	$ 210,792	$ 595,079
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 70,476	$ 36,831,056	$ 99,731	$ 37,001,263
Collectively Evaluated for Impairment	21,381,372	-	13,837,987	35,219,359
Total	$ 21,451,848	$ 36,831,056	$ 13,937,718	$ 72,220,622

[1] As a result of our strong collateral position with respect to loans to Associations, along with the earnings, capital and loss reserves of Associations that serve as an additional layer of protection against losses, no allowance for credit losses is recorded in our Strategic Relationships operating segment.

[2] These transfers generally occur as a result of advances on or repayments of seasonal lines of credit or other loans.

The information in the tables under the Credit Quality, Aging Analysis and Impaired Loans captions is presented by operating segment, with guaranteed and non-guaranteed loans in our Agribusiness segment separately identified.

Credit Quality

The following tables present our loans and related accrued interest classified, by management, pursuant to our regulator's Uniform Loan Classification System.

December 31, 2014	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
Acceptable	$ 21,593,972	$ 1,827,260	$ 39,123,062	$ 15,796,112	$ 78,340,406
Special Mention	614,017	-	-	163,413	777,430
Substandard	379,622	-	891,325 (1)	180,848	1,451,795
Doubtful	1,595	-	-	29,173	30,768
Loss	-	-	-	-	-
Total	$ 22,589,206	$ 1,827,260	$ 40,014,387	$ 16,169,546	$ 80,600,399
December 31, 2013					
Acceptable	$ 17,789,946	$ 2,604,643	$ 38,015,890	$ 14,267,187	$ 72,677,666
Special Mention	508,526	-	-	121,695	630,221
Substandard	318,719	-	-	169,286	488,005
Doubtful	10,312	-	-	29,092	39,404
Loss	-	-	-	-	-
Total	$ 18,627,503	$ 2,604,643	$ 38,015,890	$ 14,587,260	$ 73,835,296
December 31, 2012					
Acceptable	$ 16,786,810	$ 3,512,387	$ 36,831,056	$ 13,579,205	$ 70,709,458
Special Mention	618,149	4	-	160,913	779,066
Substandard	520,928	-	-	150,528	671,456
Doubtful	13,570	-	-	47,072	60,642
Loss	-	-	-	-	-
Total	$ 17,939,457	$ 3,512,391	$ 36,831,056	$ 13,937,718	$ 72,220,622

(1) Represents the total wholesale loan balance to an affiliated Association who experienced a sudden significant increase in delinquencies in a discrete portion of its retail loan portfolio during the third quarter 2014. Accordingly, we have downgraded this loan to Substandard at December 31, 2014.

Aging Analysis

The following tables present an aging of past due loans and related accrued interest.

December 31, 2014	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
30-89 Days Past Due	$ 14,459	$ -	$ -	$ -	$ 14,459
90 Days Past Due	3,016	-	-	22,176	25,192
Total Past Due	$ 17,475	$ -	$ -	$ 22,176	$ 39,651
Current	22,571,731	1,827,260	40,014,387	16,147,370	80,560,748
Total	$ 22,589,206	$ 1,827,260	$ 40,014,387	$ 16,169,546	$ 80,600,399
Accruing Loans 90 Days or More Past Due	$ 239	$ -	$ -	$ -	$ 239
December 31, 2013					
30-89 Days Past Due	$ 12,276	$ -	$ -	$ -	$ 12,276
90 Days Past Due	22,757	-	-	53,425	76,182
Total Past Due	$ 35,033	$ -	$ -	$ 53,425	$ 88,458
Current	18,592,470	2,604,643	38,015,890	14,533,835	73,746,838
Total	$ 18,627,503	$ 2,604,643	$ 38,015,890	$ 14,587,260	$ 73,835,296
Accruing Loans 90 Days or More Past Due	$ 972	$ -	$ -	$ -	$ 972

December 31, 2012	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
30-89 Days Past Due	$ 7,609	$ -	$ -	$ -	$ 7,609
90 Days Past Due	21,608	-	-	5,296	26,904
Total Past Due	$ 29,217	$ -	$ -	$ 5,296	$ 34,513
Current	17,910,240	3,512,391	36,831,056	13,932,422	72,186,109
Total	$ 17,939,457	$ 3,512,391	$ 36,831,056	$ 13,937,718	$ 72,220,622
Accruing Loans 90 Days or More Past Due	$ 2,513	$ -	$ -	$ -	$ 2,513

Impaired Loans

Impaired loan information is shown in the following tables. Loans past due 90 days or more and still accruing interest are adequately secured and in the process of collection.

December 31, 2014	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[1]	Strategic Relationships[1]	Rural Infrastructure	Total
Nonaccrual Loans[2]	$ 48,904	$ -	$ -	$ 81,436	$ 130,340
Accruing Loans 90 Days or More Past Due	239	-	-	-	239
Accruing Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 49,143	$ -	$ -	$ 81,436	$ 130,579
December 31, 2013					
Nonaccrual Loans[2]	$ 53,249	$ -	$ -	$ 94,600	$ 147,849
Accruing Loans 90 Days or More Past Due	972	-	-	-	972
Accruing Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 54,221	$ -	$ -	$ 94,600	$ 148,821
December 31, 2012					
Nonaccrual Loans[2]	$ 70,476	$ -	$ -	$ 99,731	$ 170,207
Accruing Loans 90 Days or More Past Due	2,513	-	-	-	2,513
Accruing Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 72,989	$ -	$ -	$ 99,731	$ 172,720

(1) There were no impaired loans in our Agribusiness Guaranteed or Strategic Relationships portfolios for any of the periods presented.

(2) Included in nonaccrual loans at December 31, 2014, 2013 and 2012 are $61.9 million, $66.3 million and $24.7 million, respectively, of loans that qualify as troubled debt restructurings.

The following tables present information on impaired loans and related amounts in the allowance for loan losses.

December 31, 2014	Agribusiness Non-Guaranteed	Agribusiness Guaranteed(1)	Strategic Relationships(1)	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 14,080	$ -	$ -	$ 47,064	$ 61,144
Unpaid Principal	21,267	-	-	54,397	75,664
Average Balance	16,019	-	-	48,725	64,744
Interest Income Recognized	3,956	-	-	2,317	6,273
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	35,063	-	-	34,372	69,435
Unpaid Principal	41,704	-	-	40,740	82,444
Allowance for Loan Losses	13,100	-	-	18,462	31,562
Average Balance	25,976	-	-	24,703	50,679
Interest Income Recognized	-	-	-	-	-
Total Impaired Loans					
Carrying Amount	49,143	-	-	81,436	130,579
Unpaid Principal	62,971	-	-	95,137	158,108
Allowance for Loan Losses	13,100	-	-	18,462	31,562
Average Balance	41,995	-	-	73,428	115,423
Interest Income Recognized	3,956	-	-	2,317	6,273
December 31, 2013					
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 33,173	$ -	$ -	$ 9,427	$ 42,600
Unpaid Principal	44,670	-	-	10,889	55,559
Average Balance	50,530	-	-	10,832	61,362
Interest Income Recognized	2,236	-	-	2,477	4,713
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	21,048	-	-	85,173	106,221
Unpaid Principal	24,891	-	-	90,858	115,749
Allowance for Loan Losses	8,550	-	-	28,700	37,250
Average Balance	20,143	-	-	77,457	97,600
Interest Income Recognized	-	-	-	-	-
Total Impaired Loans					
Carrying Amount	54,221	-	-	94,600	148,821
Unpaid Principal	69,561	-	-	101,747	171,308
Allowance for Loan Losses	8,550	-	-	28,700	37,250
Average Balance	70,673	-	-	88,289	158,962
Interest Income Recognized	2,236	-	-	2,477	4,713

December 31, 2012	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[(1)]	Strategic Relationships[(1)]	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 52,902	$ -	$ -	$ 6,907	$ 59,809
Unpaid Principal	97,720	-	-	15,744	113,464
Average Balance	56,076	-	-	24,333	80,409
Interest Income Recognized	1,674	-	-	1,702	3,376
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	20,087	-	-	92,824	112,911
Unpaid Principal	23,058	-	-	96,747	119,805
Allowance for Loan Losses	10,656	-	-	32,700	43,356
Average Balance	15,528	-	-	37,584	53,112
Interest Income Recognized	4,351	-	-	-	4,351
Total Impaired Loans					
Carrying Amount	72,989	-	-	99,731	172,720
Unpaid Principal	120,778	-	-	112,491	233,269
Allowance for Loan Losses	10,656	-	-	32,700	43,356
Average Balance	71,604	-	-	61,917	133,521
Interest Income Recognized	6,025	-	-	1,702	7,727

(1) There were no impaired loans in our Agribusiness Guaranteed or Strategic Relationships portfolios for any of the periods presented.

Interest income forgone on nonaccrual and accruing restructured loans is as follows:

Year Ended December 31, 2014	
Interest Income Which Would Have Been Recognized Per Original Terms	$ 10,962
Less: Interest Income Recognized	(6,273)
Forgone Interest Income	$ 4,689

Commitments on Impaired Loans

There were $9.2 million in commitments available to be drawn by borrowers whose loans were classified as impaired at December 31, 2014.

Troubled Debt Restructurings

Troubled debt restructurings (TDRs) are loans in which we have granted a concession because the borrower is experiencing financial difficulty. Concessions may include payment deferrals, term extensions and/or interest rate reductions. As of December 31, 2014, all TDRs are classified as nonaccrual loans. TDRs classified as nonaccrual loans, along with other impaired loans, may be returned to accruing status upon meeting specific criteria, as more fully described in Note 1. A summary of the number of modifications that qualified as TDRs and the dollar amounts before and after modification is as follows:

December 31,	2014	2013	2012
Number of Loan Modifications that Qualified as a TDR	-	1	1
Total Loan Amount Before Modification	$ -	$ 52,566	$ 25,515
Total Loan Amount After Modification	-	52,566	25,515

Subsequent to their restructuring, there have been no payment defaults on our TDR-classified loans.

Leases Outstanding

A summary of the components of FCL's net investment in direct financing leases and property on operating leases is as follows:

($ in Millions)

December 31,	2014	2013	2012
Net Investment in Direct Financing Leases:			
Minimum Lease Payments to be Received, Net of Participation Interests	$ 1,744	$ 1,549	$ 1,382
Estimated Residual Values of Leased Property (Unguaranteed)	641	489	384
Initial Direct Costs	21	16	12
Less: Unearned Finance Income	(251)	(211)	(184)
Net Investment in Direct Financing Leases	$ 2,155	$ 1,843	$ 1,594
Property on Operating Leases:			
Vehicles and Other Equipment	$ 1,038	$ 812	$ 793
Initial Direct Costs	5	3	3
Total	1,043	815	796
Less: Accumulated Depreciation	(362)	(343)	(327)
Net Property on Operating Leases	$ 681	$ 472	$ 469
Year Ended December 31,	**2014**	**2013**	**2012**
Depreciation Expense	$ 158	$ 147	$ 136

At December 31, 2014, gross minimum lease payments to be received for direct financing leases and minimum future rental revenue for noncancelable operating leases are as follows:

($ in Millions)

Year	Minimum Lease Payments	Minimum Future Rental Revenue
2015	$ 498	$ 100
2016	416	67
2017	314	32
2018	211	17
2019	109	-
Subsequent Years	194	1

Note 5 – Investment Securities

A summary of investment securities available-for-sale follows. See Note 13 for disclosures about estimated fair values of financial instruments, including investments.

($ in Millions)

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Debt	$ 7,587	$ 39	$ (1)	$ 7,625
U.S. Agency Debt	5,649	61	(30)	5,680
Residential Mortgage-Backed:				
Ginnie Mae	1,460	12	-	1,472
U.S. Agency	7,581	67	(61)	7,587
FHA/VA Non-Wrapped Reperformer	403	2	(14)	391
Non-Agency	149	18	(1)	166
Commercial Mortgage-Backed:				
U.S. Agency	1,007	1	(1)	1,007
Agricultural Mortgage-Backed:				
Farmer Mac	153	-	(3)	150
Asset-Backed	71	26	(1)	96
Corporate Bonds	145	1	-	146
Total	$ 24,205	$ 227	$ (112)	$ 24,320

($ in Millions)

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Debt	$ 5,501	$ 3	$ -	$ 5,504
U.S. Agency Debt	4,458	55	(54)	4,459
Residential Mortgage-Backed:				
Ginnie Mae	2,101	22	-	2,123
U.S. Agency	8,554	72	(131)	8,495
FHA/VA Non-Wrapped Reperformer	443	6	(9)	440
Non-Agency	201	21	(1)	221
Agricultural Mortgage-Backed:				
Farmer Mac	182	-	(3)	179
Asset-Backed	127	27	(2)	152
Corporate Bonds	116	-	(1)	115
Total	$ 21,683	$ 206	$ (201)	$ 21,688

($ in Millions)

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Debt	$ 2,807	$ 1	$ -	$ 2,808
U.S. Agency Debt	3,573	111	(1)	3,683
Residential Mortgage-Backed:				
Ginnie Mae	3,217	43	-	3,260
U.S. Agency	7,020	79	(6)	7,093
FHA/VA Non-Wrapped Reperformer	507	5	(6)	506
Non-Agency	271	26	(5)	292
Agricultural Mortgage-Backed:				
Farmer Mac	217	-	(2)	215
Asset-Backed	97	27	(3)	121
Corporate Bonds	21	-	-	21
Total	$ 17,730	$ 292	$ (23)	$ 17,999

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at December 31, 2014 is as follows:

U.S. Treasury Debt Securities

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ 4,142	$ 4,143	0.21 %
One to Five Years	1,610	1,618	1.18
Five to Ten Years	1,835	1,864	2.13
After Ten Years	-	-	-
Total	$ 7,587	$ 7,625	0.88

U.S. Agency Debt Securities

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	3,588	3,635	1.58
Five to Ten Years	1,684	1,669	1.34
After Ten Years	377	376	0.55
Total	$ 5,649	$ 5,680	1.44

Ginnie Mae Residential Mortgage-Backed Securities

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	-	-	-
Five to Ten Years	24	25	3.29
After Ten Years	1,436	1,447	1.28
Total	$ 1,460	$ 1,472	1.32

U.S. Agency Residential Mortgage-Backed Securities

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	48	48	1.71
Five to Ten Years	46	47	1.49
After Ten Years	7,487	7,492	1.73
Total	$ 7,581	$ 7,587	1.73

FHA/VA Non-Wrapped Reperformer Residential Mortgage-Backed Securities

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	-	-	-
Five to Ten Years	-	-	-
After Ten Years	403	391	5.08
Total	$ 403	$ 391	5.08

Non-Agency Residential Mortgage-Backed Securities

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	5	5	0.62
Five to Ten Years	-	-	-
After Ten Years	144	161	5.84
Total	$ 149	$ 166	5.68

U.S. Agency Commercial Mortgage-Backed Securities

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	116	116	1.64
Five to Ten Years	891	891	0.47
After Ten Years	-	-	-
Total	$ 1,007	$ 1,007	0.60

Farmer Mac Agricultural Mortgage-Backed Securities

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	-	-	-
Five to Ten Years	-	-	-
After Ten Years	153	150	2.41
Total	$ 153	$ 150	2.41

Asset-Backed Securities

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	3	3	0.62
Five to Ten Years	-	-	-
After Ten Years	68	93	11.16
Total	$ 71	$ 96	10.71

Corporate Bonds

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	145	146	1.46
Five to Ten Years	-	-	-
After Ten Years	-	-	-
Total	$ 145	$ 146	1.46

While the substantial majority of our MBS and most of our ABS have contractual maturities in excess of 10 years, expected maturities for these securities are shorter than contractual maturities because of structured cash flow features and because borrowers have the right to call or prepay obligations.

The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by security type, and the length of time the securities have been in a continuous unrealized loss position at December 31, 2014, 2013 and 2012, respectively. The continuous loss position is based on the date the impairment first occurred.

($ in Millions)	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2014				
U.S. Treasury Debt	$ 495	$ (1)	$ -	$ -
U.S. Agency Debt	1,753	(4)	1,334	(26)
Residential Mortgage-Backed:				
Ginnie Mae	16	-	84	-
U.S. Agency	541	(2)	2,428	(60)
FHA/VA Non-Wrapped Reperformer	-	-	223	(14)
Non-Agency	7	-	18	(1)
Commercial Mortgage-Backed:				
U.S. Agency	640	(1)	-	-
Agricultural Mortgage-Backed:				
Farmer Mac	-	-	150	(3)
Asset-Backed	1	-	9	(1)
Corporate Bonds	10	-	20	-
Total	$ 3,463	$ (8)	$ 4,266	$ (105)
December 31, 2013				
U.S. Treasury Debt	$ 516	$ -	$ -	$ -
U.S. Agency Debt	3,236	(54)	-	-
Residential Mortgage-Backed:				
Ginnie Mae	215	-	19	-
U.S. Agency	3,277	(93)	660	(38)
FHA/VA Non-Wrapped Reperformer	106	(2)	144	(7)
Non-Agency	32	(1)	18	-
Agricultural Mortgage-Backed:				
Farmer Mac	55	(1)	124	(2)
Asset-Backed	50	(1)	5	(1)
Corporate Bonds	70	(1)	-	-
Total	$ 7,557	$ (153)	$ 970	$ (48)

($ in Millions)	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2012				
U.S. Treasury Debt	$ 1,003	$ -	$ -	$ -
U.S. Agency Debt	188	(1)	-	-
Residential Mortgage-Backed:				
Ginnie Mae	105	-	25	-
U.S. Agency	659	(6)	42	-
FHA/VA Non-Wrapped Reperformer	283	(5)	15	(1)
Non-Agency	6	-	83	(5)
Agricultural Mortgage-Backed:				
Farmer Mac	143	(2)	-	-
Asset-Backed	-	-	10	(3)
Corporate Bonds	21	-	-	-
Total	$ 2,408	$ (14)	$ 175	$ (9)

As of December 31, 2014, with the exception of the securities in the following table, we expect to collect all principal and interest payments on our investment securities. We do not intend to sell the securities in unrealized loss positions, and it is not likely that we will be required to sell such securities, for regulatory, liquidity or other purposes before an anticipated recovery of our cost basis occurs.

The following table summarizes other-than-temporary impairment (OTTI) losses recorded in earnings by security type for the periods presented.

($ in Millions)	Number of Securities	OTTI
December 31, 2014		
Investment Securities Available-for-sale	0	$ -
Total	0	$ -
December 31, 2013		
Non-Agency Residential Mortgage-Backed	4	$ 3
Total	4	$ 3
December 31, 2012		
Asset-Backed	5	$ 12
Non-Agency Residential Mortgage-Backed	5	5
Total	10	$ 17

The fair value of our securities with OTTI losses was $175.0 million, $217.9 million and $196.3 million at December 31, 2014, 2013, and 2012, respectively.

The following table details the activity related to the credit loss component of investment securities that have been written down for OTTI.

Credit Losses on Impaired Investments ($ in Millions)

	2014	2013	2012
Beginning of Year	$ 65	$ 64	$ 48
Additional Credit Impairments Related to Securities Previously Impaired	-	-	9
Initial Credit Impairments Related to Securities Not Previously Impaired	-	3	8
Sales of Investments with Credit Impairments	(7)	-	-
Subsequent Accretion for Increases in Cash Flows Expected to be Collected	(1)	(2)	(1)
End of Year	$ 57	$ 65	$ 64

For impaired investment securities, we estimate the component of unrealized losses attributable to credit losses primarily using a third-party cash flow model. The model requires key assumptions related to underlying collateral, including the degree and timing of prepayments and defaults and loss severity. Assumptions used are influenced by such factors as interest rates and the performance, type and age of collateral. For prepayment assumptions, we use the lower of the three or six-month historical voluntary prepayment rate. Prepayment rates used ranged from zero to 22 percent (conditional prepayment rate) for impaired investment securities at December 31, 2014. We apply historical performance information to estimate future defaults using a default timing curve. Default rates ranged from 8 percent to 92 percent for impaired investment securities at December 31, 2014. Loss severity assumptions are based on 12-month historical severities. Loss severity ranged from 8 percent to 100 percent for impaired investment securities at December 31, 2014.

Note 6 – Bonds and Notes

We are primarily liable for the following bonds and notes:

($ in Millions)

December 31,	2014	2013	2012
Bonds	$ 79,573	$ 73,166	$ 74,154
Medium-term Notes	135	150	342
Discount Notes	15,077	12,395	6,927
Total Systemwide Debt Securities	94,785	85,711	81,423
Cash Investment Services Payable	2,526	2,309	1,614
Other	269	438	570
Total Bonds and Notes	$ 97,580	$ 88,458	$ 83,607

Systemwide Debt Securities

We, along with the other System banks, obtain funds for lending activities and operations primarily from the sale of debt securities issued by System banks through the Funding Corporation. These debt securities are composed of bonds, medium-term notes and discount notes and are collectively referred to as Systemwide Debt Securities. Pursuant to the Farm Credit Act, Systemwide Debt Securities are the general unsecured joint and several obligations of the System banks. Systemwide Debt Securities are not obligations of, and are not guaranteed by, the U.S. government or any agency or instrumentality thereof, other than the System banks. Bonds and medium-term notes are issued at fixed or floating interest rates. Bonds have original maturities of three months to 30 years, while medium-term notes have original maturities ranging from one to 30 years. Discount notes are issued with maturities ranging from one to 365 days. The weighted average remaining maturity of CoBank's discount notes outstanding at December 31, 2014 was 137 days.

Other Bonds and Notes

Cash investment services payable mature within one year. Other bonds and notes primarily represent cash collateral payable to derivative counterparties that have posted collateral to us.

At December 31, 2014, other bonds and notes also includes $20.0 million in funding pursuant to the Rural Economic Development Loan and Grant (REDLG) program offered by the Rural Utilities Service (RUS) agency of the United States Department of Agriculture. In 2014, CoBank was approved to participate in the REDLG program and can borrow up to $250.0 million on a collateralized basis through October 2017 to fund rural electric and telecommunications infrastructure. This funding is provided by the Federal Financing Bank and guaranteed by RUS with maturity terms up to 10 years.

Maturities and Rates

The aggregate maturities and the weighted average interest rates of CoBank's Systemwide Debt Securities at December 31, 2014 are shown in the accompanying table. Weighted average interest rates include the effect of related derivative financial instruments.

($ in Millions)

Maturities and Rates of Systemwide Debt Securities

	Bonds		Medium-term Notes		Discount Notes		Total	
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2015	$ 28,408	0.32 %	$ 7	6.93 %	$ 15,077	0.12 %	$ 43,492	0.25 %
2016	18,226	0.38	16	6.30	-	-	18,242	0.38
2017	12,110	0.66	-	-	-	-	12,110	0.66
2018	3,946	1.59	-	-	-	-	3,946	1.59
2019	3,229	1.85	1	6.67	-	-	3,230	1.85
2020 and thereafter	13,654	3.05	111	5.83	-	-	13,765	3.07
Total	$ 79,573	0.98	$ 135	5.95	$ 15,077	0.12	$ 94,785	0.85

Certain Systemwide Debt Securities include debt which may be called on the first call date and, subsequently, called daily or on each interest payment date thereafter. At December 31, 2014, callable debt was $6.9 billion, with the range of first call dates being from January 2015 through November 2026.

Conditions for Issuing Systemwide Debt

Certain conditions must be met before we can participate in the issuance of Systemwide Debt Securities. One such condition of participation, required by the Farm Credit Act and FCA regulations, is that we must maintain specified, eligible, unencumbered assets at least equal in value to the total amount of debt obligations outstanding for which we are primarily liable. Such assets exceeded applicable debt by $8.2 billion at December 31, 2014. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any of our assets.

In addition, because System banks are contingently liable for Systemwide Debt Securities of the other System banks, the banks have entered into agreements to provide for mutual protection. The System banks and the Funding Corporation operate under a Second Amended and Restated Market Access Agreement (MAA) designed to address certain Funding Corporation statutory responsibilities. The MAA financial conditions establish mechanisms for monitoring, limiting and ultimately denying a troubled System bank's access to and participation in Systemwide debt issuances, thereby limiting other System banks' exposure to statutory joint and several liabilities. The MAA promotes the identification and resolution of financial problems of individual System banks in a timely manner. As required by the MAA, the System banks and the Funding Corporation undertake a periodic formal review of the MAA to consider whether any amendments are appropriate. Such review was conducted during 2014 and no adjustments to the MAA criteria were warranted.

