BUILDING FOR TOMORROW

2011 ANNUAL REPORT

CoBANK®

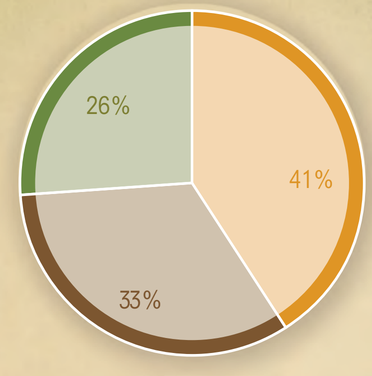
2011 Financial Highlights

For the