The System banks and the Funding Corporation have also entered into an Amended and Restated Contractual Interbank Performance Agreement (CIPA). The CIPA establishes an agreed-upon standard of financial condition and performance for the System banks and their affiliated Associations (the Districts). The CIPA measures various ratios taking into account the capital, asset quality, earnings, interest rate risk and liquidity of the Districts and System banks. At December 31, 2014, 2013 and 2012, all System banks, including CoBank, were in compliance with all of the conditions of participation for the issuance of Systemwide Debt Securities. Periodically, the ratios in the CIPA model are reviewed to take into consideration current performance standards in the financial services industry. A review was conducted during 2014 and no adjustments to the CIPA model were warranted.

Insurance Fund

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Corporation insures the timely payment of principal and interest on Systemwide Debt Securities and carries out various other responsibilities.

The primary sources of funds for the Insurance Fund are premiums paid by the System banks and earnings on the Insurance Corporation assets. Premiums are determined and assessed to System banks semi-annually by the Insurance Corporation.

Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund reach the "secure base amount" (SBA), which is defined in the Farm Credit Act as 2 percent of the aggregate outstanding insured Systemwide Debt Securities (adjusted to reflect the reduced risk on loans or investments guaranteed by the U.S. or state governments) or such other percentage of the aggregate outstanding insured Systemwide Debt Securities as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the SBA, the Insurance Corporation is required to reduce premiums, and, in some instances, may refund excess amounts, but must still ensure that premiums are sufficient to maintain the level of the Insurance Fund at the SBA.

The Insurance Fund ended 2011 above the SBA. In 2012, the Insurance Corporation approved and distributed the excess amounts to the System banks, and, as a result, in 2012, CoBank recorded a $44.6 million refund from the Insurance Corporation. There were no premium refunds from the Insurance Corporation in the years ended December 31, 2014 and 2013. The premium refund recorded in 2012 is classified in "Other, Net" within the "Noninterest Income/Expense" section of the consolidated statement of income for the year ended December 31, 2012.

The Insurance Corporation premium rates were 12 basis points, 10 basis points, and 5 basis points of adjusted insured debt obligations for the years ended December 31, 2014, 2013 and 2012, respectively.

The Insurance Fund is available to assist with the timely payment of principal and interest on Systemwide Debt Securities, in the event of a default by a System bank, to the extent that net assets are available in the Insurance Fund. No other liabilities reflected in our financial statements are insured by the Insurance Corporation.

In addition, the Insurance Fund could be used to ensure the retirement of System entities' protected borrower equity at par or stated value and for other specified purposes. The Insurance Fund is also available for discretionary uses of providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. The Insurance Fund does not insure the obligations of Farmer Mac.

At December 31, 2014, the assets of the Insurance Fund aggregated $3.8 billion. However, due to the other authorized uses of the Insurance Fund, there is no assurance that any available amount in the Insurance Fund will be sufficient to fund the timely payment of principal or interest on Systemwide Debt Securities in the event of a default by any System bank having primary liability thereon.

The Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2015 unless otherwise extended. The decision whether to seek funds from the Federal Financing Bank is in the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System.

Early Extinguishment of Debt

During 2014, we recorded losses of $58.3 million on the early extinguishment of $615.1 million of Systemwide Debt Securities. During 2013 and 2012, we recorded losses of $96.8 million and $86.7 million, respectively, on the early extinguishment of $797.1 million and $371.5 million of Systemwide Debt Securities, respectively. All losses on early extinguishment of debt are reported as a component of noninterest income.

Note 7 – Subordinated Debt

We had subordinated debt outstanding of $904.7 million at December 31, 2014, 2013 and 2012. Our subordinated debt was issued in April 2008 and June 2007, and is summarized in the table below.

Subordinated Debt as of December 31, 2014

	Series 2008A	Series 2007A
Type	Unsecured subordinated notes	Unsecured subordinated notes
Issue Date	April 2008	June 2007
Maturity Date	April 2018	June 2022
Amount Outstanding (000)	$404,685	$500,000
Interest Rate (%)	7.875%	3-month USD LIBOR + 0.60% (0.841% at December 31, 2014)
Interest Payment Date	Semi-annually in cash on 15th day of April and October	Quarterly in cash on 15th day of March, June, September and December

In December 2012, we purchased $95.3 million of our Series 2008A subordinated notes through a cash tender offer. As a result, we incurred losses of $28.5 million, which were recorded as a component of noninterest income in 2012.

The 2007 issuance of subordinated debt may be redeemed, in whole or in part, at our option, on June 15, 2017 and any interest payment date thereafter. Both issuances of subordinated debt may be redeemed, in whole, at our option at any time upon the occurrence of a regulatory event, whereby through a change in law or regulation the subordinated debt is no longer eligible for (i) inclusion in our permanent capital or total surplus or any comparable regulatory capital requirements under any successor regulations or (ii) exclusion from total liabilities for purposes of calculating our net collateral ratio or any comparable regulatory capital requirements under any successor regulations. Any redemption of subordinated debt will be at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided we have made payment in full of all amounts then due in respect of our senior indebtedness.

Our subordinated debt is unsecured and junior to all other categories of creditors, including general creditors, and senior to all classes of shareholders. Interest on subordinated debt will be deferred if, as of the fifth business day prior to an interest payment date, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than the shorter of five consecutive years or the maturity date of the subordinated debt. We may not declare or pay any dividends or patronage distributions until interest payments are resumed and all deferred interest has been paid.

Our subordinated debt is not considered Systemwide debt and is not an obligation of, or guaranteed by, the Farm Credit System or any banks in the System, other than CoBank. Payments on our subordinated debt are not insured by the Insurance Corporation.

Note 8 – Shareholders' Equity

Description of Equities

As of December 31, 2014, we had $1.1 billion of preferred stock and $2.8 billion in common stock outstanding, as summarized in the table below.

Preferred and Common Stock

	Stock		
	Preferred	Class A	Class A
Shares Authorized (000)	n/a [1]	Unlimited	Unlimited
Shares Outstanding (000)	9,225	1,036	26,649
Voting or Nonvoting	Nonvoting	Nonvoting	Voting
Par / Face Value (per share)	n/a [1]	$ 100	$ 100

[1] Shares authorized and par/face value varies by issuance. Refer to the table on the following page.

Pursuant to our bylaws, we have a single class of common equity – Class A common stock; however, only Class A shareholders that are directly eligible to borrow from CoBank, that borrow on a patronage basis and that are active borrowers, have voting rights. No other class of shareholders has voting rights.

On January 1, 2012, in conjunction with the merger, each share of outstanding common stock of AgBank (Class A Common Stock, $5 par value, 177,162,554 shares outstanding; Class B Common Stock, $5 par value, 200 shares outstanding; Class C Common Stock, $5 par value, 200 shares outstanding) was exchanged for one-twentieth of a share of Class A common stock of CoBank ($100 par value, 8,858,148 shares outstanding). In addition, AgBank's $225 million of preferred stock ($1,000 par value, 225,000 shares outstanding) was exchanged for $225 million of a new series (Series E) of CoBank non-cumulative perpetual preferred stock ($1,000 par value, 225,000 shares outstanding) with substantially the same terms and conditions.

Our shareholders have approved measures allowing CoBank to issue up to $1.5 billion outstanding of preferred stock, subject to FCA approval, at any time through September 2018. These measures allow us to access third party capital more quickly and efficiently in response to dynamic market conditions, without the necessity of obtaining shareholder approval for each issuance.

Holders of common equities may not pledge, hypothecate or otherwise grant a security interest in such equities except as consented to by the Bank under FCA regulations. We have a statutory first lien on CoBank common stock. We pay dividends only on preferred stock.

In case of liquidation or dissolution, preferred stock, common stock and unallocated retained earnings would be distributed to shareholders, after the payment of all liabilities pursuant to FCA regulations, in the following order: (1) retirement of all Series E, Series F, Series G and Series H preferred stock at par plus all accrued but unpaid dividends for the then current dividend period; (2) retirement of all common stock at par; (3) retirement of all patronage surplus (a component of unallocated retained earnings) in amounts equal to the face amount of the applicable nonqualified written notices of allocation or such other notice; and (4) remaining unallocated retained earnings and reserves shall be paid to the holders of common stock in proportion to patronage to the extent possible.

The changes in the number of shares of common stock outstanding during 2014 are summarized in the following table.

Shares of Common Stock (in Thousands)	2014	2013	2012
Beginning of the Year	26,775	26,060	16,543
Issuances	1,245	1,031	9,858
Retirements	(335)	(316)	(341)
End of the Year	27,685	26,775	26,060

Preferred Stock

The following table summarizes our outstanding preferred stock as of December 31, 2014.

Preferred Stock as of December 31, 2014	Series E	Series F	Series G	Series H
Type	Non-Cumulative Perpetual	Non-Cumulative Perpetual	Non-Cumulative Perpetual	Non-Cumulative Perpetual
Issue Date	January 2012	October 2012	April 2013	November 2014
Shares Outstanding (000)	225	4,000	2,000	3,000
Amount Outstanding (000)	$225,000	$400,000	$200,000	$300,000
Par Value (per share)	$1,000	$100	$100	$100
Current Dividend Rate (%)	3-month USD LIBOR + 1.18% (1.41% at December 31, 2014)	6.25%	6.125%	6.20%
Next Change in Dividend Rate (% and dates)	n/a	3-month USD LIBOR + 4.557% beginning on October 1, 2022	n/a	3-month USD LIBOR + 3.744% beginning on January 1, 2025
Dividend Frequency	Quarterly	Quarterly	Quarterly	Quarterly
Optional Redemption Begins (date)	July 2012 and each five year anniversary thereafter at par plus accrued dividends	Quarterly calls on or after October 1, 2022 at par plus accrued dividends	Quarterly calls on or after July 1, 2018 at par plus accrued dividends	Quarterly calls on or after January 1, 2025 at par plus accrued dividends

On October 1, 2012, we redeemed all of our outstanding Series A and Series B cumulative perpetual preferred stock, totaling $363.3 million. We used available cash to effectuate these redemptions. The dividend rates for our Series A and Series B preferred stock were 7.814 percent and 7.0 percent, respectively. Also in October 2012, we issued $400 million of Series F non-cumulative perpetual preferred stock. We used the proceeds from the Series F preferred stock to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes.

On April 19, 2013, we issued $200 million of Series G non-cumulative perpetual preferred stock. We used the net proceeds from the Series G preferred stock issuance to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. Dividends on the Series G preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate equal to 6.125 percent.

On July 1, 2013, we redeemed all of our outstanding Series C non-cumulative perpetual preferred stock totaling $200 million. We used available cash to effectuate this redemption. The dividend rate for our Series C preferred stock was 11.0 percent through the date of redemption.

On October 1, 2014, we redeemed all of our outstanding Series D non-cumulative perpetual preferred stock totaling $136.8 million. We used available cash to effectuate this redemption. The dividend rate for our Series D preferred stock was 11.0 percent through the date of redemption.

On November 26, 2014, we issued $300 million of Series H non-cumulative perpetual preferred stock. We used the proceeds from the Series H preferred stock to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. Dividends on Series H preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate equal to 6.20 percent from the date of issuance up to, but excluding, January 1, 2025. Thereafter, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 3.744 percent.

All of our outstanding preferred stock is included in permanent capital, total surplus, and core surplus for regulatory capital purposes. In addition, all of our outstanding preferred stock ranks equally, both as to dividends and upon liquidation, and senior to all of our outstanding common stock.

If preferred stock dividends are not paid for 18 consecutive months on any of our preferred stock, holders of all outstanding preferred stock, voting as a single class, will have the right to appoint two non-voting observers to attend our Board of Directors meetings until full dividends for a one year period are paid. In addition, other than pursuant to an order issued by our regulator, we may not enter into agreements restricting our ability to declare or pay preferred stock dividends.

All stock retirements, including preferred stock redemptions, require the approval of our Board of Directors. Payments of preferred stock dividends also require the approval of our Board of Directors.

Capitalization Requirements

In accordance with the Farm Credit Act, eligible commercial borrowers are required to purchase common stock in CoBank as a condition of borrowing. The minimum initial borrower investment is equal to the lesser of one thousand dollars or 2 percent of the amount of the loan. The minimum initial investment is generally received in cash at the time the borrower receives the loan proceeds.

Association customers are also required to invest in our common stock, as discussed on page 110.

Most agricultural export finance customers, customers of FCL and certain other borrowers are not required to purchase, nor do they own, common stock in CoBank. Likewise, they do not participate in patronage distributions.

Retirements of common stock, if any, are determined annually after the Board of Directors sets the target equity level. Net cash retirements are made at the sole discretion of the Board of Directors and are at book value not to exceed par or face value.

Patronage

As a cooperative bank, we return a portion of our earnings to eligible common shareholders in the form of patronage distributions. Eligible common shareholders will receive total patronage for 2014 of $467.5 million, of which $378.7 million will be paid in cash in 2015 and the balance will be paid in common stock. For 2013 and 2012, total patronage was $414.5 million and $425.0 million, respectively, of which $338.0 million and $344.5 million, respectively, was paid in cash in the subsequent year. All patronage distributions require the approval of our Board of Directors.

Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require us to maintain certain minimum capital requirements and collateral standards.

We are prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. All such minimum regulatory capital requirements and collateral standards were met as of December 31, 2014.

At December 31, 2014, our permanent capital, total surplus, core surplus and net collateral ratios exceeded the regulatory minimums as noted in the following table.

Capital Ratios as of December 31,

	Regulatory Minimums	2014	2013	2012
Permanent Capital Ratio	7.0 %	15.70 %	16.72 %	16.14 %
Total Surplus Ratio	7.0	14.81	15.74	15.22
Core Surplus Ratio	3.5 (1)	10.47	10.82	10.06
Net Collateral Ratio	104.0 (2)	107.22	107.57	107.08

(1) Effective January 1, 2015, the FCA requires us to maintain a minimum core surplus ratio of 5.59 percent during a period in which we include a portion of our common stock as core surplus.

(2) The regulatory minimum net collateral ratio is 103.0 percent, but the FCA requires the higher 104.0 percent during a period in which we have subordinated debt outstanding.

Our capital and collateral ratios are calculated in accordance with FCA regulations, as summarized below.

- The permanent capital ratio is quarterly average permanent capital (generally shareholders' equity and subordinated debt subject to certain limitations, excluding accumulated other comprehensive income (loss) and other deductions) as a percentage of quarterly average risk-adjusted assets.
- The total surplus ratio is quarterly average total surplus (quarterly average permanent capital, net of purchased stock) as a percentage of quarterly average risk-adjusted assets.
- The core surplus ratio is quarterly average core surplus (generally unallocated retained earnings, non-cumulative preferred stock and a portion of common stock) as a percentage of quarterly average risk-adjusted assets.
- The net collateral ratio is net collateral (generally net loans and investments) divided by total liabilities, as adjusted to exclude subordinated debt (subject to certain limitations) and the fair value of certain derivatives.

Pursuant to FCA guidance, a portion of our common stock is included in core surplus, subject to certain conditions. This inclusion will continue on a temporary basis until December 31, 2017 or the point at which the FCA changes its capital regulations in a manner that would be inconsistent with this treatment. The FCA requires that we also calculate our core surplus ratio excluding common stock and has established a 3.0 percent minimum for such ratio. As of December 31, 2014, our core surplus ratio excluding common stock was 8.86 percent.

Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for 2014 and 2013 are presented in the following tables.

Changes in Accumulated Other Comprehensive Income (Loss) by Component (1)

	Unrealized Gains/(Losses) On Investment Securities		Unrealized Gains/(Losses) on Interest Rate Swaps and Other Financial Instruments	Net Pension Adjustment	Total
	Non-OTTI	OTTI			
Balance at December 31, 2013	$ 27,884	$ (31,646)	$ (2,246)	$ (32,537)	$ (38,545)
Other comprehensive income (loss) before reclassifications	44,375	53,900	(30,122)	(32,649)	35,504
Amounts reclassified from accumulated other comprehensive income (loss)	600	(4,205)	(1,092)	1,476	(3,221)
Net current-period other comprehensive income (loss)	44,975	49,695	(31,214)	(31,173)	32,283
Balance at December 31, 2014	$ 72,859	$ 18,049	$ (33,460)	$ (63,710)	$ (6,262)

(1) Amounts are presented net of tax. Amounts reclassified shown in parentheses indicate a decrease in accumulated other comprehensive income (loss).

Changes in Accumulated Other Comprehensive Income (Loss) by Component (1)

	Unrealized Gains/(Losses) On Investment Securities		Unrealized Gains/(Losses) on Interest Rate Swaps and Other Financial Instruments	Net Pension Adjustment	Total
	Non-OTTI	OTTI			
Balance at December 31, 2012	$ 188,624	$ 19,215	$ (11,261)	$ (52,148)	$ 144,430
Other comprehensive income (loss) before reclassifications	(160,740)	(53,135)	9,201	16,264	(188,410)
Amounts reclassified from accumulated other comprehensive income (loss)	-	2,274	(186)	3,347	5,435
Net current-period other comprehensive income (loss)	(160,740)	(50,861)	9,015	19,611	(182,975)
Balance at December 31, 2013	$ 27,884	$ (31,646)	$ (2,246)	$ (32,537)	$ (38,545)

(1) Amounts are presented net of tax. Amounts reclassified shown in parentheses indicate a decrease in accumulated other comprehensive income (loss).

The following tables present the effect of reclassifications out of accumulated other comprehensive income (loss) on net income for the years ended December 31, 2014 and 2013.

Reclassifications from Accumulated Other Comprehensive Income (Loss)			
Year Ended December 31, 2014		Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Gain/Loss Recognized in Income Statement
Unrealized gains (losses) on available-for-sale investment securities:			
Sales gains and losses	$	(707)	Noninterest Income - Other, Net
Holding gains and losses		-	Noninterest Income - Other, Net
Tax effect		107	Provision for Income Taxes
Unrealized gains (losses) on OTTI investment securities:			
Sales gains and losses	$	4,906	Noninterest Income - Other, Net
Holding gains and losses		-	Noninterest Income - Net OTTI Losses Included in Earnings
Tax effect		(701)	Provision for Income Taxes
Unrealized gains (losses) on interest rate swaps and other financial instruments:			
Interest rate contracts		(1,215)	Interest Expense
Foreign exchange contracts		3,302	Interest Income
Tax effect		(995)	Provision for Income Taxes
Pension and other benefit plans:			
Net actuarial gain/loss		(1,798)	Operating Expenses - Employee Compensation
Prior service cost/credit		(583)	Operating Expenses - Employee Compensation
Tax effect		905	Provision for Income Taxes
Total reclassifications	$	3,221	

Reclassifications from Accumulated Other Comprehensive Income (Loss)			
Year Ended December 31, 2013		Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Gain/Loss Recognized in Income Statement
Unrealized gains (losses) on OTTI investment securities:			
Sales gains and losses	$	-	
Holding gains and losses		(2,500)	Noninterest Income - Net OTTI Losses Included in Earnings
Tax effect		226	Provision for Income Taxes
Unrealized gains (losses) on interest rate swaps and other financial instruments:			
Interest rate contracts		(1,191)	Interest Expense
Foreign exchange contracts		1,802	Interest Income
Tax effect		(425)	Provision for Income Taxes
Pension and other benefit plans:			
Net actuarial gain/loss		(5,269)	Operating Expenses - Employee Compensation
Prior service cost/credit		(129)	Operating Expenses - Employee Compensation
Tax effect		2,051	Provision for Income Taxes
Total reclassifications	$	(5,435)	

Note 9 – Employee Benefit Plans and Incentive Compensation Plans

Employee Benefit Plans

We have employer-funded, qualified defined benefit pension plans, which are noncontributory and cover employees hired prior to January 1, 2007. Depending on the date of hire, benefits are determined either by a formula based on years of service and final average pay, or by the accumulation of a cash balance with interest credits and contribution credits based on years of service and eligible compensation. Effective January 1, 2007, the Bank closed the remaining qualified defined benefit pension plan to new participants.

We also have noncontributory, unfunded nonqualified supplemental executive retirement plans (SERPs) covering certain senior officers and specified other senior managers. In addition, we have a noncontributory, unfunded nonqualified executive retirement plan (ERP) designed to provide enhanced retirement benefits to two senior officers employed pursuant to employment agreements. The defined benefit pension plans, SERPs and ERP are collectively referred to as Retirement Plans. We hold assets in a trust fund related to our SERPs and ERP; however, such funds remain Bank assets and are not included as plan assets in the accompanying disclosures.

We have a 401(k) retirement savings plan pursuant to which we match a certain percentage of employees' elective contributions. In addition, under this plan, employees hired on or after January 1, 2007 receive additional, non-elective employer defined contributions. Our contributions to the 401(k) retirement savings plan, which are recorded as employee compensation expense, were $6.7 million, $6.0 million and $6.5 million for 2014, 2013 and 2012, respectively. For eligible senior managers, including our senior officers, we also have a nonqualified deferred compensation plan, which includes benefits not provided under the employee savings plan due to certain Internal Revenue Code limitations.

All retirement-eligible employees are also currently eligible for other postretirement benefits, which primarily include access to health care benefits. Substantially all participants pay the full premiums associated with these postretirement health care benefits. Participant contributions are adjusted annually.

Pursuant to the terms of the AgBank merger agreement, assets and obligations related to bank participants in AgBank's legacy defined benefit pension plans were transferred into CoBank's defined benefit pension plan as of the merger date. The merger agreement also required AgBank to make a $17.2 million funding contribution effective with the transfer of the participants into the CoBank plan in 2012. In addition, we assumed certain nonqualified retirement plans as a result of the merger.

The following table provides a summary of the changes in the plans' projected benefit obligations and fair values of assets over the three-year period ended December 31, 2014, as well as a statement of funded status as of December 31 of each year.

	Retirement Plans			Other Postretirement Benefits		
	2014	2013	2012	2014	2013	2012
Change in Projected Benefit Obligation:						
Benefit Obligation at Beginning of Year	$ 295,493	$ 297,948	$ 205,704	$ 4,470	$ 5,970	$ 5,596
Service Cost	6,891	7,243	6,920	181	307	252
Interest Cost on Benefit Obligation	13,902	11,735	12,787	207	233	257
Plan Participant Contributions	-	-	-	386	357	486
Plan Amendments	-	1,040	-	-	-	-
Merger Impact	-	-	71,236	-	-	657
Actuarial Loss (Gain)	54,363	(8,516)	19,250	476	(1,451)	(320)
Benefits Paid	(20,851)	(13,957)	(17,949)	(758)	(946)	(958)
Projected Benefit Obligation at End of Year	349,798	295,493	297,948	4,962	4,470	5,970
Change in Plan Assets:						
Fair Value of Plan Assets at Beginning of Year	282,700	256,173	171,361	-	-	-
Actual Return on Plan Assets	22,491	34,786	29,090	-	-	-
Employer Contributions	5,907	5,698	12,021	372	589	472
Contribution Required by Merger	-	-	17,200	-	-	-
Asset Transfer Related to Merger	-	-	44,450	-	-	-
Benefits Paid	(20,851)	(13,957)	(17,949)	(758)	(946)	(958)
Plan Participant Contributions	-	-	-	386	357	486
Fair Value of Plan Assets at End of Year	290,247	282,700	256,173	-	-	-
Funded Status – Fair Value of Plan Assets Less Than Projected Benefit Obligation	(59,551)	(12,793)	(41,775)	(4,962)	(4,470)	(5,970)
Net Amount Recognized - December 31	$ (59,551)	$ (12,793)	$ (41,775)	$ (4,962)	$ (4,470)	$ (5,970)

The projected benefit obligation and the accumulated benefit obligation for the Retirement Plans as of December 31 of each year are as follows.

	2014	2013	2012
Projected Benefit Obligation:			
Funded Qualified Plans	$ 310,155	$ 262,050	$ 266,443
SERP/ERP	39,643	33,443	31,505
Total	$ 349,798	$ 295,493	$ 297,948
Accumulated Benefit Obligation:			
Funded Qualified Plans	$ 282,134	$ 236,555	$ 238,811
SERP/ERP	33,520	26,465	26,829
Total	$ 315,654	$ 263,020	$ 265,640

The $290.2 million in fair value of plan assets shown in the table on page 89 relates only to the qualified retirement plans. As depicted in the preceding table, such plans had a projected benefit obligation and an accumulated benefit obligation of $310.2 million and $282.1 million, respectively, as of December 31, 2014.

We hold assets in trust accounts related to our SERPs and ERP. Such assets had a fair value of $27.9 million as of December 31, 2014, which is included in “Other Assets” in the consolidated balance sheet. Unlike the assets related to the qualified plans, those funds remain Bank assets and would be subject to general creditors in a bankruptcy or liquidation. Accordingly, they are not included as part of the assets in the table on page 89. As depicted in the preceding table, our SERPs and ERP had a projected benefit obligation and an accumulated benefit obligation of $39.6 million and $33.5 million, respectively, as of December 31, 2014.

The following table provides the amounts recognized in the consolidated balance sheets as of December 31 of each year.

	Retirement Plans			Other Postretirement Benefits		
	2014	2013	2012	2014	2013	2012
Prepaid Pension Assets	$ -	$ 20,650	$ -	$ -	$ -	$ -
Accrued Benefit Liabilities	(59,551)	(33,443)	(41,775)	(4,962)	(4,470)	(5,970)
Net Amounts Recognized	$ (59,551)	$ (12,793)	$ (41,775)	$ (4,962)	$ (4,470)	$ (5,970)

The following table presents the components of net periodic benefit cost for the plans.

	Retirement Plans			Other Postretirement Benefits		
	2014	2013	2012	2014	2013	2012
Service Cost	$ 6,891	$ 7,243	$ 6,920	$ 181	$ 307	$ 252
Interest Cost on Benefit Obligation	13,902	11,735	12,787	207	233	257
Expected Return on Plan Assets	(18,850)	(17,479)	(16,765)	-	-	-
Amortization of Prior Service Cost	583	219	235	-	-	-
Recognized Actuarial Loss (Gain)	1,992	5,269	4,351	(194)	(90)	189
Net Periodic Benefit Cost	$ 4,518	$ 6,987	$ 7,528	$ 194	$ 450	$ 698

We anticipate that our total pension expense for the Retirement Plans will be approximately $9.5 million in 2015, as compared to $4.5 million in 2014.

The following table displays the amounts included in accumulated other comprehensive income (loss), a component of shareholders’ equity, related to our pension and other postretirement benefit plans.

Amounts Included in Accumulated Other Comprehensive (Income) Loss (Pre-Tax) at December 31, 2014	Qualified Retirement Plans	Nonqualified Retirement Plans	Other Postretirement Benefits	Total
Net Actuarial Loss (Gain)	$ 84,090	$ 16,687	$ (2,607)	$ 98,170
Prior Service Cost	2,386	740	-	3,126
Amount Recognized in Accumulated Other Comprehensive Loss (Income) [(1)]	$ 86,476	$ 17,427	$ (2,607)	$ 101,296

[(1)] Amount recognized in accumulated other comprehensive (income) loss, net of tax, is a loss of $63.7 million as of December 31, 2014. Approximately $4.6 million, net of tax, will be amortized from accumulated other comprehensive (income) loss into net periodic benefit cost in 2015.

Assumptions

We measure plan obligations and annual expense 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, mortality rates and expected rates of return on plan assets.

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

	2014	2013	2012
Discount Rate	4.10 %	4.85 %	4.05 %
Rate of Compensation Increase	4.75	4.75	4.75

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

	2014	2013	2012
Discount Rate	4.85 %	4.05 %	4.80 %
Expected Rate of Return on Plan Assets (Qualified Plans Only)	7.25	7.25	7.25
Rate of Compensation Increase	4.75	4.75	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.

We establish the expected rate of return on plan assets based on a review of past and anticipated future returns on plan assets. The expected rate of return on plan assets assumption also matches the pension plans' long-term interest rate assumption used for funding purposes. In October 2014, the Society of Actuaries issued revised mortality tables and a mortality improvement scale for use by actuaries, benefit plan sponsors and others in setting assumptions regarding life expectancy in the United States for purposes of estimating pension and other postemployment benefit obligations, costs and required contribution amounts. The new mortality tables indicate substantial life expectancy improvements since the last study published in 2000. The adoption of these new tables resulted in an increase of $20.9 million to our pension plans' projected benefit obligations and $0.2 million to our retiree welfare plans' projected benefit obligations.

Assumed health care cost trend rates have an effect on the amounts reported for other postretirement benefits. For measurement purposes, a 7.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2014. The rate was assumed to decrease gradually to 4.5 percent through 2022 and remain at that level thereafter. A 1-percentage-point increase in the assumed health care cost trend rate would increase total annual service and interest cost by $47 and total other postretirement benefit obligations by $340 as of December 31, 2014. Conversely, a 1-percentage-point decrease in the assumed health care cost trend rate would decrease total annual service and interest cost by $39 and total other postretirement benefit obligations by $293.

Plan Assets

The asset allocation target ranges for the pension plans follow the investment policy adopted by our retirement trust committee. This policy provides for a certain level of trustee flexibility in selecting target allocation percentages. The actual asset allocations at December 31, 2014, 2013 and 2012 are shown in the following table, along with the adopted range for target allocation percentages by asset class. The actual allocation percentages reflect the market values at year-end and may vary during the course of the year. Plan assets are generally rebalanced to a level within the target range each year at the direction of the trustees.

Retirement Plan Assets

	Target Allocation Range	Percentage of Plan Assets at December 31, 2014	2013	2012
Asset Category				
Domestic Equity	40-50 %	48 %	48 %	43 %
Domestic Fixed Income	30-50	33	29	37
International Equity	0-10	10	10	10
Emerging Markets Equity and Fixed Income	0-10	4	5	5
Real Assets	0-5	-	3	5
Hedge Funds	0-10	5	5	-
Total	100 %	100 %	100 %	100 %

The assets of the pension plans consist primarily of investments in various domestic equity, international equity and bond funds. These funds do not contain any significant investments in a single entity, industry, country or commodity, thereby mitigating concentration risk. No CoBank stock or debt is included in these investments.

The following table presents major categories of plan assets that are measured at fair value at December 31, 2014 for each of the fair value hierarchy levels as defined in Note 13.

Fair Value Measurements December 31, 2014	Level 1	Level 2	Level 3	Total
Asset Category				
Cash	$ 306	$ -	$ -	$ 306
Domestic Equity:				
Large-cap Growth Funds [1]	66,011	59,817	-	125,828
Small-cap Growth Fund [1]	-	13,302	-	13,302
International Equity:				
International Fund [2]	28,230	-	-	28,230
Fixed Income:				
Total Return Funds [3]	65,143	-	-	65,143
Bond Fund [4]	-	32,131	-	32,131
Emerging Markets:				
Equity and Fixed Income Fund [5]	-	12,143	-	12,143
Hedge Funds [6]	-	-	13,164	13,164
Total	$ 159,690	$ 117,393	$ 13,164	$ 290,247

[1] Funds invest primarily in diversified portfolios of common stocks of U.S. companies in various industries, including consumer goods and services, information technology, healthcare, energy, and financial services.

[2] Fund invests primarily in a diversified portfolio of equities of non-U.S. companies in various industries, including financial services, information technology, healthcare, consumer goods and services, telecommunications, and energy.

[3] Funds invest primarily in a diversified portfolio of investment grade debt securities and cash instruments.

[4] Fund invests primarily in U.S. Treasury debt securities and corporate bonds of U.S. companies primarily in the financial services industry.

[5] Fund invests in equities and corporate debt securities of companies located in emerging international markets. Industries include financial services, energy, consumer goods and services, and information technology. Fund also invests in the sovereign debt of various countries.

[6] Funds invest in diversified portfolios of stocks, bonds and various other financial instruments in a variety of industries including financial services, consumer goods and services, healthcare and energy.

Level 1 plan assets are funds with quoted daily net asset values that are directly observable by market participants. The fair value of these funds is the net asset value at close of business on the reporting date. Level 2 plan assets are funds with quoted net asset values that are not directly observable by market participants. A significant portion of the underlying investments in these funds have individually observable market prices, which are utilized by the plan's trustee to determine a net asset value at close of business on the reporting date. Level 3 plan assets are funds with unobservable net asset values and supported by limited or no market activity. There were no purchases or sales of Level 3 plan assets in the current year. No transfers into or out of the three levels of assets occurred in the current year.

Investment strategy and objectives are described in the pension plans' formal investment policy document. The basic strategy and objectives are to manage portfolio assets with a long-term time horizon appropriate for the participant demographics and cash flow requirements; to optimize long-term funding requirements by generating rates of return sufficient to fund liabilities and exceed the long-term rate of inflation; and to provide competitive investment returns as measured against appropriate benchmarks.

Expected Contributions

We expect to contribute approximately $3.8 million to our funded, qualified defined benefit pension plans in 2015 and a net $0.5 million, after reflecting collected retiree premiums, to our other postretirement benefit plans in 2015. We also expect to contribute approximately $2.6 million to our trust fund related to our SERPs and ERP in 2015. Our actual 2015 contributions could differ from the estimates noted above.

Estimated Future Benefit Payments

We expect to make the following benefit payments, which reflect expected future service, as appropriate.

Estimated Benefit Payments Year:	Retirement Benefits	Other Postretirement Benefits
2015	$ 19,523	$ 454
2016	19,523	403
2017	20,405	394
2018	20,137	392
2019	21,159	350
2020 to 2024	111,168	1,769

Incentive Compensation Plans

We have a broad-based, Board-approved short-term incentive compensation plan covering substantially all employees pursuant to which annual cash awards may be earned. Criteria used to determine amounts payable include the achievement of specified financial measures and strategic business objectives, which are approved annually by the Compensation Committee of the Board of Directors. Individual performance is also considered in the determination of the amounts payable.

We also have a Board-approved long-term incentive compensation plan, pursuant to which cash awards may be earned by senior officers and specified other senior managers who have a significant impact on long-term financial performance. Criteria used to determine amounts payable include achievement of certain Bank financial targets and strategic business objectives over a three-year performance period. Cash awards are to be paid subsequent to completion of each three-year period, subject to approval by the Compensation Committee of the Board of Directors.

Under the terms of the short-term incentive compensation plan, a minimum return on active patron stock investment must be achieved in order for a payout to be approved. Likewise, a minimum return on active patron stock investment must be achieved in each year within the three-year performance period for a full payout under the long-term incentive plan. The required minimum return on active patron stock investment was 11 percent for all performance periods disclosed herein.

Note 10 – Income Taxes

The components of the provision for income taxes are as follows:

Year Ended December 31,	2014	2013	2012
Current:			
Federal	$ 84,556	$ 93,236	$ 162,968
State	14,949	8,816	31,362
Total Current	99,505	102,052	194,330
Deferred:			
Federal	57,535	47,953	(20,633)
State	5,828	8,964	(10,006)
Total Deferred	63,363	56,917	(30,639)
Total	$ 162,868	$ 158,969	$ 163,691
Comprehensive Tax Provision			
Allocable to:			
Pre-Tax Income	$ 162,868	$ 158,969	$ 163,691
Shareholders' Equity -			
Amounts Allocated to:			
Investment Securities	15,971	(49,642)	16,511
Derivatives	(7,235)	186	(168)
Pension Liability	(17,643)	12,020	(695)
Total	$ 153,961	$ 121,533	$ 179,339

The components of deferred tax assets and liabilities are shown below.

December 31,	2014	2013	2012
Allowance for Credit Losses	$ 201,758	$ 208,594	$ 200,576
Employee Benefits	49,830	32,738	51,719
Loan Origination Fees	9,092	11,066	15,941
Other Deferred Tax Assets	40,849	37,180	48,116
Gross Deferred Tax Assets	301,529	289,578	316,352
Leasing	585,470	524,673	482,191
Unrealized Net Gains on			
Investment Securities			
and Derivatives	21,473	12,737	62,192
Other Deferred Tax Liabilities	13,355	16,481	16,801
Gross Deferred Tax Liabilities	620,298	553,891	561,184
Net Deferred Tax Liabilities	$ (318,769)	$ (264,313)	$ (244,832)

Deferred income taxes are provided for the change in temporary differences between the basis of certain assets and liabilities for financial reporting and income tax reporting purposes except for our nontaxable entity. The expected future tax rates are based upon enacted tax laws.

We have concluded that it is more likely than not that the deferred tax assets will be realized based on our history of earnings, sources of taxable income in carry back periods, and our ability to implement tax planning strategies.

The effective tax rates for the years ended December 31, 2014, 2013 and 2012 of 15.3 percent, 15.7 percent and 16.1 percent, respectively, were less than the statutory income tax rate primarily due to $467.5 million, $414.5 million and $425.0 million, respectively, of patronage distributions which are tax deductible, if made by our taxable entity, as permitted by Subchapter T of the Internal Revenue Code. The nontaxable activities conducted in the FCB subsidiary also contributed to a lower effective tax rate.

Year Ended December 31,	2014	2013	2012
Federal Tax at Statutory Rate	$ 373,498	$ 355,398	$ 356,162
State Tax, Net	13,594	11,256	14,478
Patronage Distributions			
Allocated by:			
Taxable Entity	(78,113)	(74,398)	(80,801)
Nontaxable Entity	(83,989)	(72,986)	(67,599)
Effect of Nontaxable Entity	(56,141)	(57,023)	(54,919)
Tax-Exempt Activities	(65)	(58)	(55)
Other	(5,916)	(3,220)	(3,575)
Provision for Income Taxes	$ 162,868	$ 158,969	$ 163,691

We will distribute 44 percent of income before income taxes to our shareholders as patronage distributions related to 2014, compared to 41 percent for 2013 and 42 percent for 2012.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest and penalties, is as follows:

Year Ended December 31, 2014		
Balance at Beginning of Year	$	5,164
Additions Based on Tax Positions Related to the Current Year		903
Additions for Tax Positions of Prior Years		100
Reductions for Tax Positions of Prior Years		(150)
Lapse of Applicable Statute of Limitations		(530)
Balance at End of Year	$	5,487
Year Ended December 31, 2013		
Balance at Beginning of Year	$	6,647
Additions Based on Tax Positions Related to the Current Year		1,045
Additions for Tax Positions of Prior Years		735
Reductions for Tax Positions of Prior Years		(2,612)
Lapse of Applicable Statute of Limitations		(651)
Balance at End of Year	$	5,164
Year Ended December 31, 2012		
Balance at Beginning of Year	$	5,244
Additions Based on Tax Positions Related to the Current Year		1,455
Additions for Tax Positions of Prior Years		973
Reductions for Tax Positions of Prior Years		(279)
Lapse of Applicable Statute of Limitations		(746)
Balance at End of Year	$	6,647

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is $4.8 million. We do not currently believe that the unrecognized tax benefits will change significantly within the next 12 months.

CoBank is no longer subject to federal tax examination for periods before 2011.

CoBank files tax returns in most states each year and is under continuous examination by various state taxing authorities. With few exceptions, we are no longer subject to state and local income tax examinations by taxing authorities for periods before 2011. For all open audits, any potential adjustments have been considered in establishing our reserve for uncertain tax positions as of December 31, 2014.

We recognize interest and penalties accrued related to unrecognized tax benefits as a component of the provision for income taxes. During the year ended December 31, 2014, we recognized a decrease of approximately $0.2 million in interest and penalties. We had approximately $2.0 million and $2.2 million of interest and penalties accrued at December 31, 2014 and 2013, respectively.

Note 11 – Financial Instruments With Off-Balance Sheet Risk

We utilize various financial instruments with off-balance sheet risk to satisfy the financing needs of our borrowers and to manage our exposure to interest rate risk. Such financial instruments include commitments to extend credit and commercial letters of credit. Commitments to extend credit are agreements to lend to a borrower provided that certain contractual conditions are met. 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. At December 31, 2014, outstanding commitments to extend credit and commercial letters of credit were $26.8 billion and $364.2 million, respectively.

Since many of these commitments may expire without being drawn, the total commitments do not necessarily represent future cash requirements. Our exposure to many of these commitments is mitigated by borrowing base requirements contained in loan agreements. 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 commercial letters of credit is substantially the same as that involved in extending loans to borrowers. Therefore, management applies the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. As discussed in Note 1, we maintain a reserve for unfunded commitments.

For a fee, we provide financial standby letters of credit for borrowers, which are irrevocable commitments to guarantee payment of a specified financial obligation. We also provide performance standby letters of credit which are irrevocable agreements by us, as a guarantor, to make payments to the guaranteed party in the event a specified third-party fails to perform under a nonfinancial contractual obligation, such as a third-party failing to timely deliver certain commodities at a specified time and place. We also issue indemnification agreements that function like guarantees. These indemnification agreements contingently require us, as the indemnifying party guarantor, to make payments to an indemnified party under certain specified circumstances. Certain recourse provisions would enable us, as a guarantor, to recover from third parties any of the amounts paid under guarantees, thereby limiting our maximum potential exposure.

As of December 31, 2014, the maximum potential amount of future payments that we may be required to make under our outstanding standby letters of credit was $1.5 billion, with a fair value of $9.3 million, which is included in other liabilities in the consolidated balance sheet. Payment/performance risk of the standby letters of credit guarantee is assessed using the same internal customer credit ratings that we use to manage credit risk in our loan portfolio. These outstanding standby letters of credit have expiration dates ranging from January 2015 to February 2030.

Note 12 – Derivative Financial Instruments and Hedging Activities

Risk Management Objectives and Strategies

We maintain an overall interest rate risk management strategy that incorporates the use of derivative financial instruments to manage liquidity and to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. Our goal is to manage interest rate sensitivity by modifying the repricing frequency or effective maturity of certain balance sheet assets and liabilities. We also maintain a foreign exchange risk management strategy to reduce the impact of currency fluctuations on our relatively nominal amount of foreign currency-denominated loans. As a result of interest rate and foreign exchange rate fluctuations, fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these assets and liabilities. Interest rate and foreign exchange fluctuations also cause interest income and interest expense of variable-rate assets and liabilities to increase or decrease. The effect of this variability in earnings is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these assets and liabilities.

Uses of Derivatives

To achieve risk management objectives and satisfy the financing needs of our borrowers, we execute various derivative transactions with other financial institutions. Derivatives (primarily interest rate swaps) are used to manage liquidity and the interest rate risk arising from maturity and repricing mismatches between assets and liabilities. Under interest rate swap arrangements, we agree with a third-party to exchange, at specified intervals, payment streams calculated on a specified notional amount, with at least one payment stream based on a specified floating-rate index. We use a variety of interest rate swaps including the exchange of floating-rate for fixed-rate swaps and fixed-rate for floating-rate swaps with payment obligations tied to specific indices. In addition, we execute foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. We also enter into derivatives for our customers as a service to enable them to transfer, modify or reduce their interest rate risk and foreign exchange risk by transferring such risk to us. We substantially offset this risk transference by concurrently entering into offsetting agreements with counterparties.

The notional amounts and related activity of derivatives at December 31, 2014, 2013 and 2012 are shown in the following table.

Activity in the Notional Amounts of Derivative Financial Instruments

($ in Millions)	Swaps	Caps	Spots and Forwards	Total
December 31, 2013	$ 21,982	$ 2,684	$ 279	$ 24,945
Additions /Accretion	3,880	566	3,353	7,799
Maturities /Amortization	(5,756)	(289)	(3,424)	(9,469)
Terminations	(351)	-	-	(351)
December 31, 2014	$ 19,755	$ 2,961	$ 208	$ 22,924
December 31, 2012	$ 23,020	$ 3,049	$ 292	$ 26,361
Additions /Accretion	4,005	205	3,274	7,484
Maturities /Amortization	(4,884)	(570)	(3,287)	(8,741)
Terminations	(159)	-	-	(159)
December 31, 2013	$ 21,982	$ 2,684	$ 279	$ 24,945
December 31, 2011	$ 23,255	$ 1,999	$ 299	$ 25,553
Acquired Related to Merger	1,280	1,465	-	2,745
Additions /Accretion	4,955	820	2,603	8,378
Maturities /Amortization	(6,434)	(1,130)	(2,610)	(10,174)
Terminations	(36)	(105)	-	(141)
December 31, 2012	$ 23,020	$ 3,049	$ 292	$ 26,361

Accounting for Derivative Instruments and Hedging Activities

We record derivatives as assets or liabilities at their fair value on the consolidated balance sheets. We record changes in the fair value of a derivative in current period earnings or accumulated other comprehensive income (loss), depending on the use of the derivative and whether it qualifies for hedge accounting. For fair value hedge transactions that hedge changes in the fair value of assets or liabilities, changes in the fair value of the derivative will generally be offset in the statement of income by changes in the hedged item's fair value attributable to the risk being hedged. For cash flow hedge transactions, in which we hedge the variability of future cash flows related to a variable-rate asset or liability, changes in the fair value of the derivative are reported in accumulated other comprehensive income (loss). The gains and losses on the derivatives that we report in accumulated other comprehensive income (loss) will be reclassified as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. We record the ineffective portion of all hedges in current period earnings.

For our customer transactions, which are not designated as hedging instruments, we record the related changes in fair value in current period earnings. We substantially offset this risk transference by concurrently entering into offsetting agreements with counterparties, with the changes in fair value of these transactions also recorded in current period earnings.

Fair Value Hedges

The majority of the fair value hedging activity relates to entering into interest rate swaps primarily to convert our non-prepayable fixed-rate debt to floating-rate debt to achieve our liquidity management strategy. The amount converted depends on contractual interest rates and maturities. For the remaining fair value hedges, we enter into receive-fixed, pay-floating swaps to align our equity positioning strategy with our risk management strategy. For fair value hedges, the amount of hedge ineffectiveness is recognized as net interest income in current period earnings.

Cash Flow Hedges

We purchase interest rate caps to hedge cap risk embedded within a portion of our floating-rate investment securities. The interest rate caps hedge floating-rate debt cash flows that fund the cash flows from floating-rate investment securities. If the strike rates in the purchased interest rate caps are exceeded, we receive cash flows on the derivative to hedge our floating-rate funding exposure above such strike levels. We also enter into foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon repricing or maturity date of the loan. For cash flow hedges, the amount of hedge ineffectiveness, the amount excluded from effectiveness assessment, and the amounts reclassified from accumulated other comprehensive income (loss) into current period earnings are all reflected in net interest income. At December 31, 2014, we expect that $2.4 million of expense will be reclassified from accumulated other comprehensive income (loss) into earnings in the next 12 months, based on the anticipated cash flows of existing financial instruments. The maximum term over which we are hedging our exposure to the variability of future cash flows for all forecasted transactions is approximately 20 years.

Derivatives Not Designated As Hedges

Derivative agreements with our customers and the related offsetting derivative agreements with counterparties are not designated as hedging instruments and do not receive hedge accounting treatment. Accordingly, any changes in the fair value of these derivatives are recognized immediately as noninterest income/expense in current period earnings.

Counterparty Credit Risk

The use of derivatives for risk management introduces credit risk related to counterparties and market risk related to movements in interest rates. Generally, when the fair value of a derivative contract is positive, we are exposed to counterparty credit risk.

To minimize the risk of credit losses, all derivative transactions are governed by master swap agreements, which include bilateral collateral arrangements, requiring the Bank or our counterparties to post collateral on a daily basis with thresholds set at zero for all active dealer counterparties. The master swap agreements also include netting agreements requiring the net settlement of covered contracts with the same counterparty in the event of default by the other party. The "net" mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty. Notwithstanding these protections, we are exposed to intra-day credit risk with these counterparties. Derivative transactions with our customers are secured through our loan agreements. We record derivative exposures and related cash collateral balances at gross amounts in our consolidated balance sheets. As of December 31, 2014, our counterparties had posted $238.6 million in cash and $60.1 million in securities as collateral with us. We estimate that the amount of losses related to derivatives we could be exposed to in the event of nonperformance by dealer counterparties to our derivative positions, net of collateral held by us, was $3.6 million, $6.7 million and $12.8 million at December 31, 2014, 2013 and 2012, respectively.

Hedge Terminations

During 2014 and 2013, we terminated approximately $130.8 million and $0.5 million in notional value of interest rate swaps for asset-liability management purposes. These swaps were accounted for as fair value hedges. During 2012, we terminated interest rate caps of $105.0 million in notional value to reduce our credit exposure to a counterparty. These caps had been accounted for as cash flow hedges.

We terminated interest rate swaps with customers and offsetting dealer counterparties totaling $220.6 million, $158.5 million, and $36.0 million of notional value in 2014, 2013 and 2012, respectively. Proceeds from the customer terminations were offset by proceeds from the offsetting dealer terminations.

A summary of the impact of derivative financial instruments on our consolidated balance sheets as of December 31, 2014, 2013 and 2012 is shown below.

Fair Value of Derivative Financial Instruments

As of December 31, 2014	Fair Value of Derivative Assets[1]	Fair Value of Derivative Liabilities[2]
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 303,669	$ 3,538
Foreign Exchange Contracts	3,692	9
Total Derivatives Designated as Hedging Instruments	$ 307,361	$ 3,547
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 146,589	$ 106,281
Foreign Exchange Contracts	1,706	1,792
Total Derivatives Not Designated as Hedging Instruments	$ 148,295	$ 108,073
Total Derivatives	$ 455,656	$ 111,620

(1) These assets make up the “Interest Rate Swaps and Other Financial Instruments" assets in the consolidated balance sheet as of December 31, 2014.

(2) These liabilities make up the “Interest Rate Swaps and Other Financial Instruments" liabilities in the consolidated balance sheet as of December 31, 2014.

Fair Value of Derivative Financial Instruments

As of December 31, 2013	Fair Value of Derivative Assets[1]	Fair Value of Derivative Liabilities[2]
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 527,375	$ 12,118
Foreign Exchange Contracts	595	1,828
Total Derivatives Designated as Hedging Instruments	$ 527,970	$ 13,946
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 144,774	$ 106,247
Foreign Exchange Contracts	1,278	1,114
Total Derivatives Not Designated as Hedging Instruments	$ 146,052	$ 107,361
Total Derivatives	$ 674,022	$ 121,307

(1) These assets make up the “Interest Rate Swaps and Other Financial Instruments” assets in the consolidated balance sheet as of December 31, 2013.

(2) These liabilities make up the “Interest Rate Swaps and Other Financial Instruments” liabilities in the consolidated balance sheet as of December 31, 2013.

Fair Value of Derivative Financial Instruments

As of December 31, 2012	Fair Value of Derivative Assets[1]	Fair Value of Derivative Liabilities[2]
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 810,295	$ -
Foreign Exchange Contracts	319	2,108
Total Derivatives Designated as Hedging Instruments	$ 810,614	$ 2,108
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 192,377	$ 153,774
Foreign Exchange Contracts	2,124	1,998
Total Derivatives Not Designated as Hedging Instruments	$ 194,501	$ 155,772
Total Derivatives	$ 1,005,115	$ 157,880

(1) These assets make up the “Interest Rate Swaps and Other Financial Instruments” assets in the consolidated balance sheet as of December 31, 2012.

(2) These liabilities make up the “Interest Rate Swaps and Other Financial Instruments” liabilities in the consolidated balance sheet as of December 31, 2012.

A summary of the impact of derivative financial instruments on our consolidated statements of income and comprehensive income for the years ended December 31, 2014, 2013 and 2012 is shown in the following tables.

Derivative Financial Instruments in Fair Value Hedging Relationships

	Net Amount of Gain or (Loss) Recognized in Income on Derivative and Hedged Item [1]		
Year Ended December 31,	2014	2013	2012
Interest Rate Contracts	$ 6,872	$ 5,008	$ 4,204
Total	$ 6,872	$ 5,008	$ 4,204

(1) Located in Interest Expense in the consolidated statements of income for the years ended December 31, 2014, 2013 and 2012. For all three years, amounts predominantly consist of the accretion of fair value adjustments resulting from the AgBank merger.

Derivative Financial Instruments in Cash Flow Hedging Relationships

Year Ended December 31, 2014	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivative[1]	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivative[1]	Amount of Gain or (Loss) Recognized in Income on Derivative[2]
Interest Rate Contracts	$ (41,277)	$ (1,215) [3]	$ -
Foreign Exchange Contracts	4,915	3,302 [4] [5]	(536) [4]
Total	$ (36,362)	$ 2,087	$ (536)

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment

[3] Located in Interest Expense in the consolidated statement of income for the year ended December 31, 2014

[4] Located in Interest Income – Loans in the consolidated statement of income for the year ended December 31, 2014

[5] Fully offset by a ($3,302) loss on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the consolidated statement of income for the year ended December 31, 2014

Derivative Financial Instruments in Cash Flow Hedging Relationships

Year Ended December 31, 2013	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivative[1]	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivative[1]	Amount of Gain or (Loss) Recognized in Income on Derivative[2]
Interest Rate Contracts	$ 9,256	$ (1,191) [3]	$ -
Foreign Exchange Contracts	556	1,802 [4] [5]	(353) [4]
Total	$ 9,812	$ 611	$ (353)

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment

[3] Located in Interest Expense in the consolidated statement of income for the year ended December 31, 2013

[4] Located in Interest Income – Loans in the consolidated statement of income for the year ended December 31, 2013

[5] Fully offset by a ($1,802) loss on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the consolidated statement of income for the year ended December 31, 2013

Derivative Financial Instruments in Cash Flow Hedging Relationships

Year Ended December 31, 2012	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivative[1]	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivative[1]	Amount of Gain or (Loss) Recognized in Income on Derivative[2]
Interest Rate Contracts	$ (6,917)	$ (1,465) [3]	$ -
Foreign Exchange Contracts	(5,589)	(5,571) [4] [5]	(216) [4]
Total	$ (12,506)	$ (7,036)	$ (216)

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment

[3] Located in Interest Expense in the consolidated statement of income for the year ended December 31, 2012

[4] Located in Interest Income – Loans in the consolidated statement of income for the year ended December 31, 2012

[5] Fully offset by a $5,571 gain on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the consolidated statement of income for the year ended December 31, 2012

Derivative Financial Instruments not Designated as Hedging Relationships

	Net Amount of Gain or (Loss) Recognized in Income On Derivative[1]		
Year Ended December 31,	2014	2013	2012
Interest Rate Contracts	$ 8,623	$ 6,978	$ 13,105
Foreign Exchange Contracts	(97)	37	(102)
Total	$ 8,526	$ 7,015	$ 13,003

[1] Located in Other Noninterest Income/Expense in the consolidated statements of income for the years ended December 31, 2014, 2013 and 2012

Asset/Liability Offsetting

As noted previously, derivative transactions with swap dealers include bilateral collateral and netting agreements that require the net settlement of covered contracts. Derivative transactions with customers are collateralized through loan agreements. Notwithstanding collateral and netting provisions, our derivative assets and liabilities are not offset in the accompanying consolidated balance sheets. The amount of collateral received or pledged is calculated on a net basis, by counterparty.

The following tables summarize derivative assets and liabilities, related accrued interest and amounts of collateral exchanged pursuant to our agreements.

Offsetting of Financial and Derivative Instruments

	Gross Amounts of Assets/Liabilities Presented in the Consolidated Balance Sheets	Amounts Not Offset In the Consolidated Balance Sheets: Cash Collateral Received/ Pledged[1]	Amounts Not Offset In the Consolidated Balance Sheets: Investment Securities Received/Pledged as Collateral[1]	Net Amount
As of December 31, 2014				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	$ 324,808	$ 238,560	$ 60,094	$ 26,154
Customer	130,848	-	-	130,848
Accrued Interest Receivable on Derivative Contracts	68,411	-	-	68,411
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	102,288	15,290	-	86,998
Customer	9,332	-	-	9,332
Accrued Interest Payable on Derivative Contracts	4,920	-	-	4,920
As of December 31, 2013				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	$ 585,687	$ 424,570	$ 132,510	$ 28,607
Customer	88,335	-	-	88,335
Accrued Interest Receivable on Derivative Contracts	83,452	-	-	83,452
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	83,921	10,130	-	73,791
Customer	37,386	-	-	37,386
Accrued Interest Payable on Derivative Contracts	3,952	-	-	3,952

(1) Cash collateral received is recognized in the consolidated balance sheets whereas investment securities received are not recognized in the consolidated balance sheets.

Offsetting of Financial and Derivative Instruments

	Gross Amounts of Assets/Liabilities Presented in the Consolidated Balance Sheets	Amounts Not Offset In the Consolidated Balance Sheets: Cash Collateral Received/ Pledged[1]	Amounts Not Offset In the Consolidated Balance Sheets: Investment Securities Received/Pledged as Collateral[1]	Net Amount
As of December 31, 2012				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	$ 818,749	$ 555,920	$ 195,300	$ 67,529
Customer	186,366	-	-	186,366
Accrued Interest Receivable on Derivative Contracts	86,653	-	-	86,653
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	152,896	17,000	-	135,896
Customer	4,984	-	-	4,984
Accrued Interest Payable on Derivative Contracts	1,947	-	-	1,947

[1] Cash collateral received is recognized in the consolidated balance sheets whereas investment securities received are not recognized in the consolidated balance sheets.

Note 13 – Disclosure About Estimated Fair Value of Financial Instruments

The fair value of financial instruments represents the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability (an exit price) in active markets among willing participants at the reporting date. The FASB has established a three-level fair value hierarchy aimed at maximizing the use of observable inputs – that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability. Observable inputs are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are supported by limited or no market activity and require significant management judgment or estimation.

Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction.

A description of the methods, assumptions and inputs to the valuation process used to determine or estimate the fair value of each class of financial instruments within the three-level hierarchy follows.

Level 1

Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Our Level 1 assets at December 31, 2014 consist of assets held in a trust fund related to deferred compensation and our SERPs and ERP. The trust fund includes investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Our Level 2 assets and liabilities at December 31, 2014 include our derivative contracts, collateral balances related to derivative contracts, U.S. Treasury and agency debt investment securities, non-agency MBS, corporate bonds, the substantial majority of agency MBS, and a limited number of ABS.

The fair value of our derivative financial instruments is estimated using internal market valuation models. These models use an income approach and incorporate benchmark interest rate curves (primarily the USD LIBOR/swap curve), volatilities, counterparty credit quality and other inputs that are observable directly or indirectly in the marketplace. We compare internally calculated derivative valuations to broker/dealer quotes to substantiate the results. The fair value of collateral assets and liabilities related to derivative contracts is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

The fair value of our investment securities classified as Level 2 is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs and assumptions related to these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding non-binding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. The estimated fair values of investment securities also appear in Note 5.

The following table presents information about valuation techniques and inputs to Level 2 fair value measurements.

Information About Valuation Techniques and Inputs to Level 2 Fair Value Measurements

	Valuation Technique	Inputs
Investment Securities	Third-Party Pricing Service	Prepayment Rate Default Rate Loss Severity Benchmark Yield Curve Quoted Prices
Interest Rate Swaps and Other Financial Instruments	Discounted Cash Flow	Benchmark Yield Curve Counterparty Credit Risk Volatility
Collateral Assets and Collateral Liabilities	Carrying Value	Par/Principal Plus Accrued Interest

Level 3

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at December 31, 2014 include our Farmer Mac MBS, FHA/VA non-wrapped reperformer MBS, the majority of our ABS and a limited number of agency MBS. Based on the lack of active trading volume and an orderly market for these securities, we classified these securities as Level 3. Market value for Farmer Mac MBS is calculated internally using third-party models. Market value for FHA/VA non-wrapped reperformer MBS is determined by taking the lower of the value calculated internally using third-party models and the value determined by a third-party pricing service. Market value for ABS and Level 3 agency MBS is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs into all of these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management assumptions, with some corroboration to market inputs where information is available.

Level 3 assets at December 31, 2014 also include $22.3 million of loans originally measured at cost, which were written down to fair value as a result of impairment. The valuation of these assets requires a determination of the fair value of the underlying collateral, which may include the use of independent appraisals or other market-based information to develop a management estimate of fair value. As a result, these fair value measurements fall under Level 3 in the fair value hierarchy; however, they are excluded from the tables on pages 103 and 104 because they are not measured on a recurring basis.

Our Level 3 liabilities at December 31, 2014 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

No transfers into or out of the three levels of assets occurred in the current year.

The following table presents quantitative information about Level 3 fair value measurements as of December 31, 2014.

Quantitative Information About Valuation Techniques and Unobservable Inputs to Level 3 Fair Value Measurements

($ in Millions)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Assets				
Investment Securities:				
U.S. Agency Mortgage-Backed	$ 57	Third-Party Pricing Service	Prepayment Rate	*
FHA/VA Non-Wrapped Reperformer Mortgage-Backed	391	Lower of Discounted Cash Flow	Prepayment Rate	6-10 percent *
		or Third-Party Pricing Service	Default Rate	1-19 percent *
			Loss Severity	11-13 percent *
Farmer Mac Mortgage-Backed	150	Discounted Cash Flow	Prepayment Rate	8-11 percent
			Mark-to-Market Spread	1 percent
Asset-Backed	93	Third-Party Pricing Service	Prepayment Rate	*
			Default Rate	*
			Loss Severity	*
Impaired Loans	22	Appraisal	Income/Expense Data	**
			Comparable Sales	**
			Replacement Cost	**
Liabilities				
Standby Letters of Credit	$ 9	Discounted Cash Flow	Mark-to-Market Spread	0.2-2 percent

* Excludes ranges which are determined by a third-party pricing service

** Range of inputs are unique to each collateral property

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at December 31, 2014, 2013 and 2012 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

December 31, 2014

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	$ -	$ 7,625	$ -	$ 7,625
U.S. Agency Debt	-	5,680	-	5,680
Residential Mortgage-Backed:				
Ginnie Mae	-	1,472	-	1,472
U.S. Agency	-	7,530	57	7,587
FHA/VA Non-Wrapped Reperformer	-	-	391	391
Non-Agency	-	166	-	166
Commercial Mortgage-Backed:				
U.S. Agency	-	1,007	-	1,007
Agricultural Mortgage-Backed:				
Farmer Mac	-	-	150	150
Asset-Backed	-	3	93	96
Corporate Bonds	-	146	-	146
Interest Rate Swaps and Other Financial Instruments	-	456	-	456
Assets Held in Trust (included in Other Assets)	61	-	-	61
Collateral Assets (included in Other Assets)	-	15	-	15
Total Assets	$ 61	$ 24,100	$ 691	$ 24,852
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 112	$ -	$ 112
Collateral Liabilities (included in Bonds and Notes)	-	239	-	239
Standby Letters of Credit (included in Other Liabilities)	-	-	9	9
Total Liabilities	$ -	$ 351	$ 9	$ 360

Assets and Liabilities Measured at Fair Value on a Recurring Basis

December 31, 2013

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	$ -	$ 5,504	$ -	$ 5,504
U.S. Agency Debt	-	4,459	-	4,459
Residential Mortgage-Backed:				
Ginnie Mae	-	2,123	-	2,123
U.S. Agency	-	8,440	55	8,495
FHA/VA Non-Wrapped Reperformer	-	-	440	440
Non-Agency	-	221	-	221
Agricultural Mortgage-Backed:				
Farmer Mac	-	-	179	179
Asset-Backed	-	46	106	152
Corporate Bonds	-	115	-	115
Interest Rate Swaps and Other Financial Instruments	-	674	-	674
Assets Held in Trust (included in Other Assets)	58	-	-	58
Collateral Assets (included in Other Assets)	-	10	-	10
Total Assets	$ 58	$ 21,592	$ 780	$ 22,430
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 121	$ -	$ 121
Collateral Liabilities (included in Bonds and Notes)	-	425	-	425
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	$ -	$ 546	$ 10	$ 556

Assets and Liabilities Measured at Fair Value on a Recurring Basis

December 31, 2012

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	$ -	$ 2,808	$ -	$ 2,808
U.S. Agency Debt	-	3,683	-	3,683
Residential Mortgage-Backed:				
Ginnie Mae	-	3,260	-	3,260
U.S. Agency	-	7,015	78	7,093
FHA/VA Non-Wrapped Reperformer	-	-	506	506
Non-Agency	-	292	-	292
Agricultural Mortgage-Backed:				
Farmer Mac	-	-	215	215
Asset-Backed	-	-	121	121
Corporate Bonds	-	21	-	21
Interest Rate Swaps and Other Financial Instruments	-	1,005	-	1,005
Assets Held in Trust (included in Other Assets)	51	-	-	51
Collateral Assets (included in Other Assets)	-	17	-	17
Total Assets	$ 51	$ 18,101	$ 920	$ 19,072
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 158	$ -	$ 158
Collateral Liabilities (included in Bonds and Notes)	-	556	-	556
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	$ -	$ 714	$ 10	$ 724

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

($ in Millions)	U.S. Agency Mortgage-Backed Securities	Farmer Mac Mortgage-Backed Securities	FHA/VA Non-Wrapped Reperformer Mortgage-Backed Securities	Asset-Backed Securities	Standby Letters of Credit
Balance at December 31, 2013	$ 55	$ 179	$ 440	$ 106	$ 10
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	-	2	-
Included in Other Comprehensive Income	11	-	(9)	-	-
Sales	-	-	-	(7)	-
Issuances	-	-	-	-	4
Settlements	(10)	(28)	(60)	(12)	(5)
Accretion	1	(1)	20	4	-
Balance at December 31, 2014	$ 57	$ 150	$ 391	$ 93	$ 9
Balance at December 31, 2012	$ 78	$ 215	$ 506	$ 121	$ 10
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	(1)	-	-
Included in Other Comprehensive Income	(11)	(1)	(2)	1	-
Issuances	-	-	-	-	7
Settlements	(14)	(34)	(85)	(21)	(7)
Accretion	2	(1)	22	5	-
Balance at December 31, 2013	$ 55	$ 179	$ 440	$ 106	$ 10
Balance at December 31, 2011	$ -	$ -	$ -	$ 54	$ 10
Level 3 Assets Acquired in Merger	89	253	554	59	-
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	-	(12)	-
Included in Other Comprehensive Income	-	(1)	(1)	43	-
Issuances	-	-	-	-	7
Settlements	(12)	(36)	(77)	(26)	(7)
Accretion	1	(1)	30	3	-
Balance at December 31, 2012	$ 78	$ 215	$ 506	$ 121	$ 10

Estimated Fair Value of Certain Other Financial Instruments

The following table presents the estimated fair values of financial instruments that are recorded in the consolidated balance sheets at cost, as well as certain off-balance sheet financial instruments, as of December 31, 2014, 2013 and 2012.

($ in Millions)

	December 31, 2014			December 31, 2013			December 31, 2012		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
Financial Assets:									
Net Loans	$ 79,901	$ 81,416	Level 3	$ 73,156	$ 73,941	Level 3	$ 71,543	$ 73,800	Level 3
Financial Liabilities:									
Bonds and Notes	$ 97,580 (1)	$ 98,367 (1)	Level 3	$ 88,458 (2)	$ 88,297 (2)	Level 3	$ 83,607 (3)	$ 85,183 (3)	Level 3
Subordinated Debt	905	929	Level 3	905	909	Level 3	905	990	Level 3
Off-Balance Sheet Financial Instruments:									
Commitments to Extend Credit	$ -	$ (114)	Level 3	$ -	$ (105)	Level 3	$ -	$ (100)	Level 3

(1) Includes $239 million in collateral liabilities carried at fair value as of December 31, 2014.
(2) Includes $425 million in collateral liabilities carried at fair value as of December 31, 2013.
(3) Includes $556 million in collateral liabilities carried at fair value as of December 31, 2012.

Net Loans

Our loan portfolio includes fixed- and floating-rate loans. Since no active trading market exists for most of our loans, fair value is estimated by discounting the expected future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit risk.

Bonds and Notes

Bonds and notes are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the U.S. Treasury yield curve and an estimated yield-spread relationship between Farm Credit debt securities and U.S. Treasury securities. We estimate an appropriate yield-spread taking into consideration bank and security dealer yield indications, observed new Government Sponsored Enterprise debt security pricing, and pricing levels in the related USD interest rate swap market.

Subordinated Debt

The fair value of subordinated debt is estimated based upon quotes obtained from a broker/dealer.

Commitments to Extend Credit

The fair value of commitments to extend credit is estimated by applying a risk-adjusted spread percentage to these obligations.

The following table presents information about valuation techniques and inputs to other fair value measurements.

Information About Valuation Techniques and Inputs to Other Fair Value Measurements

	Valuation Technique	Input
Net Loans	Discounted Cash Flow	Prepayment Rate
		Mark-to-Market Spread
		Benchmark Yield Curve
		Probability of Default
		Loss Given Default
Bonds and Notes	Discounted Cash Flow	Benchmark Yield Curve
		Farm Credit Spread
Subordinated Debt	Non-binding Broker/Dealer Quote	Price for Similar Security
Commitments to Extend Credit	Discounted Cash Flow	Mark-to-Market Spread

Note 14 – Related Party Transactions

In the ordinary course of business, we enter into loan transactions with customers, the officers or directors of which may also serve on our Board of Directors. Such loans are subject to special review and reporting requirements contained in the FCA regulations, are reviewed and approved only at the most senior loan committee level within the Bank and are regularly reported to the Board of Directors. Except as noted below, all related party loans are made in accordance with established policies on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unrelated borrowers.

During 2010, we made a $4.0 million loan to Dixie Electric Membership Corporation (DEMCO), with which Richard W. Sitman, a member of our Board of Directors, is affiliated. The loan was made to refinance a portion of DEMCO's existing long-term indebtedness. CoBank's pricing policy was unintentionally misapplied to this loan and the loan was closed with an interest rate of 3.25 percent, which is lower than rates on similar loans to unrelated borrowers. As of December 31, 2014, there was $2.2 million outstanding on this loan, which is less than 5 percent of the Bank's total exposure to DEMCO.

Total loans outstanding to customers whose officers or directors serve on our Board of Directors amounted to $8.3 billion at December 31, 2014. During 2014, $20.7 billion of advances on loans were made and repayments totaled $20.1 billion. None of these loans outstanding at December 31, 2014 were delinquent, in nonaccrual or accruing restructured status or, in the opinion of management, involved more than a normal risk of collectability.

Note 15 – Segment Financial Information

We conduct lending operations through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure.

The following table presents condensed disaggregated information for the segments. Allocations of resources and corporate items, as well as measurement of financial performance, are made at these operating segment levels. We also allocate net interest income on investment securities to our segments. Information to reconcile the total reportable segments to the total CoBank financial statements is shown as "other." Intersegment transactions are insignificant.

We do not hold significant assets in any foreign country. Substantially all of our agricultural export finance loans are U.S. dollar-denominated and 44 percent of these loans are guaranteed by a U.S. government-sponsored loan guarantee program. For the three years ended December 31, 2014, 2013 and 2012, no customer made up 10 percent or more of our gross or net interest income.

Segment Financial Information

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
2014 Results of Operations ($ in Thousands):						
Net Interest Income	$ 599,825	$ 279,989	$ 360,316	$ 1,240,130	$ (8,363)	$ 1,231,767
Provision (Reversal) for Loan Losses	37,000	-	(52,000)	(15,000)	-	(15,000)
Noninterest Income (Expense)	89,539	(2,750)	36,855	123,644	527	124,171
Operating Expenses	183,883	33,707	88,158	305,748	(1,948)	303,800
Provision for Income Taxes	82,952	-	81,047	163,999	(1,131)	162,868
Net Income (Loss)	$ 385,529	$ 243,532	$ 279,966	$ 909,027	$ (4,757)	$ 904,270
Selected Financial Information at December 31, 2014 ($ in Millions):						
Loans	$ 24,359	$ 39,919	$ 16,104	$ 80,382	$ -	$ 80,382
Less: Allowance for Loan Losses	(330)	-	(151)	(481)	-	(481)
Net Loans	$ 24,029	$ 39,919	$ 15,953	$ 79,901	$ -	$ 79,901
Total Assets	$ 24,323	$ 40,050	$ 16,017	$ 80,390	$ 27,038 *	$ 107,428
*Other assets are comprised of:						
Investment Securities						$ 24,320
Other Assets						2,718
2013 Results of Operations ($ in Thousands):						
Net Interest Income	$ 543,013	$ 287,407	$ 341,055	$ 1,171,475	$ (8,042)	$ 1,163,433
Provision (Reversal) for Loan Losses	(6,000)	-	6,000	-	-	-
Noninterest Income	92,740	1,560	40,683	134,983	(2,898)	132,085
Operating Expenses	164,181	34,218	83,749	282,148	(2,054)	280,094
Provision for Income Taxes	97,942	-	62,357	160,299	(1,330)	158,969
Net Income	$ 379,630	$ 254,749	$ 229,632	$ 864,011	$ (7,556)	$ 856,455
Selected Financial Information at December 31, 2013 ($ in Millions):						
Loans	$ 21,182	$ 37,897	$ 14,524	$ 73,603	$ -	$ 73,603
Less: Allowance for Loan Losses	(285)	-	(162)	(447)	-	(447)
Net Loans	$ 20,897	$ 37,897	$ 14,362	$ 73,156	$ -	$ 73,156
Total Assets	$ 21,189	$ 38,049	$ 14,423	$ 73,661	$ 23,983 *	$ 97,644
*Other assets are comprised of:						
Investment Securities						$ 21,688
Other Assets						2,295
2012 Results of Operations ($ in Thousands):						
Net Interest Income	$ 631,737	$ 275,679	$ 338,156	$ 1,245,572	$ (7,402)	$ 1,238,170
Provision for Loan Losses	16,550	-	53,450	70,000	-	70,000
Noninterest Income	64,708	1,220	49,335	115,263	(1,942)	113,321
Operating Expenses	154,521	31,261	76,766	262,548	1,335	263,883
Provision for Income Taxes	115,488	-	49,076	164,564	(873)	163,691
Net Income	$ 409,886	$ 245,638	$ 208,199	$ 863,723	$ (9,806)	$ 853,917
Selected Financial Information at December 31, 2012 ($ in Millions):						
Loans	$ 21,394	$ 36,707	$ 13,879	$ 71,980	$ -	$ 71,980
Less: Allowance for Loan Losses	(277)	-	(160)	(437)	-	(437)
Net Loans	$ 21,117	$ 36,707	$ 13,719	$ 71,543	$ -	$ 71,543
Total Assets	$ 21,447	$ 36,849	$ 13,776	$ 72,072	$ 20,406 *	$ 92,478
*Other assets are comprised of:						
Investment Securities						$ 17,999
Other Assets						2,407

Note 16 – Commitments and Contingent Liabilities

Under the Farm Credit Act of 1971, as amended, we are primarily liable for the portion of outstanding Systemwide Debt Securities issued by CoBank. We are also contingently liable, as defined in statutory joint and several liability provisions, for the outstanding Systemwide Debt Securities issued by the other System banks. Total Systemwide Debt Securities of the System were $225.4 billion at December 31, 2014.

There are several mechanisms in place affecting exposure to statutory joint and several liabilities. System banks are statutorily required to maintain eligible assets at a level at least equal in value to the total amount of debt for which such System bank is primarily liable. In addition, in the event of a default by a System bank, the Insurance Fund would be required to make timely payment of principal and interest on Systemwide Debt Securities, to the extent that net assets are available in the Insurance Fund, before the joint and several liability of the System banks would be triggered. At December 31, 2014, the aggregated assets of the Insurance Fund totaled $3.8 billion. Finally, System banks must maintain certain financial criteria in order to participate in Systemwide debt issuances. If these criteria are not met, a troubled System bank's access to and participation in Systemwide debt issuances could be limited or denied.

We have entered into employment agreements with two of our senior officers which will provide specified payments, as well as certain enhanced retirement benefits, in the event of a termination, except in the case of a termination for cause. These employment agreements also provide for enhanced payments in the event of a change in control, as further discussed on page 138.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For those matters where it is probable that we will incur a loss, and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. For other matters, where a loss is not probable or the amount of the loss is not estimable, we will not accrue a liability. While the outcome of legal proceedings is inherently uncertain, based on information currently available, advice of legal counsel and available insurance coverage, we believe that our established legal reserves are adequate as of December 31, 2014 and the liabilities arising from our legal proceedings will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Bank's consolidated financial position, results of operations or cash flows.

We have various other commitments outstanding and contingent liabilities as discussed elsewhere in these notes to consolidated financial statements, including commitments to extend credit as discussed in Note 11.

Note 17 – Quarterly Financial Information

Unaudited quarterly results of operations for the years ended December 31, 2014, 2013 and 2012, are shown in the table below.

Quarterly Financial Information (Unaudited)

2014	First	Second	Third	Fourth	Total
Net Interest Income	$ 308,966	$ 311,351	$ 299,213	$ 312,237	$ 1,231,767
Provision (Reversal) for Loan Losses	-	(25,000)	-	10,000	(15,000)
Noninterest Income and Expenses, Net	31,428	55,869	38,308	54,024	179,629
Provision for Income Taxes	46,267	47,552	36,209	32,840	162,868
Net Income	$ 231,271	$ 232,930	$ 224,696	$ 215,373	$ 904,270
2013	**First**	**Second**	**Third**	**Fourth**	**Total**
Net Interest Income	$ 302,427	$ 296,650	$ 276,376	$ 287,980	$ 1,163,433
Provision (Reversal) for Loan Losses	15,000	5,000	-	(20,000)	-
Noninterest Income and Expenses, Net	40,470	39,192	28,869	39,478	148,009
Provision for Income Taxes	38,156	40,422	39,441	40,950	158,969
Net Income	$ 208,801	$ 212,036	$ 208,066	$ 227,552	$ 856,455
2012	**First**	**Second**	**Third**	**Fourth**	**Total**
Net Interest Income	$ 313,076	$ 307,080	$ 305,082	$ 312,932	$ 1,238,170
Provision for Loan Losses	5,000	5,000	10,000	50,000	70,000
Noninterest Income and Expenses, Net	26,186	(9,117)	41,503	91,990	150,562
Provision for Income Taxes	51,391	58,809	35,925	17,566	163,691
Net Income	$ 230,499	$ 252,388	$ 217,654	$ 153,376	$ 853,917

Note 18 – Affiliated Associations and District Financial Information

CoBank is 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. The Associations are not authorized by the Farm Credit Act to participate in the issuance of 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 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

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.

The Farm Credit Act and FCA regulations require us to exercise supervision over certain operating activities of our affiliated Associations. CoBank and our 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.

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 condensed consolidated financial statements.

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.

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. We downgraded our wholesale loan to FCSSW to the 'Special Mention' credit quality classification as of September 30, 2014.

At December 31, 2014, we further downgraded our wholesale loan to FCSSW, which totaled $891.3 million, to the 'Substandard' credit quality classification. Pursuant to our regulatory requirements, we classify our wholesale loans using the same credit rating methodology as is used with our commercial loans. Our loans to affiliated Associations are collateralized by substantially all of the Association assets, and the earnings, capital and loan loss reserves of the Associations provide us a buffer against losses in their retail loan portfolios. While the downgrade resulted from a sudden significant increase in delinquencies in a discrete portion of FCSSW's retail loan portfolio, as a result of the collateralization and other mitigating factors described above, we do not currently anticipate any losses on FCSSW's wholesale loan. As of December 31, 2014, CoBank has not made any provision for loan loss or recorded any allowance for credit loss related to our wholesale loan to FCSSW.

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 FCA.

Report of Management
CoBank, ACB

March 11, 2015

To our Shareholders:

The consolidated financial statements of CoBank, ACB (CoBank) are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as appropriate in the circumstances. The consolidated financial statements, in the opinion of management, fairly present, in all material respects, the consolidated financial position of CoBank. Other consolidated financial information included in the Annual Report to Shareholders is consistent with that in the financial statements.

To meet its responsibility for reliable consolidated financial information, management depends on accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, CoBank's internal audit staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as deemed appropriate. CoBank's 2014, 2013 and 2012 consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent auditors. In addition, our independent auditors have audited our internal control over financial reporting as of December 31, 2014, 2013 and 2012. CoBank is also examined by the Farm Credit Administration.

The chief executive officer, as delegated by the Board of Directors, has overall responsibility for CoBank's system of internal controls and financial reporting, subject to the review of the audit committee of the Board of Directors. The chief executive officer reports periodically on those matters to the audit committee. The audit committee consults regularly with management and meets periodically with the independent auditors and internal auditors to review the scope and results of their work. The audit committee reports regularly to the Board of Directors. Both the independent auditors and the internal auditors have direct access to the audit committee, which is composed solely of directors who are not officers or employees of CoBank.

The undersigned certify that this CoBank Annual Report to Shareholders has been reviewed by the undersigned and 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 their knowledge.

Everett M. Dobrinski	Robert B. Engel	David P. Burlage
Chair of the Board	Chief Executive Officer	Chief Financial Officer

Report of Independent Auditors
CoBank, ACB

To the Board of Directors of CoBank, ACB:

We have audited the accompanying consolidated financial statements of CoBank, ACB (CoBank) and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014, 2013, and 2012, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholder's equity for the years then ended. We also have audited CoBank's internal control over financial reporting as of December 31, 2014 based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility

The Company's 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, for maintaining internal control over financial reporting including the design, implementation, and maintenance of controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to error or fraud, and for its assertion about the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing on page 115 of the CoBank 2014 Annual Report to Shareholders.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our integrated audits. We conducted our integrated audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with the auditing and attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements 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 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 company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of internal control over financial reporting involves obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinions.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and those charged with governance; and (iii) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CoBank ACB and its subsidiaries at December 31, 2014, 2013, and 2012, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* as issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

PricewaterhouseCoopers LLP

Denver, Colorado
March 11, 2015

Management’s Report on Internal Control Over Financial Reporting

CoBank, ACB

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. CoBank’s internal control over financial reporting is a process designed under the supervision of our chief executive officer and our chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Bank’s financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. As of the end of the Bank’s 2014 fiscal year, management conducted an assessment of the effectiveness of the Bank’s internal control over financial reporting based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded that the Bank’s internal control over financial reporting is effective as of December 31, 2014.

Our internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of CoBank; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank’s assets that could have a material effect on our financial statements.

The effectiveness of the Bank’s internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report appearing on pages 113 and 114, which expresses an unqualified opinion on the effectiveness of the Bank’s internal control over financial reporting as of December 31, 2014. There have been no changes in the Bank’s internal control over financial reporting that occurred during our most recent fiscal quarter (i.e., the fourth quarter of 2014) that have materially affected, or are reasonably likely to materially affect, the Bank’s internal control over financial reporting.

Controls and Procedures

CoBank, ACB

We maintain a system of disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information disclosed by us in our quarterly and annual reports is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions to be made regarding disclosure. The chief executive officer and the chief financial officer have evaluated our disclosure controls and procedures as of the end of the period covered by this annual report and have concluded that our disclosure controls and procedures are effective as of that date.

We also maintain a system of internal controls. The term “internal controls,” as defined by the American Institute of Certified Public Accountants’ Codification of Statement on Auditing Standards, AU-C Section 315, means a process effected by those charged with governance, management and other personnel that is designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We continually assess the adequacy of our internal controls over financial reporting and enhance our controls in response to internal control assessments and internal and external audit and regulatory recommendations. There have been no significant changes in our internal controls or in other factors that could significantly affect such controls subsequent to the date we carried out our evaluations. In accordance with our internal control procedures, these financial statements were prepared under the oversight of the audit committee of our Board of Directors.

Annual Report to Shareholders Disclosure Information Required by Farm Credit Administration Regulations

CoBank, ACB

In accordance with Farm Credit Administration (FCA) regulations, CoBank has prepared this Annual Report to Shareholders for the year ended December 31, 2014, in accordance with all applicable statutory or regulatory requirements.

	Section	Location
Description of Business		
Territory served, eligible borrowers, types of lending activities engaged in, financial services offered, and related Farm Credit organizations.	Notes to Financial Statements.....................	Note 1 Note 18
Significant developments within the last 5 years that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting business, seasonal characteristics, concentration of assets, and dependence, if any, upon a single customer or a few customers.	Notes to Financial Statements.....................	Note 1 Note 3 Note 4 Note 5 Note 6 Note 7 Note 8 Note 14 Note 15 Note 16 Note 17 Note 18
	Management's Discussion and Analysis	Pages 25 to 58
Description of Property		
Location of Property CoBank leases its national office building which is located in Greenwood Village, Colorado. As described on page 67, CoBank has entered into a build-to-suit arrangement for the construction of a new corporate headquarters in Greenwood Village, Colorado and will lease such property upon completion. CoBank also leases various facilities which are described on the inside back cover of this Annual Report to Shareholders. CoBank leases banking center offices in Ames, IA; Atlanta, GA; Austin, TX; Enfield, CT; Fargo, ND; Louisville, KY; Lubbock, TX; Minneapolis, MN; Omaha, NE; Sacramento, CA; Spokane, WA; Sterling, CO; and St. Louis, MO. CoBank leases office space in Washington D.C. and Singapore. CoBank owns its Wichita Banking Center facilities in Wichita, KS. CoBank leases the majority of this building to various unrelated tenants. Farm Credit Leasing Services Corporation leases its headquarters office in Minneapolis, MN, as well as outside sales offices in Atlanta, GA; Enfield, CT; Louisville, KY; Lubbock, TX; Celina, OH; Omaha, NE; Sacramento, CA; St. Louis, MO; Stockton, CA; West Palm Beach, FL; and Wichita, KS, some of which are located in CoBank banking centers. CoBank has a national charter and, as a result, serves customers across rural America. Travel to customer locations may be difficult due to the rural nature of many of our customers' operations. In order to provide the appropriate level of customer contact and to optimize the efficiency of management travel, CoBank utilizes a variety of transportation to serve its customers, including aircraft (both commercial and fractional interest). The use of fractional interest aircraft is strictly limited to business use.	Office Locations..	Inside Back Cover
Legal Proceedings and Enforcement Actions	Notes to Financial Statements.....................	Note 16
Description of Capital Structure	Notes to Financial Statements.....................	Note 8
Description of Liabilities		
Debt Outstanding	Notes to Financial Statements.....................	Notes 6 and 7
Contingent Liabilities	Notes to Financial Statements.....................	Note 16
Selected Financial Data for the Five Years Ended December 31, 2014	Five-Year Summary of Selected Consolidated Financial Data	Page 27
Management's Discussion and Analysis of Financial Condition and Results of Operations	Management's Discussion and Analysis	Pages 25 to 58
Directors and Senior Officers		
Directors' Information	Board of Directors Disclosure	Pages 119 to 129
Senior Officers' Information	Senior Officers	Pages 130 to 143
Transactions with Directors and Senior Officers	Notes to Financial Statements.....................	Note 14

Annual Report to Shareholders Disclosure Information Required by Farm Credit Administration Regulations

CoBank, ACB

	Section	Location
Involvement in Certain Legal Proceedings There were no matters that came to the attention of the Board of Directors or management regarding the involvement of current directors or senior officers in specified legal proceedings which are required to be disclosed.		
Relationship with Independent Auditors There has been no change in independent auditors or no disagreements on any matters of accounting principle or financial statement disclosure during the period.		
Financial Statements Financial Statements and Footnotes	Financial Information..................................	Pages 59 to 111
Report of Management	Report of Management	Page 112
Report of Independent Auditors	Report of Independent Auditors	Pages 113 to 114
Aggregate Fees Incurred for Services Rendered by Independent Auditors	Board of Directors Disclosure	Page 121
Credit and Services to Young, Beginning and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products	Young, Beginning and Small Farmers.........	Page 146
Unincorporated Business Entities	Unincorporated Business Entities................	Page 147

Board of Directors Disclosure as of December 31, 2014

CoBank, ACB

Directors

At year-end 2014, following the retirement of one director mid-year, CoBank was governed by a 27-member Board of Directors including 23 directors elected by customers from six different geographic regions. The Board has elected two outside directors (independent of any customer or Farm Credit System affiliation) and two appointed directors (customer affiliation permitted) to complement the expertise of the customer-elected Board members.

Director terms run for four years. Employees of Farm Credit System institutions, including CoBank, cannot serve on CoBank's Board of Directors within one year of employment.

Director Independence

The Board must be composed at all times of at least 75 percent of directors who are deemed to be independent. The Board has adopted standards to assist it in making the annual affirmative determination of each director's independence status. A director will be considered "independent" if he or she meets the 14 criteria for independence set forth by the Board, which were established based upon leading industry practice and, in part, the listing standards of the New York Stock Exchange. For example, the loans from CoBank to an affiliated Association or Title III customer, as defined by the Farm Credit Act, where a CoBank director is also a director must not comprise more than 15 percent of the total loans of CoBank. In addition, the Board has made a determination as to each independent director that no relationship exists which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the director's responsibilities. In making these determinations, the Board reviewed and discussed information provided by the directors and by CoBank with regard to each director's business and personal activities as they may relate to CoBank and CoBank's management. As of December 31, 2014, all directors were considered to be independent.

Information About Committees of the Board of Directors

The standing Board committees consist of the following: an Audit Committee, a Compensation Committee, an Executive Committee, a Governance Committee and a Risk Committee. The Board has adopted written charters for each of these committees. The full text of each charter is available on our website at www.cobank.com.

All standing Board committees report on their meetings at the regular meeting of the full Board. Minutes of each committee meeting are signed by the committee chair and secretary, or another individual acting in their place at the meeting.

In 2014, the Board of Directors held a total of eight meetings and standing committees of the Board of Directors held a total of 28 meetings. The primary responsibilities of each committee are described on the following pages.

Standing Committees

Audit Committee

The Audit Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The Audit Committee is governed by a formal charter and chaired by one of the Board's outside directors. All members of the Audit Committee are independent of management of the Bank and any other System entity. During 2014, the Audit Committee met a total of six times, including regular meetings in executive session with senior management, the Chief Risk Officer, the head of the Internal Audit Division, the head of the Asset Review Division, and the Bank's independent auditors. The Audit Committee reviews and approves the quarterly and annual financial statements.

Mr. Barry M. Sabloff serves as Chair of the Audit Committee. The Board of Directors has determined that Mr. Sabloff has the qualifications and experience necessary to serve as the "Board financial expert," as defined by the rules of the Securities and Exchange Commission and the FCA, and he was so designated.

The primary purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities by carrying out the following responsibilities:

(1) Overseeing management's conduct of the Bank's financial reporting process and systems of internal accounting and financial controls;

(2) Monitoring the independence and performance of the Bank's internal audit function, the risk assessment process, and the independent auditors;

(3) Ensuring the Bank's compliance with legal and regulatory requirements; and

(4) Providing an avenue of communication among the independent auditors, management and the Board.

Management has the primary responsibility for the consolidated financial statements and the financial reporting process, including the system of internal controls. The Audit Committee oversees the Bank's independent auditors, systems of internal accounting and financial controls, and financial reporting process on behalf of the Board of Directors. In this regard, the Audit Committee helps to ensure independence of the Bank's independent auditors, the integrity of management and the adequacy of disclosure to shareholders. The Audit Committee has unrestricted access to representatives of the Internal Audit Division, independent auditors and financial management.

The Audit Committee preapproves all audit and audit-related services and permitted nonaudit services (including the fees and terms thereof) to be performed for the Bank by its independent auditors, as negotiated by management. The Audit Committee may form and delegate authority to the chair of the Audit Committee, or a subcommittee of the Audit Committee (consisting of one or more members), when appropriate, including the authority to grant preapprovals of audit and permitted nonaudit services, provided that decisions of the chair or any subcommittee to grant preapprovals are presented to the full Audit Committee at its next scheduled meeting.

The Audit Committee reviewed the audited consolidated financial statements in the Annual Report for the year ended December 31, 2014, with management and the Bank's independent auditors. The independent auditors are responsible for expressing an opinion on the conformity of the Bank's audited consolidated financial statements with accounting principles generally accepted in the United States of America, including a discussion of the quality of the Bank's accounting principles, the reasonableness of significant judgments, the clarity of disclosures in the consolidated financial statements and the adequacy of internal controls. The Audit Committee discussed with the independent auditors the results of the 2014 audit and all other matters required to be discussed by Statements on Auditing Standards. In addition, the Audit Committee received, reviewed and discussed the written disclosures from the independent auditors required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees." Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Bank's Annual Report for the year ended December 31, 2014 and for filing with the FCA.

Aggregate fees incurred by the Bank for services rendered by its independent auditors, PricewaterhouseCoopers LLP, for the years ended December 31, 2014 and 2013 were as follows:

Year Ended December 31,	2014	2013
Audit	$ 671,600	$ 590,500
Audit-related	180,000	76,100
All Other	1,872	408,823
Total	$ 853,472	$ 1,075,423

Audit fees were for the annual audit of the consolidated financial statements for 2014 and 2013.

Audit-related fees were for assurance and related services primarily in connection with preferred stock offerings in both 2014 and 2013.

All Other fees for 2014 represent our annual subscription to accounting research tools. All Other fees for 2013 include consulting services related to information systems and data management, as well as fees for our annual subscription to accounting research tools.

Compensation Committee

The Compensation Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. All members of the Compensation Committee are independent of management. The committee is primarily responsible for representing the Board in matters related to compensation programs for the Bank, including salary, incentive and benefits programs, and in facilitating the terms of employment, compensation and evaluation of the Chief Executive Officer. The committee also reviews the results of the Bank's affirmative action program and human equity initiatives.

Executive Committee

The Executive Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The committee is primarily responsible for developing for Board consideration recommendations surrounding the design and implementation of the Bank's strategic plan. It acts on behalf of the Board between Board meetings when necessary. The Executive Committee is responsible for reviewing the Bank's budget and reports of operations, and for reviewing the capital adequacy plan and portfolio strategy. The committee reviews the Bank's annual business and financial plan and recommends such plan for approval by the Board. The committee also provides advice and counsel to the Board and management on policy matters related to capital and finance.

Governance Committee

The Governance Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The committee is primarily responsible for monitoring and recommending for Board consideration corporate governance processes and structures that are consistent with leading practices. The committee coordinates the annual Board self-evaluation and a periodic director peer evaluation. The committee also oversees the Bank's director nomination process, which is conducted by an independent Nominating Committee (see page 122), and director election process. In addition, the committee annually assesses the needs of the Board – taking into account the experience and background of current directors – and also recommends prospective outside and appointed directors to the full Board.

Risk Committee

The Risk Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The committee is primarily responsible for overseeing the enterprise risk management practices of the Bank, including management's ability to assess and manage the Bank's credit, market, liquidity, legal and compliance, reputational, technology and operational risks. The committee also provides an open avenue of communication between management and the Board in order to effectively manage risks.

Other Committees

Nominating Committee

The Nominating Committee for 2014 consisted of 14 customer-owner representatives, all of whom were elected by the Bank's stockholders. No member of the Board or management served on the Nominating Committee. The bank uses an independent nominating committee which is charged with the responsibility to identify qualified candidates for Board membership and to review director nominations, helping to ensure that the Bank continues to attract a highly qualified and diverse Board. The Nominating Committee seeks candidates who are recognized leaders and who fulfill specific needs for skill set, industry knowledge, and geographic and other forms of diversity on the Board. Customers are encouraged to submit resumes of candidates for elected positions. The Nominating Committee makes a best effort to recommend at least two candidates for each position up for election. Shareholders and interested candidates may gather signatures for petitions to run for the Board following the conclusion of the Nominating Committee's work. A nominee must not have reached age 70 on or prior to the date the term of office is to begin and must meet other eligibility requirements established by Bank bylaws and federal regulations.

Succession Committee

The Succession Committee was appointed in June 2013 by the Board of Directors to lead an effective CEO succession process over an estimated three-year period. The Succession Committee will identify candidates with the skill set and competencies necessary to lead CoBank in the future and to address the challenges that CoBank will face to continue as a dependable provider of credit and value-added financial services to agriculture and rural infrastructure businesses for the benefit of rural America. The Succession Committee consists of all continuing directors who were members of the Compensation Committee, Board officers and all other members who were Board committee chairs during 2013. The Succession Committee met six times in 2014.

Board Restructuring Committee

The Board Restructuring Committee was appointed in May 2014 by the Board of Directors and consists of six CoBank directors and six customer-owner representatives. The purpose of this committee is to review current governance practices and make recommendations for changes to those practices to ensure a strong and equitable governance structure is maintained. If the governance bylaw changes implementing these recommendations are approved by shareholders, the changes will be implemented beginning on January 1, 2016.

Board of Directors Disclosure as of December 31, 2014
CoBank, ACB

The following represents certain information regarding the directors as of December 31, 2014, including business experience during the past five years. The terms of directors are scheduled to expire as of December 31 of the years indicated.

1 - Audit Committee	6 - Audit Committee Chair	11 - Succession Committee
2 - Compensation Committee	7 - Compensation Committee Chair	12 - Succession Committee Chair
3 - Executive Committee	8 - Executive Committee Chair	13 - Board Restructuring Committee
4 - Governance Committee	9 - Governance Committee Chair	14 - Board Restructuring Committee Chair
5 - Risk Committee	10 - Risk Committee Chair	

Name	Term Expires	Principal Occupation and Other Affiliations
Robert M. Behr [1] Age: 60 Year Service Began: 2013	2016	**Principal Occupation:** Chief Operating Officer: Citrus World, Inc., producing and marketing Florida’s Natural brand citrus juices, Lake Wales, FL.
Robert W. Bray [3] Age: 59 Year Service Began: 2012	2014	**Principal Occupation:** Owner/Operator: Bray Ranches, a farming and ranching operation and big game hunting business, Redvale, CO. **Other Affiliations:** Director: The Farm Credit Council, a trade organization, Washington, DC; Director: Colorado Agricultural Development Authority, a trade organization, Lakewood, CO; Director: Club 20, a coalition of county business interests, Grand Junction, CO; Officer: San Miguel Water Conservancy District, an agricultural water district, Norwood, CO; Commissioner: Colorado Parks and Wildlife Commission, a state regulatory agency, Colorado.
Oghi A. DeGiusti, Jr. [2, 11, 12] Second Vice Chair Age: 62 Year Service Began: 2012	2014	**Principal Occupation:** Owner/Operator: DeGiusti Farms, an alfalfa, grass, hay, soybeans, wheat and cow/calf stocker operation, Tuttle, OK. **Other Affiliations:** Director: The Farm Credit Council, a trade organization, Washington, DC; Alternate Director: Grady County Farm Services Agency, Chickasha, OK; President: Grady County Alfalfa Hay Growers Association, Chickasha, OK; Director: National Association of Farmer Elected Committees, a trade association, Washington, DC.
Everett M. Dobrinski [3, 8, 11] Chair Age: 68 Year Service Began: 1999	2015	**Principal Occupation:** Owner/Operator: Dobrinski Farm, a cereal grain and oilseed farm, Makoti, ND. **Other Affiliations:** Director: The Farm Credit Council, a trade organization, Washington, DC; Director: North Dakota Coordinating Council for Cooperatives, a trade association, Jamestown, ND.

Board of Directors Disclosure as of December 31, 2014

CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
William M. Farrow III [5] Age: 59 Year Service Began: 2007	2018	**Principal Occupation:** Director, President and CEO: Urban Partnership Bank, a commercial bank, Chicago, IL; Owner: Winston and Wolfe LLC, a technology development company, Chicago, IL. **Other Affiliations:** Director: Federal Reserve Bank of Chicago, a federal depository bank, Chicago, IL; Director: NorthShore University Health System, a hospital system, Evanston, IL; Trustee: Illinois Institute of Technology, a PhD granting technological university, Chicago, IL.
Benjamin J. Freund [1] Age: 59 Year Service Began: 2014	2017	**Principal Occupation:** Owner/Operator: Freund's Farm, Inc., a cow dairy, East Canaan, CT; Owner: CowPots, LLC, manufacturing plantable pots, East Canaan, CT. **Other Affiliations:** Officer: Canaan Valley Agricultural Cooperative, Inc., East Canaan, CT.
Mary E. Fritz [4, 9, 11, 13, 14] Age: 65 Year Service Began: 2003	2015	**Principal Occupation:** Owner/Operator: Quarter Circle JF Ranch, Inc., a dry land grain and cow/calf operation, Chester, MT. **Other Affiliations:** Chair: The Farm Credit Council, a trade organization, Washington, DC.
John L. Guthrie [3, 13] Age: 70 Year Service Began: 2012	2016	**Principal Occupation:** Owner/Operator: cow/calf and stocker cattle ranch and diversified farming operation, Porterville, CA; Partner: McGruder Partners, a farming operation, Porterville, CA; Director: Guthrie Investment Co., managing farming and investments, Porterville, CA. **Other Affiliations:** Chair: Federal Farm Credit Banks Funding Corporation, the issuer of Systemwide debt, Jersey City, NJ; Director: F&T Financial Services, a financial institution for consumer loans and debt collections, Porterville, CA; Director: California Cattlemen's Association, a trade association, Sacramento, CA.
William H. Harris [4] Age: 65 Year Service Began: 2001	2015	**Principal Occupation:** Owner/Operator: Harris Farms, a cash crop farming operation, LeRoy, NY; President: Eatwell Farms, Inc., a custom field work operation, LeRoy, NY. **Other Affiliations:** Director: ACDI/VOCA, international agricultural development, Washington, DC.
Daniel T. Kelley [2, 7, 11] First Vice Chair Age: 66 Year Service Began: 2004	2017	**Principal Occupation:** Owner/Operator: Kelley Farms, a diversified corn and soybean operation, Normal, IL. **Other Affiliations:** Chairman: Illinois Agricultural Leadership Foundation, agricultural leadership development, Macomb, IL; Director: Midwest Grain, LLC, grain merchandising, Bloomington, IL; Director: Nationwide Mutual Insurance Company, an insurance company, Columbus, OH; Director: Nationwide Bank, a federal savings bank, Columbus, OH; Director: Truth About Trade and Technology, a not-for-profit company, Des Moines, IA.

Board of Directors Disclosure as of December 31, 2014

CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
James A. Kinsey [3, 13] Age: 65 Year Service Began: 2001	2016	**Principal Occupation:** Owner/Operator: Kinsey's Oak Front Farms, a purebred angus seed-stock producer, Flemington, WV.
David J. Kragnes [3, 13] Age: 62 Year Service Began: 2009	2016	**Principal Occupation:** Owner/Operator: soybean and corn farm, Felton, MN; Partner: Kragnes Family Farm, an organic vegetable farm, Felton, MN. **Other Affiliations:** Director: Quentin Burdick Center for Cooperatives, a cooperative education center, Fargo, ND.
James R. Magnuson [4] Age: 61 Year Service Began: 2013	2018	**Principal Occupation:** General Manager and Chief Executive Officer: Key Cooperative, an agricultural grain marketing and farm supply cooperative, Roland, IA. **Other Affiliations:** Chairman: United Suppliers, Inc., wholesale agricultural input supplier, Eldora, IA; Director: Agricultural Cooperative Employment Services, an employment service, Manhattan, KS.
Jon E. Marthedal [4, 13] Age: 58 Year Service Began: 2013	2017	**Principal Occupation:** Owner/Operator: Marthedal Farms, producing grapes, raisins and blueberries, Fresno, CA; Owner/Operator: Keystone Blue Farms, LLC, producing blueberries, Fresno, CA. **Other Affiliations:** Director: Sun-Maid Growers of California, marketing, receiving and processing raisins, Kingsburg, CA; Director: California Blueberry Commission, a state commission, Fresno, CA; Vice Chairman: California Raisin Marketing Board, a state marketing board, Fresno, CA; Vice Chairman: Raisin Administrative Committee, a federal marketing order, Fresno, CA; President: California Blueberry Association, a voluntary state organization, Fresno, CA.
Gary A. Miller [1, 13] Age: 54 Year Service Began: 2006	2017	**Principal Occupation:** President and Chief Executive Officer: GreyStone Power Corporation, an electric membership corporation, Douglasville, GA. **Other Affiliations:** Chair: Wellstar Health System, healthcare provider, Marietta, GA; Director: GRESCO Utility Supply, Inc., electric material supplier, Smarr, GA; Treasurer: Douglas County Development Authority, an economic development agency, Douglasville, GA.
Catherine Moyer [5] Age: 39 Year Service Began: 2010	2018	**Principal Occupation:** Chief Executive Officer and General Manager: Pioneer Communications, a rural telephone and communications company, Ulysses, KS. **Other Affiliations:** Commissioner: Kansas Lottery Commission, Topeka, KS; Director: Kansas Rural Independent Telecommunications Coalition, a coalition of telephone companies promoting service in rural areas of Kansas, Topeka, KS; Director: State Independent Telephone Association of Kansas, an association promoting the partnership relationship of rural telecommunications, Topeka, KS; Director: Telcom Insurance Group, provider of property and casualty coverage to small telecommunications providers, Greenbelt, MD.

Board of Directors Disclosure as of December 31, 2014
CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
Alarik Myrin [1] Age: 68 Year Service Began: 2012	2018	**Principal Occupation:** President: Myrin Ranch, a ranching and farming operation, Altamont, UT; Managing Member: Myrin Livestock Co., LLC, a family cattle ranch, Altamont, UT; General Partner: Myrin Investment Co., LLC., real estate rental management, Altamont, UT; Managing Member: Canyon Meadows Ranch LLC, retail and wholesale grass fed beef, Altamont, UT. **Other Affiliations:** Director: Lake Fork Irrigation Co., a water irrigation company, Altamont, UT; Director: Western Agrihaul, LLC, a trucking operation, Altamont, UT; Director: Uintah Basin Medical Center, a hospital, rehab center and nursing home facility, Roosevelt, UT.
David S. Phippen [2, 11] Age: 64 Year Service Began: 2012	2015	**Principal Occupation:** Partner: Travaille & Phippen, Inc., an almond grower and processing company, and additional partnerships related to almonds and farm management, Manteca, CA. **Other Affiliations:** Director: Almond Board of California, a trade organization, Modesto, CA; Director: San Joaquin County Farm Bureau, a trade organization, Stockton, CA.
Ronald J. Rahjes [1] Age: 63 Year Service Began: 2012	2015	**Principal Occupation:** Officer: Wesley J. Rahjes and Sons, Inc., a diversified family farming corporation producing wheat, corn, soybeans and grain sorghum, Kensington, KS; Partner: R&D Farms, a farming partnership, Kensington, KS; Owner: R&C Tax Service, an accounting and tax firm, Kensington, KS. **Other Affiliations:** Director: Rural Telephone/Nextech, Inc., a telecommunications company, Lenora, KS.
David L. Reinders [2, 11] Age: 58 Year Service Began: 2011	2018	**Principal Occupation:** Chief Executive Officer: Ag Producers Co-op, a diversified farmer-owned grain cooperative, Sunray, TX. **Other Affiliations:** Director: Texas Agricultural Cooperative Council, a statewide industry association for cooperatives, Austin, TX.
Kevin G. Riel [2] Age: 49 Year Service Began: 2014	2017	**Principal Occupation:** President and Chief Executive Officer: Double ‘R’ Hop Ranches, Inc., a diversified farm primarily growing hops, Harrah, WA; President and Chief Executive Officer: Tri-Gen Enterprises, Inc., an agricultural marketing, management and financial operation, Harrah, WA; Managing Partner: WLJ Investments, LLC, a land holding and management company, Harrah, WA. **Other Affiliations:** Director: Northwest Farm Credit Services, an agricultural credit association, Spokane, WA; Director: Hop Growers of America, a trade organization, Moxee, WA.
Clint E. Roush [5] Age: 67 Year Service Began: 2012	2018	**Principal Occupation:** President: Clint Roush Farms, Inc., a family farming operation producing wheat, alfalfa and feeder cattle, Arapaho, OK. **Other Affiliations:** Chair: Farmers Cooperative Association of Clinton, OK, a grain and fertilizer cooperative, Clinton, OK; Director: Custer County Cattlemen’s Association, a trade organization, Arapaho, OK; Director: Custer County Rural Water District, a water distribution organization, Custer City, OK.

Board of Directors Disclosure as of December 31, 2014
CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
Barry M. Sabloff [1, 6, 11] Age: 68 Year Service Began: 2005	2016	**Principal Occupation:** General Partner: Sabloff Family Limited Partnership, L.P., a partnership managing investments in Marquette National Corporation common stock, Chicago, IL; Retired Executive Vice President, Bank One, N.A. (now merged with JPMorgan Chase & Co.). **Other Affiliations:** Vice Chairman/Director: Marquette National Corporation, a bank holding company, Chicago, IL; Vice Chairman/Director: Marquette Bank, a community bank, Chicago, IL; Director: Calypso Technology, Inc., a provider of trading systems to financial institutions, San Francisco, CA; Vice Chair/Treasurer/Trustee: Columbia College Chicago, a private arts and media college, Chicago, IL; Vice President/Director: The American School in London Foundation, an educational foundation, Princeton, NJ; Director: Marquette Bank Affordable Housing Foundation, a charitable foundation focused on affordable housing in Chicago and surrounding area, Orland Park, IL; Director: Marquette Bank Education Foundation, a charitable foundation focused on education in Chicago and surrounding area, Orland Park, IL.
Stephanie Herseth Sandlin [5] Age: 44 Year Service Began: 2014	2017	**Principal Occupation:** General Counsel and Vice President Corporate Development: Raven Industries, Inc., a technology and manufacturing company, Sioux Falls, SD.
Richard W. Sitman [4] Age: 61 Year Service Began: 1999 Also Served: 1995-1996	2015	**Principal Occupation:** Retired Owner/Operator: Jos. M. Sitman, Inc., a retail rental and storage company, Greensburg, LA. **Other Affiliations:** Chairman: Dixie Electric Membership Corporation, an electric distribution cooperative, Baton Rouge, LA; Chairman: DEMCO Energy Services, LLC, an electric service supplier, Baton Rouge, LA; Chairman: Dixie Business Center, a business incubator, Denham Springs, LA; Director: The Farm Credit Council, a trade organization, Washington, DC; Director: First Guaranty Bank, a commercial bank, Hammond, LA; Director: Louisiana Council of Farmer Coops, a trade organization, Port Allen, LA; Director: Zachary Taylor Parkway Association, an economic development association, Baton Rouge, LA.
Kevin A. Still [5, 10, 11] Age: 57 Year Service Began: 2002	2018	**Principal Occupation:** President and Chief Executive Officer: Co-Alliance, LLP, a partnership of five cooperatives supplying energy, agronomy and animal nutrition, producing swine and marketing grain, Avon, IN; Chief Executive Officer and Treasurer: Midland Co-op, Inc., IMPACT Co-op, Inc., LaPorte County Farm Bureau Cooperative Association, Frontier Co-op, Inc., and Excel Co-op, Inc., agricultural retail cooperatives, Avon, IN. **Other Affiliations:** Vice President/Director: Connexities, LLC, a technology provider, Danville, IN; President and Owner: Still Farms LLC, a grain farm, Galesburg, IL.
Scott H. Whittington [4] Age: 62 Year Service Began: 2013	2016	**Principal Occupation:** General Manager: Lyon-Coffey Electric Cooperative, an electric distribution cooperative, Burlington, KS. **Other Affiliations:** President, Board of Trustees: Kansas Electric Power Cooperative, a generation and transmission cooperative, Topeka, KS; Director: First National Bank of Kansas, commercial bank, Burlington, KS; Alternate Trustee: Kansas Electric Cooperatives, a statewide organization for electric cooperatives, Topeka, KS.

Board of Directors Disclosure as of December 31, 2014
CoBank, ACB

Compensation of Directors

For 2014, directors were compensated in cash at an annual rate of $56,408, paid in quarterly installments, which was the maximum amount permitted by the FCA for CoBank directors. Directors may elect to defer payment of all or part of their director compensation in accordance with agreements and applicable law. Compensation is for attendance at Board meetings, certain other meetings preapproved by the Board, and special duties as assigned. Directors' compensation is reduced by $2,500 for an unexcused absence at any regular Board meeting. FCA regulations also allow additional compensation to be paid to a director in exceptional circumstances where extraordinary time and effort are involved. In 2014, the Board approved additional compensation in excess of $56,408 to the Board, Audit and Succession Committee chairs, and to other directors in recognition of greater than normal involvement in connection with special assignments and attendance at special Board and committee meetings. Additional information for each director who served during 2014 is provided in the following table. Current CoBank policy regarding reimbursements for travel, subsistence and other related expenses states that for meetings designated by the Board and approved special assignments, Board members shall be reimbursed for reasonable travel and related expenses that are necessary and that support CoBank's business interests. As may be appropriate, CoBank may share in the reimbursement of expenses with other organizations. A copy of CoBank's policy is available to shareholders upon request. The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $619,417, $741,050 and $720,081 for the years ended December 31, 2014, 2013 and 2012, respectively.

Board of Directors Disclosure as of December 31, 2014
CoBank, ACB

The following table presents the number of days served at Board meetings and other official CoBank activities, and compensation paid to each director for the year ended December 31, 2014.

Name of Director	Number of Days Served at Board Meetings	Number of Days Served in Other Official CoBank Activities	Total Compensation Paid During 2014
Robert M. Behr	18	12	$ 57,908
Robert W. Bray[1]	18	20	57,408
Oghi A. DeGiusti, Jr.[1] [2]	17	40	66,408
Everett M. Dobrinski[1]	18	74	73,330
William M. Farrow III	18	11	57,408
Benjamin J. Freund	18	30	57,908
Mary E. Fritz[1]	18	46	73,330
John L. Guthrie[1]	18	31	65,908
William H. Harris	18	29	58,408
Erik N. Jacobson[3]	11	8	28,204
Daniel T. Kelley	18	35	60,408
James A. Kinsey	18	27	65,908
David J. Kragnes	18	34	65,408
James R. Magnuson	18	24	58,408
Jon E. Marthedal	16	45	65,408
Gary A. Miller	17	30	64,408
Catherine Moyer	18	16	56,908
Alarik Myrin	18	21	57,908
David S. Phippen	17	23	58,408
Ronald J. Rahjes	18	31	57,908
David L. Reinders	18	28	59,908
Kevin G. Riel	18	25	57,908
Clint E. Roush	18	34	57,408
Barry M. Sabloff [4]	18	15	73,330
Stephanie Herseth Sandlin	17	4	56,908
Richard W. Sitman[1]	18	33	58,408
Kevin A. Still	18	18	59,408
Scott H. Whittington	18	30	58,408
Total	491	774	$ 1,688,986

[1] In 2014, these directors represented CoBank's interests by serving on the boards of various trade groups and other organizations important to the Bank. Days of service related to these activities and compensation received (if any) are not included in this report.

[2] Mr. DeGiusti, Jr. received $8,000 in additional compensation for service as the Chair of the Succession Committee.

[3] Mr. Jacobson served on the Board for a portion of the year.

[4] Mr. Sabloff received an additional 30% in compensation ($16,922) for service as the Chair of the Audit Committee.

Senior Officers

CoBank, ACB

Robert B. Engel,
Chief Executive Officer

Mr. Engel, 61, was appointed president and chief executive officer effective July 1, 2006. Mr. Engel remained chief executive officer with the appointment of Mary McBride as president effective July 1, 2013. Mr. Engel is responsible for implementing the Bank's strategic and business direction as set by the Board of Directors. Prior to joining CoBank in 2000 as president and chief operating officer, he was chief banking officer at HSBC Bank USA. During his 14-year tenure at HSBC, Mr. Engel served in a variety of management positions, including chief credit officer. Mr. Engel has 29 years of banking experience, and eight years of accounting experience with KPMG and Deloitte & Touche. Mr. Engel serves as a member of the Board of Directors of the Federal Farm Credit Banks Funding Corporation. He serves on the Boards of Trustees of Niagara University and Regis University, as well as the Board of Directors of New Ventures in Higher Education, Inc., and as vice chairman of the Graduate Institute of Cooperative Leadership. He also serves as chairman of the National Council of Farmer Cooperatives.

Mary E. McBride,
President

Ms. McBride, 59, was appointed president effective July 1, 2013. Ms. McBride is responsible for the Electric Distribution, Water and Community Facilities banking division as well as the Finance, Credit, Banking Services, Corporate Communications, Legislative, Regulatory and Compliance divisions. She serves as the chair of the Board of Directors of Farm Credit Leasing Services Corporation (FCL). Prior to her current position, Ms. McBride was CoBank's chief banking officer. Ms. McBride also has served as chief operating officer and as executive vice president for the Bank's Rural Infrastructure Banking Group (formerly known as the Communications and Energy Banking Group). Before joining CoBank in 1993, Ms. McBride worked as senior vice president of Wells Fargo/First Interstate Bank of Denver, N.A. Prior to that, she was assistant vice president at Bank of Boston. In total, Ms. McBride has more than 30 years of financial services experience. She serves on the Board of Trustees of Mile High United Way.

Thomas E. Halverson,
Chief Banking Officer

Mr. Halverson, 50, was appointed chief banking officer effective July 1, 2013. Mr. Halverson is responsible for CoBank's Regional Agribusiness, Corporate Agribusiness, Communications, Project Finance and Power, Energy & Utilities banking groups/divisions. He serves on the Board of Directors of FCL. Prior to joining CoBank, Mr. Halverson spent more than 15 years with Goldman Sachs, most recently as managing director and chief of staff for Goldman Sachs Bank USA. Prior to that he served in a variety of executive positions at the firm, including head of credit risk management for Goldman Sachs in Asia ex-Japan. Before joining Goldman Sachs, Mr. Halverson served as principal credit officer for country risk at the European Bank for Reconstruction and Development.

Ann E. Trakimas,
Chief Operating Officer

Ms. Trakimas, 58, was appointed chief operating officer effective January 3, 2011. Ms. Trakimas oversees CoBank's Corporate Services Group, which includes the Bank's Operations, Loan Processing, Information Technology and Legal divisions. Before joining CoBank, Ms. Trakimas served as a director on the board of the Federal Farm Credit Banks Funding Corporation for six years. There she chaired the Audit Committee and was a member of the System Audit Committee. Prior to that, Ms. Trakimas worked for Goldman Sachs where she held numerous executive positions including heading the firm's Financial Institutions Credit Risk Management and Advisory team. Ms. Trakimas has more than 35 years of experience in the financial services industry. She currently serves as a director and Treasurer of Komen Colorado, the Denver based affiliate of the Susan G. Komen Breast Cancer Foundation.

David P. Burlage,
Chief Financial Officer

Mr. Burlage, 51, was appointed chief financial officer effective November 16, 2009. Mr. Burlage oversees the Controller and Treasury areas of the Bank, which include the funding, asset/liability management, financial planning, capital, accounting, tax and reporting functions of the Bank. Prior to his current position, Mr. Burlage served as senior vice president of the Finance Division. Mr. Burlage began his career as an auditor with Arthur Andersen & Co. Mr. Burlage has over 29 years of financial experience. He serves on the Board of Governors of the Farm Credit System Association Captive Insurance Company, the Board of Advisors of University of Colorado Denver Business School and as chairman of the Young Americans Center for Financial Education. He is a CPA and member of the American Institute of Certified Public Accountants.

Senior Officers (Continued)
CoBank, ACB

Lori L. O'Flaherty,
Chief Risk Officer

Ms. O'Flaherty, 55, was appointed chief risk officer effective July 2, 2013. Ms. O'Flaherty provides leadership and guidance on all key risk areas of the Bank, including credit risk, operational risk, market risk, and reputational risk. Prior to her current position, Ms. O'Flaherty served as the Bank's chief credit officer and was responsible for all of CoBank's credit approval and administrative functions, including loan approval, credit support and analysis, credit guidelines and training, loan compliance and monitoring, collateral audit and special assets. Ms. O'Flaherty also served as division manager for Corporate Agribusiness. Before joining CoBank in 1997, Ms. O'Flaherty was vice president of Wells Fargo/First Interstate Bank, N.A. Ms. O'Flaherty has more than 30 years of experience in commercial banking. She serves on the Board of Directors of Big Brothers Big Sisters of Colorado, Inc.

John Svisco,
Chief Business Services Officer

Mr. Svisco, 56, was appointed chief business services officer effective July 2, 2013. Mr. Svisco works to ensure that the Bank's organizational structures, business processes and systems are aligned and delivering optimal levels of operative efficiency. In addition, he has responsibility for CoBank's Digital Business Solutions, Administrative Services, and Enterprise Solutions and Services functions. Mr. Svisco, who joined CoBank in 2002, managed loan and lease operations during his first seven years at the Bank as senior vice president of the operations division, and was most recently chief administrative officer. He has extensive experience in operations and finance in the financial services industry, including 20 years with HSBC Bank USA, where his last position was senior vice president of operations services. He serves on the Boards of Directors of AgVantis, Inc. and Mount Saint Vincent Home.

Andrew D. Jacob,
Chief Regulatory, Legislative and Compliance Officer

Mr. Jacob, 54, was appointed chief regulatory, legislative and compliance officer effective February 1, 2015. He is responsible for regulatory matters, government relations, compliance and corporate communications, as well as the Bank's security program. Before joining CoBank in January 2011, Mr. Jacob spent almost 25 years with the Farm Credit Administration, where he served in a variety of leadership roles within the agency's Office of Examination, Office of Policy and Analysis, and Office of Secondary Market Oversight. He serves as First Vice Chair on the Board of Directors for the National Cooperative Business Association CLUSA International. Mr. Jacob is a Chartered Financial Analyst.

Robert L. O'Toole,
Chief Human Resources Officer

Mr. O'Toole, 52, was appointed chief human resources officer effective February 1, 2015. He is responsible for the Bank's talent acquisition and retention strategies, compensation and payroll, employee benefits, and learning, leadership and organizational development initiatives including human equity and engagement. Mr. O'Toole has more than 25 years of experience in human resources. Prior to joining CoBank in 2001, he was with ING Group. Mr. O'Toole is certified as a Senior Professional in Human Resources (SPHR) by the Human Resource Certification Institute. Mr. O'Toole serves on the Board of Directors and is the Compensation Committee chair for the Denver Young Artists Orchestra.

Daniel L. Key,
Chief Credit Officer

Mr. Key, 58, was appointed chief credit officer effective July 2, 2013. Mr. Key is responsible for all of CoBank's credit approval and administrative functions, which include loan approval, credit support and analysis, credit guidelines and training, loan compliance and monitoring, collateral audit and special assets. Prior to his current position, Mr. Key was senior vice president for credit approval. Mr. Key began work with the Farm Credit System in 1978 and joined CoBank in 1993, where he has served in both relationship management and credit roles in a wide variety of industries and lending environments.

M. Mashenka Lundberg,
General Counsel

Ms. Lundberg, 47, was appointed general counsel effective February 18, 2014 and is responsible for providing legal counsel to all areas of CoBank's business operations. Prior to joining CoBank, Ms. Lundberg was a partner with the law firm of Bryan Cave from 2012 to 2014. Prior to that time, Ms. Lundberg was a partner with the law firm of Holme Roberts & Owen and served as the firm's General Counsel and also on the firm's Executive Committee. She has extensive experience in the field of corporate law and represented a wide range of corporate clients in a variety of transactions during her career in private practice.

Senior Officers Compensation Discussion and Analysis
CoBank, ACB

Overview

This section describes the compensation programs for CoBank's Chief Executive Officer (CEO) and other senior officers, as defined by FCA regulations (collectively, senior officers), as well as those programs for any highly compensated employees as defined by FCA regulations. This section also presents the compensation earned by our CEO, as well as aggregate compensation earned by our other senior officers and any highly compensated employees, for the years ended December 31, 2014, 2013 and 2012. The 2012 period includes information for one employee who became employed by CoBank on January 1, 2012 (and subsequently left the Bank) as a result of the merger with U.S. AgBank, and who met the regulatory definition of a "highly compensated employee" due to previous contractual agreements between the employee and U.S. AgBank.

The Board of Directors, through its Compensation Committee (Committee), has adopted a total compensation philosophy for the Bank. Our total compensation philosophy is intended to align the interests of our senior officers with those of our shareholders and is more fully described below. We accomplish this by providing incentive compensation that rewards performance in relation to the business plan established by our Board of Directors.

Our compensation programs contain a number of elements that are aligned with "best practices" for executive compensation, including:

- The majority of total compensation for senior officers is delivered through performance-based, variable incentive programs – for 2014 the CEO's target total direct compensation mix was 29% base salary and 71% performance-based, variable incentives;
- We have an incentive compensation recovery ("clawback") provision for all members of the Bank's Management Executive Committee, including the CEO;
- Award levels for the annual and long-term incentive plans are "capped". Individual maximums were recently reduced from 400% of target to 225% of target for the annual incentive plan and beginning with the 2013-2015 plan, from 200% to 150% of target for the long-term incentive plan;
- The short-term and long-term incentive programs have a minimum return on active patron stock investment that must be achieved before any incentives can be earned;
- Employment agreements contain reasonable changes-in-control and severance benefits that are aligned with market practices and do not provide for excise tax gross-ups;
- The Committee commissions an annual assessment of compensation related risks; and
- The Committee engages an independent executive compensation consultant to ensure conflict free advice.

We believe these elements balance our risk profile with total compensation while aligning our compensation program with our shareholders' long-term interests and best practices in governance of executive compensation.

As described in the "Financial Condition and Results of Operations" section of Management's Discussion and Analysis on page 26 of this Annual Report, in 2014 CoBank reported record financial performance. As a result of our performance, our short-term incentive plan for 2014 was funded between the target and maximum award levels. In addition, based on strong performance in the 2012 through 2014 period, our long-term incentive plan was also funded between the target and maximum award levels. These and other elements of our senior officers' compensation are explained below.

Compensation Philosophy and Objectives

The Bank's total compensation philosophy is designed to maintain a compensation program that will:

- Attract, retain and reward employees with the skills required to accomplish the Bank's strategic business objectives;
- Provide accountability and incentives for achievement of those objectives;
- Link compensation to Bank performance and increased shareholder value;
- Properly balance the risk profile of the Bank with both short- and long-term incentives;
- Be designed within a consistent philosophy and framework;
- Create a culture of adherence to core values and strong ethical behavior;
- Be integrated with the Bank's business processes, including business planning, performance management and succession planning; and
- Enhance management of risk and accountability.

Senior Officers Compensation Discussion and Analysis
CoBank, ACB

The total compensation philosophy seeks to achieve the appropriate balance among market-based salaries, benefits and variable incentive compensation designed to incent and reward both the current and long-term achievement of our strategic business objectives, business and financial plans and mission fulfillment. It also seeks to incent prudent risk taking within Board-established parameters with the proper balance and accountabilities between short- and long-term business performances. For senior officers, CoBank strives to deliver a significant portion of total target compensation through performance-based pay, with the actual proportion of total compensation provided through both short- and long-term incentives varying with actual financial performance, the achievement of Board-approved strategic business objectives and each senior officer's individual performance. We believe this philosophy fosters a performance-oriented, results-based culture wherein compensation varies from one year to the next on the basis of actual results achieved. We also find that this variable performance-based compensation approach is properly aligned with an acceptable risk profile and shareholder returns.

Process for Compensation Decisions

The Board of Directors has established the Committee to oversee the design, implementation and administration of compensation and benefits programs for CoBank. The Committee meets regularly to execute the responsibilities of its charter. The Committee reviews the performance of the Bank's CEO semi-annually, and the Board of Directors annually approves the compensation level of the CEO, comprised of salary, benefits and supplemental compensation, including short- and long-term incentive compensation. The CEO is responsible for setting the compensation levels of the Bank's Management Executive Committee, who, in turn, are responsible for the compensation of all other employees. In addition, the Committee reviews the compensation of the members of the Management Executive Committee.

The Committee generally makes a final decision regarding the CEO's incentive compensation in its February meeting to fully take into consideration the prior year's Bank and individual performance. Decisions about salary and performance also occur at other meetings in the year, as considered appropriate. The Committee utilizes an independent advisor, to annually compare the CEO's compensation level to a select peer group of financial institutions. This evaluation helps ensure that such compensation is appropriate for the CEO's experience and competencies and is competitive with positions of similar scope and complexity at relevant financial institutions. The comparative peer group is composed of companies with significant corporate and commercial lending activities, and which have other similar characteristics such as asset size, net income or significant customer relationships.

For 2012, 2013 and 2014, the Committee engaged Pay Governance LLC (Consultant) directly to serve as its independent advisor. In 2013, the Committee conducted an evaluation process, whereby it considered proposals from four independent advisor candidates, resulting in the affirmative reselection of Pay Governance as its independent advisor. On an annual basis, the Committee assures the qualifications of the Consultant as an independent and objective advisor. In 2012, 2013 and 2014, Pay Governance did not provide any services to CoBank that were not approved in advance by the Committee.

Components of CoBank Total Compensation Program

Given the cooperative ownership structure of CoBank, no equity or stock-based plans are used to compensate any employee, including senior officers. Senior officers' compensation primarily consists of four components – salary, short-term incentive plan, long-term incentive plan and retirement benefits – as described below. All employees participate in salary, the short-term incentive plan and retirement benefits, while senior officers and specified other senior leaders are also eligible to participate in the long-term incentive plan. All senior officers can elect to defer certain incentive payments through a nonqualified deferred compensation plan. In addition, senior officers are eligible for supplemental retirement benefits, as discussed beginning on page 139.

Overview of Senior Officers' Compensation		
Component	**CoBank Philosophy**	**Design Characteristics**
Salary	• Market-based compensation • Provides a foundation for other components • Competitive relative to positions of similar scope at a select peer group of financial institutions • Reflects individual performance, competencies and responsibilities	• Traditional salary structure with salary ranges for each position • Structure reviewed annually • Salaries based on market and individual performance

Overview of Senior Officers' Compensation (continued)		
Component	**CoBank Philosophy**	**Design Characteristics**
Short-Term Incentive Plan	• Links rewards to achievement of annual goals • Recognizes corporate and individual performance • Aligns the interests of shareholders and senior officers through bankwide financial and strategic business objectives • Balances short-term results with the risk profile of the Bank • Competitive incentive opportunities relative to peers	• Multiple corporate financial and non-financial goals • Awards are capped • Minimum performance for each goal required • Minimum return on active patron stock investment of 11% must be achieved in plan year in order for any payout to be made • Individual and corporate performance weighted equally, and a minimum level of individual performance must be achieved • Clawback provision for the Bank's Management Executive Committee, including the CEO
Long-Term Incentive Plan	• Provides opportunities for compensation tied to CoBank's sustained performance • Reinforces accountability and balance for the annual outcomes embodied in the short-term incentive plan • Provides balance through emphasis on long-term results, relative to short-term orientation of annual short-term incentive plan • Encourages longer-term retention of plan participants • Promotes the creation of profitable growth in shareholder and customer value, and enhances the sustainability of CoBank to serve its customers while providing proper balance to the risk profile of the Bank • Aligns the interests of shareholders and senior officers through bankwide financial and strategic business objectives • Competitive incentive opportunities relative to peers	• Multiple corporate financial and non-financial goals • Awards are capped • Three-year performance periods • New plan starts each year (plans overlap) • Minimum performance for each goal required • Minimum return on active patron stock investment of 11% must be achieved in each year of the plan for a full payout • No individual performance factor although a minimum level of individual performance must be achieved; corporate performance determines level of payout • Clawback provision for the Bank's Management Executive Committee, including the CEO
Retirement Benefits	• Provides for a source of income subsequent to retirement • Encourages longer-term retention of plan participants	• Benefits vary based on date of hire • Senior officers hired prior to January 1, 2007 participate in a defined benefit plan and supplemental retirement plan • Senior officers hired on or after January 1, 2007 receive additional, non-elective employer contributions to the 401(k) retirement savings plan • Other retirement benefits include a 401(k) retirement savings plan and access to health care benefits. Substantially all participants pay the full premiums associated with postretirement health care benefits • Executive Retirement Plan (ERP) for CEO and one other senior officer provides enhanced retirement benefits

Salary

Overview

Salary Considerations

- Individual performance and competencies
- Maintenance or expansion of responsibilities and scope of position
- Peer group data and internal equity
- Overall CoBank merit increase budget

Salaries represent a foundational component of CoBank's total compensation program as the value of other components is determined in relation to base salary. Senior officer salaries are market-based and established taking into consideration individual performance, the specific competencies and experience the senior officer brings to CoBank, the responsibilities and scope of the position, peer group data and internal equity. Salaries for senior officers are reviewed annually, and adjusted if necessary.

Short-Term Incentives

Overview

Short-Term Incentive Plan (STIP)

- Corporate and individual performance weighted equally
- Corporate financial performance measures are balanced: profitability, loan quality and operating efficiency
- Board of Directors also provides subjective evaluation related to achievement of corporate strategic business objectives
- All employees are eligible to participate
- For 2014, CoBank performed at or above maximum award levels on one corporate performance goal and between the target and maximum award levels on the other four corporate performance goals

Annual short-term incentive payments are based on a combination of annual corporate and individual performance. The short-term incentive plan, which has the same design for all employees, including the CEO and other senior officers, aligns the interests of shareholders and employees through the establishment of a balanced scorecard of bankwide financial and strategic business objectives. Under the terms of the plan, a minimum return on active patron stock investment must be achieved for the plan year in order for a payout to be approved, ensuring that shareholders are rewarded first. The return minimum was 11 percent for the years ended December 31, 2014, 2013 and 2012.

The actual short-term incentive award is determined as follows:

Salary × Individual Annual Short-Term Incentive Target × Corporate Performance Factor × Individual Performance Factor

Based on corporate and individual performance factors, participants can earn from zero to 225 percent of their individual annual short-term incentive target. Payments are typically made during March, but always following the end of the year to which the award is applicable. Participants are not eligible to receive a short-term payout if they are no longer employed by CoBank at the time of the scheduled payout, unless otherwise provided for in an employment agreement. The key elements of the actual payout are described below.

- *Individual Annual Short-Term Incentive Target* — Annual short-term incentive targets are set for all employees at the beginning of the year. For the 2014 performance period, the target short-term incentive level for the CEO was 75 percent of salary. For the other senior officers, the targets ranged from 40 to 70 percent.

- *Corporate Performance Factor* — Corporate performance is determined at the end of the year based on annual actual business results relative to a balanced scorecard of bankwide financial and strategic business objectives, as established at the beginning of each year by the Board of Directors, and is the same for all employees, including the CEO and other senior officers. The Board of Directors retains the right to make adjustments to the corporate performance factor, where appropriate, in addition to providing a subjective performance result for the achievement of strategic business objectives.

  CoBank utilizes a balanced scorecard for measuring short-term corporate performance to emphasize overall success in executing our strategy and managing risks. The short-term corporate scorecard establishes certain key performance indicators, of which 80 percent focus on the achievement of specified financial measures related to profitability, loan quality and operating efficiency, and 20 percent focus on the achievement of the strategic business objectives that are established at the beginning of each year by the Board of Directors. The final performance result, or corporate performance factor, is determined by comparing the actual performance of each measure to the targets established at the beginning of the year. Each scorecard performance measure is weighted separately, and the factor is set such that if performance of each measure exactly meets the established target, the result is a performance factor of 100 percent. The corporate performance factor can vary from zero to 150 percent, depending on performance against the targets. The Committee approves the overall corporate performance factor and funding of the STIP for actual performance relative to target. The 2014 Short-Term Corporate Scorecard is as follows:

2014 Short-Term Corporate Scorecard

Performance Measure	Weight
Net Income	25 %
Return on Common Equity	20 %
Strategic Business Objectives	20 %
Loan Quality (Adverse Loans to Risk Funds)	20 %
Operating Expense Ratio	15 %

- *Individual Performance Factor* — At the beginning of each year, all CoBank employees, including the CEO and other senior officers, establish individual goals they seek to achieve that year in support of the business. These individual goals are anchored to the Bank's business and financial plan, as well as the Bank's strategic business objectives and also include key behavioral competencies appropriate for that employee. The CEO is responsible for administering the short-term incentive plan and approves the individual performance factors of the other senior officers. The Board of Directors approves the goals and individual performance factor of the CEO. The assessment of an individual's actual performance with respect to his or her annual goals is reflected as an individual performance factor and ranges from zero to 150 percent.

The actual short-term incentive awards for 2014, 2013 and 2012 for the CEO, other senior officers and any highly compensated employees are presented in the Summary Compensation Table on page 142.

Long-Term Incentives

Overview

Long-Term Incentive Plan (LTIP)

- Awards based upon corporate performance for overlapping three-year periods
- Corporate financial performance measures are balanced: profitability, loan quality and capital adequacy
- Board of Directors also provides subjective evaluation related to the achievement of corporate strategic business objectives
- For the 2012 through 2014 performance period, CoBank performed at or above maximum award levels on two corporate performance goals and between target and maximum award levels on the other three corporate performance goals

CoBank utilizes a long-term incentive compensation plan that provides senior officers and specified other senior leaders with the opportunity for compensation tied to CoBank's sustained success. The long-term incentive plan provides the accountability and balance for the annual outcomes embodied in the short-term plan. Participants in the long-term plan directly influence the longer-term outcomes of actions and risks taken during each performance period, which provides the proper balance between short-term results and long-term value creation. Eligibility for participation is limited to those individuals who clearly have the ability to drive the success of strategies critical to long-term value creation for shareholders. The purpose of this plan is to encourage longer-term retention of plan participants, to promote the creation of profitable growth in shareholder and customer value, and to enhance the sustainability of CoBank to serve its customers while providing proper balance to the risk profile of the Bank. The long-term incentive plan aligns the interests of shareholders and senior officers through the establishment of bankwide financial and strategic business objectives, and reinforces a long-term focus on financial performance, strategic positioning and risk management.

Long-term incentive plan payouts are based on corporate performance in the achievement of key financial metrics and strategic business objectives over a three-year performance period, as defined by CoBank's long-term corporate scorecard. These three-year performance metrics and objectives are established at the beginning of each three-year performance period by the Board of Directors in connection with the annual business and financial plan. A minimum return on active patron stock investment must be achieved in each year of the three-year performance period for a full payout to be approved, ensuring that shareholders are rewarded first. The return minimum is 11 percent for the 2012 through 2014, 2013 through 2015 and 2014 through 2016 performance periods.

The actual long-term incentive award is determined as follows:

Salary × Individual Long-Term Incentive Target × Corporate Performance Factor

Based on the corporate performance factor, participants can earn from zero to 150 percent of their individual long-term incentive target (zero to 200 percent for the 2012 through 2014 performance period). Payments are typically made during March of each year following the end of the three-year performance period to which the award is applicable. Participants are not eligible to receive a full payment at the time of the scheduled payout if their performance did not meet expectations during the performance period, or if their employment terminated for reason of retirement, death or disability during the performance period. Participants are not eligible to receive any payment at the time of the scheduled payout if they are no longer employed by CoBank for reasons other than retirement, death or disability, unless otherwise provided for in an employment agreement. The key elements of the actual payout are described below.

- *Individual Long-Term Incentive Target* — For the 2012 through 2014 performance period, the long-term incentive target for the CEO was 160 percent of salary. For the remaining senior officers, the targets ranged from 30 to 90 percent.

- *Corporate Performance Factor* — Corporate performance is determined at the end of a designated three-year period based on actual business results relative to a balanced scorecard of bankwide financial and strategic business objectives, as established at the beginning of the three-year performance period by the Board of Directors. The Board of Directors retains the right to make adjustments to the corporate performance factor, where appropriate, in addition to providing a subjective performance result for the achievement of strategic business objectives.

CoBank utilizes a balanced scorecard for measuring long-term corporate performance to emphasize overall success in executing our strategy and managing risks. The long-term corporate scorecard establishes certain key performance indicators, of which 80 percent focus on the achievement of specified financial measures related to profitability, loan quality and capital adequacy, and 20 percent focus on the achievement of the strategic business objectives that are established at the beginning of each three-year performance period by the Board of Directors. The final performance result, or corporate performance factor, is determined by comparing the actual performance of each measure to the targets established at the beginning of each three-year performance period. Each scorecard performance measure is weighted separately, and the factor is set such that if performance of each measure exactly meets the established target, the result is a performance factor of 100 percent. The corporate performance factor can vary from zero to a maximum of 150 percent (zero to 200 percent for the 2012 through 2014 performance period), depending on performance against the targets. The Committee approves the corporate performance factor based on actual performance in comparison to target. The Long-Term Corporate Scorecards for the three-year performance periods 2012 through 2014, 2013 through 2015 and 2014 through 2016 are as follows:

Long-Term Corporate Scorecards:
2012 – 2014, 2013 – 2015 and 2014 – 2016 Periods

Performance Measure	Weight
Net Income	20 %
Permanent Capital Ratio	20 %
Return on Common Equity	20 %
Strategic Business Objectives	20 %
Loan Quality (Adverse Loans to Risk Funds)	20 %

The actual long-term incentive awards for 2014, 2013, and 2012 for the CEO and other senior officers are presented in the Summary Compensation Table on page 142.

Terms of Senior Officers' Employment Agreements

As of December 31, 2014, the CEO and one other senior officer, are employed pursuant to employment agreements, which provide specified compensation and related benefits to these senior officers in the event their employment is terminated, except for termination for cause. In early 2015, the employment agreement for the senior officer other than the CEO was amended and restated to include a specified term. This amendment, in conjunction with the amendment adopted for the CEO in 2013, will facilitate the objective of the Bank's Board of Directors to ultimately eliminate the Bank's contractual employment obligations as appropriate. In the event of termination in 2015 except for cause, the employment agreements provide for (a) payment of the officer's prorated salary and incentives through the date of the termination, (b) semi-monthly payments aggregating, for the CEO, one times the officer's base compensation and short-term incentives at target, and for the other senior officer, two times the officer's base compensation and short-term incentives at target, (c) enhanced retirement benefits if the termination results from a change in control, (d) continued participation in the Bank's health and welfare benefits over a one or two year period, and (e) certain other benefits over a one or two year period to the same extent as such benefits were being provided on the date of termination. The employment agreements also provide certain limited payments upon death or disability of the officer. The agreements also provide for non-competition and non-solicitation by the officers over the term of the payments, and the payments are considered taxable income, without any consideration or provision for "gross-up" for tax purposes.

In 2013, the Board revised the CEO employment agreement to allow for an effective and flexible CEO retention and succession process. The restated and amended CEO employment agreement provides for (a) a fixed term with an option for renewal at the sole discretion of the Board of Directors, (b) a reduction in the amount and term of severance payments and benefits at the end of each completed service year over the term of the agreement, (c) an indexed increase in the retirement benefit cap for each completed service year over the term of the agreement to retain the present value at each year end, and establish a maximum value of $900,000 in the last year of the agreement, and (d) eligibility for incentive payments totaling $2,000,000 paid in installments over the term of the agreement based on the achievement of certain additional performance and retention objectives as established and measured by the Board of Directors.

To receive payments and other benefits under the employment agreements, the officer must sign a release agreeing to give up any claims, actions or lawsuits against the Bank that relate to his or her employment with the Bank.

Retirement Benefits

Overview

We have employer-funded qualified defined benefit pension plans, which are noncontributory and cover employees hired prior to January 1, 2007. Depending on the date of hire, benefits are determined either by a formula based on years of service and final average pay, or by the accumulation of a cash balance with interest credits and contribution credits based on years of service and eligible compensation. We also have noncontributory, unfunded, nonqualified supplemental executive retirement plans (SERPs) covering all but three senior officers employed at December 31, 2014, as well as specified other senior managers. In addition, as more fully discussed below, we have a noncontributory, unfunded nonqualified executive retirement plan (ERP) designed to provide enhanced retirement benefits to the CEO and one other senior officer employed pursuant to employment agreements. All employees are also eligible to participate in a 401(k) retirement savings plan, which includes employer matching contributions. Employees hired on or after January 1, 2007, receive additional, non-elective employer contributions to the 401(k) retirement savings plan. All retirement-eligible employees, including senior officers, are also currently eligible for other postretirement benefits, which primarily include access to health care benefits. Substantially all participants pay the full premiums associated with the postretirement health care benefits.

Defined Benefit Pension Plans

Senior officers hired prior to January 1, 2007 are participants in the defined benefit pension plans. Pursuant to these plans, the benefits, including those of the CEO, are determined based on years of service and final average pay. Eligible compensation for senior officers, as defined under the final average pay formula, is the highest 60 consecutive-month average, which includes salary and incentive compensation measured over a period of one year or less, and excludes long-term incentive awards, expense reimbursements, taxable fringe benefits, relocation allowance, short- and long-term disability payments, nonqualified deferred compensation distributions, lump sum vacation payouts and all severance payments. Retirement benefits for senior officers are calculated assuming payment in the form of a single life annuity with five years certain and retirement at age 65. However, the actual form and timing of retirement benefit payments are based on participant elections. The plans require five years of service to become vested. All senior officers participating in the defined benefit pension plans have been employed for more than five years and, as such, are fully vested in the plans. The benefit formula is the sum of 1.5 percent of eligible compensation up to Social Security covered compensation plus 1.75 percent of eligible compensation in excess of Social Security covered compensation, multiplied by the years of eligible benefit service. Social Security covered compensation is the 35 year average of the Social Security taxable wage bases up to the participant's Social Security retirement age.

Federal laws limit the amount of compensation we may consider when determining benefits payable under the qualified defined benefit pension plans. We maintain SERPs that pay the excess pension benefits that would have been payable under our qualified defined benefit pension plans.

Executive Retirement Plan

As noted previously, an ERP has been adopted for the CEO and one of the other senior officers subject to their respective employment agreements. The CEO's agreement provides for a retirement benefit of 52.5 percent of eligible compensation as of December 31, 2014, with no reduction for early retirement, but subject to a maximum benefit amount. The ERP is limited such that benefits provided under that plan are payable only if total retirement benefits payable per year from the three retirement plans do not exceed the indexed retirement benefit cap, expressed as a single life annuity with five years certain. The ERP is integrated with the existing final average pay defined benefit retirement plan and the existing SERP. It provides the required additional retirement benefits to the extent such benefits are not covered by the other two plans, but only up to the maximum total retirement benefits noted above. If benefits from the defined benefit retirement plan and the SERP exceed this maximum, no benefits are payable from the ERP. In the event of the death of the CEO during the term of his employment with the Bank, the plan provides a death benefit to a surviving spouse. The benefits provided to the other senior officer under the ERP are the same as those provided to the CEO, but at reduced levels.

Nonqualified Deferred Compensation Plan

We have a nonqualified deferred compensation plan that allows senior officers and other eligible senior managers to defer all or a portion of their incentive compensation. Additionally, the Bank makes contributions to this plan on behalf of participants whose benefits under the 401(k) retirement savings plan are limited due to federal tax laws. Contributions are made at the same percentages as available under the 401(k) retirement savings plan. The compensation that is deferred is invested in any number of investment options selected by the participants. These investment options are either identical or substantially similar to those available to all participants in the Bank's 401(k) retirement savings plan. The participant is subject to all risks and returns of amounts invested. The election to defer is irrevocable and the deferred amounts cannot be paid except in accordance with specified elections as permitted by law. At that time, the participant will receive payment of the amounts credited to his or her account under the plan in a manner that has been specified by the participant. If a participant dies before the entire amount has been distributed, the undistributed portion will be paid to the participant's beneficiary.

Compensation Risk Management

The Committee considers potential risks when reviewing and approving compensation programs. The Board of Directors approves the total compensation philosophy and programs to ensure there is a proper balance and alignment between the overall acceptable risk profile of the Bank and the manner in which prudent risk taking is reflected in the design of the underlying program. We have designed our compensation programs, including our incentive compensation plans, with specific features to address potential risks while rewarding employees for achieving short-term and long-term financial and strategic objectives through prudent business judgment and appropriate risk taking. The objective is to motivate employees to take prudent risk within Board-approved parameters while ensuring employees are also accountable for the long-term outcomes of their actions. The following elements have been incorporated in our compensation programs available for our senior officers:

- *A Balanced Mix of Compensation Components* – The target compensation mix for our senior officers is composed of salary, short-term incentive, long-term incentive and retirement benefits, representing a mix that is weighted toward long-term performance and service with CoBank.

- *Multiple Performance Factors* – Our incentive compensation plans include balanced scorecards of organization-wide financial performance and integration with individual performance assessments through our performance management system.
  - Incentive plans include a Board-determined subjective evaluation of our achievement of strategic objectives
  - The short-term incentive is dependent on multiple performance metrics, including a subjective measure of performance against strategic business objectives and an assessment of individual performance
  - The long-term incentives are cash-based, with three-year performance metrics to complement our annual short-term incentives
  - Board of Directors retains the right to adjust performance factors
  - Targets and ranges of performance for each metric are approved by the Board of Directors prior to the beginning of the performance period

- *Multiple Year Performance Measurement* – Our long-term incentives include a three-year performance measurement period that requires sustained corporate performance complemented by required minimum level of shareholder return in order for the plan to be fully funded.

- *Caps on Incentive Payments* – Our incentive compensation plan payments are subject to caps that limit the maximum award that may be paid.

- *Minimum Performance Requirements for Each Metric* – Our incentive compensation plan payments are contingent upon achieving minimum performance levels for each financial performance goal.

- *Minimum Individual Performance Requirements* – Our incentive compensation plans require a minimum individual performance level before a payment may be made for any given performance year.

- *Compensation Committee Discretion* – The Committee subjectively evaluates the Bank's achievement of strategic business objectives and approves all incentive plan funding following a review of the Bank's performance against plan performance criteria established and approved prior to the beginning of the incentive plan performance period.

- S*hareholder Return* – A minimum return on active patron stock investment must be achieved for incentive compensation payments to be approved.

Effective January 1, 2013, the Board of Directors approved an incentive compensation recovery ("clawback") policy to encourage the highest ethical standards, to further ensure incentive plans do not encourage excessive risk-taking and to ensure the alignment of compensation with accurate financial data. The policy provides that in the event of a restatement of the financial statements, the Bank may seek recovery from members of the Bank's Management Executive Committee of incentive compensation and non-qualified retirement benefits that would not otherwise have been paid if the correct financial information had been used to determine the amount payable. The Board of Directors may only seek recovery or reduction of compensation under this policy within the three year period following the date the Bank filed the incorrect report.

Additionally, the Compensation Committee annually considers an assessment of compensation-related risks for all of our employees. The assessment includes a review of multiple facets of our compensation program including governance practices, program documentation, incentive plan design, processes, employment practices, benefits program, and cultural considerations. Reviews of various aspects of our programs are also conducted by independent auditors, whose reports are provided to our Board of Directors. Based on this assessment, the Compensation Committee concluded that our compensation plans do not create risks that are reasonably likely to have a material adverse effect on CoBank. In making this conclusion, the Compensation Committee reviewed the key design elements of our compensation programs in relation to industry "best practices" as presented by the Consultant, as well as the design features and administrative processes that mitigate any potential risks, such as through our internal controls and oversight by management and the Board of Directors.

At the request of the Board of Directors, the CEO elected to receive retirement benefits payable from the SERP and ERP in the form of an annuity, as opposed to a lump sum. The Committee believes this arrangement enhances the focus on overall risk management and the long-term success of the Bank.

Senior Officers Compensation Discussion and Analysis
CoBank, ACB

Summary Compensation Table

The following table summarizes compensation earned by our CEO and aggregate compensation of other senior officers for the years ended December 31, 2014, 2013 and 2012. The 2012 period also includes compensation earned by the one highly compensated employee who subsequently left the Bank. Our current Board policy regarding reimbursements for travel, subsistence and other related expenses states that all employees, including senior officers, shall be reimbursed for actual reasonable travel and related expenses that are necessary and that support our business interests. A copy of our policy is available to shareholders of CoBank and of our affiliated Farm Credit Associations upon request.

Summary Compensation Table[1] ($ in Thousands)

		Annual						
Name of Individual or Number in Group[2]	Year	Salary	Short-Term Incentive Compensation[3]	Long-Term Incentive Compensation[3]	Change in Pension Value[4]	Deferred/ Perquisites[5]	Other[6]	Total
CEO:								
Robert B. Engel	2014	$ 880	$ 1,386	$ 2,182	$ 109	$ 180	$ 333	$ 5,070
Robert B. Engel	2013	859	1,435	1,843	(89)	149	333	4,530
Robert B. Engel	2012	775	1,256	1,596	1,127	208	-	4,962
Aggregate Number of Senior Officers (excluding the CEO):								
10	2014	$ 3,494	$ 3,975	$ 3,167	$ 2,030	$ 592	$ 250	$ 13,508
9	2013	2,828	3,123	2,012	1,037	1,231	1,354	11,585
9	2012	2,827	2,867	1,855	4,162	723	2,060	14,494

(1) Disclosure of the total compensation paid during 2014 to any designated senior officer is available to shareholders of CoBank and of our affiliated Farm Credit Associations upon request. Compensation amounts do not include earnings on nonqualified deferred compensation, as such earnings are not considered above-market or preferential.

(2) The senior officers are those officers defined by FCA regulation §619.9310. The 2012 period also includes compensation information for the one highly compensated employee as defined by FCA regulation §620.6.

(3) Incentive compensation amounts represent amounts earned in the reported fiscal year, which are paid in March of the subsequent year to persons who continue to be employed by CoBank or unless otherwise provided for in an employment agreement. The short-term incentive compensation amounts are calculated based on relevant performance factors for the reported fiscal year, while the long-term incentive compensation amounts are calculated based on the relevant performance factors for the three-year performance period ended in the reported fiscal year.

(4) The Change in Pension Value for the senior officer group (excluding the CEO) in 2012 includes the final compensation level and the form of pension benefit payment elected by a senior officer who retired in 2012.

(5) Represents company contributions to a qualified retirement savings plan and nonqualified deferred compensation plan, as well as payment of tax return preparation and financial planning expenses, relocation, certain travel-related costs, wellness benefits, life insurance benefits, long-term disability benefits, and associated income tax impact. For 2013 and 2012, also includes the Board-approved payout of vacation over a certain threshold that was earned but not used due to exceptional work demands.

(6) For 2014 and 2013, $333 represents amount paid to the CEO for achievement of certain additional performance objectives as established and measured by the Board of Directors. Also for 2014, $250 includes $175 for sign-on payments for two officers who joined the bank in 2013 and 2014, and $75 for a Board-approved project bonus. Also, for 2013, $1,354 includes $185 for sign-on payments for two officers who joined the Bank in 2012 and 2013; $185 for payments that were awarded by U.S. AgBank and assumed by CoBank as a result of the merger; and $984 that represents amounts paid to two senior officers (who left the bank in 2013) for separation pay and certain other benefits. For 2012, $2,060 includes $1,727 paid and anticipated to be paid to the one highly compensated employee (who left the Bank in 2013) for salary, salary continuance, incentive compensation and certain other benefits, all pursuant to the terms of previous contractual agreements between the employee and U.S. AgBank; $213 for sign-on payments for two senior officers who joined the Bank in 2011 and 2012; and $120 for payments that were awarded by U.S. AgBank and assumed by CoBank as a result of the merger.

In 2012, FCA adopted a regulation that would have required all System institutions to hold advisory votes on the compensation for all senior officers and/or the CEO when the compensation of either the CEO or the senior officer group increases by 15 percent or more from the previous reporting period. The regulation was effective December 17, 2012, but non-binding advisory votes on compensation increases of 15 percent or more were not required until 2015.

In March 2014, FCA published an interim final rule responding to the provisions of Title VI of the Consolidated Appropriations Act, 2014 (Appropriations Act) and the "Findings by Congress" in the Agricultural Act of 2014 (Farm Bill), removing the requirement that Farm Credit Banks and Associations hold non-binding advisory votes on senior officer compensation.

Pension Benefits

The following table presents certain pension benefit information by plan for the CEO and the senior officer group as of December 31, 2014.

Pension Benefits Table ($ in Thousands)

Name of Individual or Number in Group[1]	Plan Name	Number of Years of Credited Service[2]	Actuarial Present Value of Accumulated Benefits	Payments During Last Fiscal Year
CEO:				
Robert B. Engel	CoBank, ACB Retirement Plan	14.58	$ 545	$ -
	Supplemental Executive Retirement Plan	14.58	4,106	-
	Executive Retirement Plan	14.58	4,719	-
Total			$ 9,370	$ -
Aggregate Number of Senior Officers (excluding the CEO):				
6	CoBank, ACB Retirement Plan	16.54	$ 3,651	$ -
	Supplemental Executive Retirement Plan	16.54	4,354	-
	Executive Retirement Plan	21.67	1,715	-
Total			$ 9,720	$ -

(1) The senior officers included in the pension benefits disclosure are those defined by FCA regulations §619.9310 and §620.6.
(2) For the Retirement Plan and the Supplemental Executive Retirement Plan, represents an average for the aggregate senior officer group.

Report on Compensation

CoBank, ACB

Members of the Compensation Committee of the Board of Directors are appointed by the Board chair in consultation with the Board officers and committee chairs. All members of the Compensation Committee qualify as independent directors as defined by Board policy.

The Compensation Committee (Committee) approves the overall compensation philosophy at the Bank utilizing an independent, Committee-appointed, executive compensation consultant, which includes establishing the compensation philosophy which guides program design including pay mix comprised of base pay, short- and long-term incentive compensation plans and employee benefits. In so doing, the Committee has developed and implemented compensation policies and programs that support the Bank's core values and links compensation to overall Bank and individual performance, ensuring a proper balance with the risk profile of the Bank, thereby contributing to the value of the shareholders' investment in the Bank.

The Committee is responsible for establishing the performance standards for the Chief Executive Officer and the compensation structure for other Bank employees. The Committee reviews the Board's performance evaluation of the Chief Executive Officer, approves an overall performance rating, and recommends for full Board approval all aspects of compensation (base salary, performance-based compensation including all incentives, benefits, and perquisites) for the Chief Executive Officer, consistent with the business and financial objectives of the Bank, the results achieved by the executive, Board directed performance objectives, and competitive compensation practices. The Committee carefully evaluates incentive-based compensation programs and payments thereunder to ensure they are reasonable and appropriate to the services performed by senior officers. The Committee monitors the terms and provisions of the incentive-based compensation programs for senior officers and assesses the balance of financial rewards to senior officers against the risks to the institution. The Committee carefully evaluates whether senior officer compensation, incentive, and benefit programs are designed to support the Bank's long-term business strategy and mission as well as promote safe and sound business practices. The Committee reviews the institution's projected long-term obligations for compensation and retirement benefits. The Committee operates under a written charter, adopted by the Committee and the Board of Directors, which more fully describes the Committee's responsibilities.

The Committee has reviewed and discussed the Senior Officers Compensation Discussion and Analysis with management. Based on this review and discussion, the Committee recommended to the Board of Directors, and the Board approved, that the Senior Officers Compensation Discussion and Analysis be included in the Annual Report for the year ended December 31, 2014.

Members of the 2015 Compensation Committee:

Daniel T. Kelley, Chair
Catherine Moyer
David S. Phippen
David L. Reinders
Kevin G. Riel

March 11, 2015

Code of Ethics
CoBank, ACB

CoBank sets high standards for honesty, ethics, integrity, impartiality and conduct. Each year, every associate certifies compliance with the letter, intent and spirit of our Associate Responsibilities and Conduct Policy, which establishes the ethical standards of our organization, and each senior officer is required to disclose additional information. Additionally, our chief executive officer, president, chief operating officer, chief risk officer, chief credit officer, general counsel, chief financial officer and other senior financial professionals certify compliance with the letter, intent and spirit of our Code of Ethics. Our Code of Ethics supplements our Associate Responsibilities and Conduct Policy and establishes additional responsibilities specifically related to the preparation and distribution of our financial statements and related disclosures. Details about our Code of Ethics are available at www.cobank.com. At your request, we will provide you with a copy of our Code of Ethics, free of charge. Please contact:

Corporate Communications Division
P. O. Box 5110
Denver, CO 80217
(303) 740-4061

Young, Beginning, and Small Farmers
CoBank, ACB

Under the Farm Credit Act, CoBank does not have authority to lend directly to young, beginning, and small farmers. Rather, we recognize that Associations serve young, beginning, and small farmers, which we support through wholesale funding, partnering on Association programs as they deem appropriate, and completing reporting required by regulations. We believe the future of agriculture and rural America is well served when loan programs are developed by Associations to aid ambitious and capable young, beginning, and small farmers. Therefore, we have adopted a written policy that encourages the board of directors at each of our affiliated Associations to establish a program to provide sound and constructive credit and other services to young, beginning, and small farmers and ranchers and producers or harvesters of aquatic products (YBS farmers and ranchers). Each affiliated Association provides us annually with a report measuring achievement with respect to these programs for YBS farmers and ranchers. A summary of the combined reports for our affiliated Associations and certain participations CoBank purchased from Associations follows.

YBS Farmers and Ranchers ($ in Thousands)

	Loan Numbers		Loan Volume	
	Number	Percent of Portfolio	Dollars	Percent of Portfolio
Loans and Commitments Outstanding at December 31, 2014:				
Young	21,631	15.43 %	$ 5,785,586	8.63 %
Beginning	29,570	21.09	7,903,896	11.79
Small	50,422	35.96	6,430,501	9.59
Gross New Loans and Commitments Made During 2014:				
Young	6,123	15.87 %	$ 1,565,829	7.62 %
Beginning	7,482	19.39	2,005,556	9.76
Small	11,870	30.76	1,144,204	5.57

Small Farmers and Ranchers

Number / Volume of Loans Outstanding by Loan Size at December 31, 2014

Number / Volume	$0 – $50,000	$50,001 – $100,000	$100,001 – $250,000	$250,001 and greater
Total Number of Loans to Small Farmers and Ranchers	21,746	10,778	11,857	6,041
Total Loan Volume to Small Farmers and Ranchers ($ in Thousands)	$ 462,142	$ 810,892	$ 1,897,645	$ 3,259,822

Key definitions are as follows:

Young Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who is age 35 or younger as of the date the loan was originally made.

Beginning Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who had 10 years or less of experience at farming, ranching or producing or harvesting aquatic products as of the date the loan was originally made.

Small Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who normally generated less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The Young, Beginning, and Small farmer and rancher categories are not mutually exclusive, therefore, certain farmers and ranchers may be classified in more than one category in the tables above.

Beyond providing appropriate wholesale lending for Association YBS farmers and ranchers programs and submitting reports to our regulator, CoBank has partnered with Associations on successful financing programs designed to attract quality farm operations, meeting the intended purpose of providing vital capital to start-up farming operations and promoting the flow of capital into rural areas. CoBank also has its own programs to serve the credit needs of agribusiness cooperatives and rural infrastructure providers of all sizes as well as rural communities using our mission-related investments authorities. CoBank has also reached out to non-traditional forms of agricultural production, such as local foods, community supported agriculture, and urban agriculture, to better understand their financing needs and provide support within the legal constraints of CoBank lending authorities.

Unincorporated Business Entities
CoBank, ACB

CoBank holds investments in various unincorporated business entities (UBEs), as defined by FCA regulation. We hold these investments for two primary purposes: to acquire and manage unusual or complex collateral associated with loan workouts and to make mission-related investments.

Our UBEs are displayed in the table below.

Unincorporated Business Entities

Name	Entity Type	Level of Ownership	Scope of Activities
CoBank - Farm Credit Holdings, LLC	Limited Liability Company	100 %	Holds acquired property
Farm Credit FCB Holdings, LLC	Limited Liability Company	100	Holds acquired property
FarmStart, LLP	Limited Liability Partnership	46	Provides needed funding to operations with farm resources, farm-related expertise and good business plans, but limited access to capital in the Northeast.
Midwest Growth Partners, LLLP	Limited Liability Limited Partnership	50	Invests in entities with operations located in rural areas in the upper Midwest that are seeking to either launch a new business, grow an existing business or recapitalize an existing business.
Ponderosa Holdings, LLC	Limited Liability Company	12	Holds acquired property
Rural America Investments, LLLP	Limited Liability Limited Partnership	100	Holds allowable FCS investments. Currently holds the Bank's investment in FarmStart, LLP.

CERTIFICATION

I, Robert B. Engel, Chief Executive Officer of CoBank, ACB (CoBank or the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

(1) I have reviewed this annual report of CoBank;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;

(4) CoBank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter (the Bank's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and

(5) CoBank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's Board of Directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Robert B. Engel

Robert B. Engel
Chief Executive Officer

Dated: March 11, 2015

CERTIFICATION

I, David P. Burlage, Chief Financial Officer of CoBank, ACB (CoBank or the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

(1) I have reviewed this annual report of CoBank;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;

(4) CoBank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter (the Bank's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and

(5) CoBank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's Board of Directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

David P. Burlage
Chief Financial Officer

Dated: March 11, 2015

Senior Management
CoBank, ACB

Robert B. Engel, Chief Executive Officer

Thomas E. Halverson, Chief Banking Officer

Agribusiness
Amy H. Gales, Regional Agribusiness Banking Group [1]
Leili Ghazi, Agribusiness Division – West
Michael W. Hechtner, Agribusiness Division – Central
Lynn M. Scherler, Agribusiness Division – South
G. David Sparks, Agribusiness Division – East
Jonathan B. Logan, Corporate Agribusiness Banking Group
Karen S. Lowe, Agricultural Export Finance Division

Rural Infrastructure
Brian A. Goldstein, Project Finance Banking Division
Todd E. Telesz, Power, Energy and Utilities Banking Division
Robert F. West, Communications Banking Division

Mary E. McBride, President
Antony M. Bahr, Banking Services Group [2]
Michael A. Romanowski, Farm Credit Leasing Services Corporation [3]
Leonard G. Sahling, Knowledge Exchange Division

David P. Burlage, Chief Financial Officer
Timothy D. Steidle, Treasury Division
Michael R. Vestal, Controller Division

Nivin A. Elgohary, Electric Distribution, Water and Community Facilities Banking Division [4]

Andrew D. Jacob, Chief Regulatory, Legislative and Compliance Officer
L. Todd VanHoose, Government Affairs
Arthur C. Hodges, Jr., Corporate Communications Division

Daniel L. Key, Chief Credit Officer
S. Richard Dill, Special Assets Division

Lori L. O'Flaherty, Chief Risk Officer
Timothy A. Green, Asset Review Division
Katia V. Hoffer, Enterprise Risk Management Division
Steven W. Wittbecker, Internal Audit Division

Robert L. O'Toole, Chief Human Resources Officer

John Svisco, Chief Business Services Officer
Joseph M. Rogers, Digital Business Solutions Division
Todd E. Wilson, Enterprise Solutions and Services Division

Ann E. Trakimas, Chief Operating Officer
James R. Bernsten, Information Technology Division
Christian J. Clayton, Legal and Loan Processing
M. Mashenka Lundberg, General Counsel
Stephen B. Secor, Operations Division

(1) The Strategic Relationships operating segment is included in the Regional Agribusiness Banking Group.
(2) The Banking Services Group includes the Bank's Capital Markets Division.
(3) Farm Credit Leasing Services Corporation is included in our Agribusiness operating segment.
(4) The Electric Distribution, Water and Community Facilities Banking Division is included in our Rural Infrastructure operating segment.

Customer Privacy

Your financial privacy and the security of your other non-public information are important to us. We, therefore, hold your financial and other non-public information in strictest confidence. Federal regulations allow disclosure of such information by us only in certain situations. Examples of these situations include law enforcement or legal proceedings or when such information is requested by a Farm Credit System institution with which you do business. In addition, as required by Federal laws targeting terrorism funding and money laundering activities, we collect information and take actions necessary to verify your identity.

CoBank's 2015 Quarterly and Annual Reports to Shareholders are available free of charge on request by calling or visiting one of our banking center locations and through our website at www.cobank.com on approximately May 8, 2015, August 7, 2015, November 6, 2015, and March 1, 2016 (Annual Report).

OFFICE LOCATIONS

COBANK NATIONAL OFFICE

5500 South Quebec Street
Greenwood Village, CO 80111
(303) 740-4000
(800) 542-8072

FARM CREDIT LEASING SERVICES CORPORATION

600 Highway 169 South, Suite 300
Minneapolis, MN 55426
(952) 417-7800
(800) 444-2929

WASHINGTON, D.C. OFFICE

50 F Street, N.W., Suite 900
Washington, DC 20001
(202) 650-5860

U.S. REGIONAL OFFICES

AMES BANKING CENTER

2515 University Boulevard, Suite 104
Ames, IA 50010
(515) 292-8828

ATLANTA BANKING CENTER**

900 Circle 75 Parkway, Suite 1400
Atlanta, GA 30339-5946
(770) 618-3200
(800) 255-7429
FCL: (770) 618-3226

AUSTIN BANKING CENTER

4801 Plaza on the Lake Drive
Austin, TX 78746
(512) 483-9273

ENFIELD BANKING CENTER**

240B South Road
Enfield, CT 06082-4451
(860) 814-4043
(800) 876-3227
FCL: (860) 814-4049

FARGO BANKING CENTER

4143 26th Avenue South, Suite 101
Fargo, ND 58104
(701) 277-5007
(866) 280-2892

FLORIDA FARM CREDIT LEASING OFFICE*

11903 Southern Blvd., Suite 200
West Palm Beach, FL 33411
(678) 592-5394

LOUISVILLE BANKING CENTER**

1601 UPS Drive, Suite 102
Louisville, KY 40223
(502) 423-5650
(800) 262-6599
FCL: (800) 942-3309

LUBBOCK BANKING CENTER**

5715 West 50th
Lubbock, TX 79414
(806) 788-3700
FCL: (806) 788-3705

MINNEAPOLIS BANKING CENTER**

600 Highway 169 South, Suite 300
Minneapolis, MN 55426
(952) 417-7900
(800) 282-4150
FCL: (800) 444-2929

OHIO FARM CREDIT LEASING OFFICE*

1220 Irmscher Blvd.
Celina, OH 45822
(855) 838-9961 ext. 23969

OMAHA BANKING CENTER**

11422 Miracle Hills Drive, Suite 300
Omaha, NE 68154-4404
(402) 492-2000
(800) 346-5717

SACRAMENTO BANKING CENTER**

1478 Stone Point Drive, Suite 450
Roseville, CA 95661
(916) 380-3524
(800) 457-0942
FCL: (800) 289-7080

SPOKANE BANKING CENTER

1700 South Assembly Street, Suite 103
Spokane, WA 99224-2121
(509) 363-8700
(800) 378-5577

STERLING BANKING CENTER

229 South 3rd Street
Sterling, CO 80751
(970) 521-2774

ST. LOUIS BANKING CENTER**

1650 Des Peres Road, Suite 120
St. Louis, MO 63131
(314) 835-4200
(800) 806-4144
FCL: (800) 853-5480

WICHITA BANKING CENTER**

245 North Waco, Suite 130
Wichita, KS 67202
(316) 290-2000
(800) 322-3654
FCL: (800) 322-6558

* Farm Credit Leasing office only
** Farm Credit Leasing office within this CoBank location

INTERNATIONAL REPRESENTATIVE OFFICE

10 Hoe Chiang Road
#05-01 Keppel Towers
Singapore 089315
(65) 6534-5261

COOPERATIVE. CONNECTED. COMMITTED.

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GREENWOOD VILLAGE, CO 80111
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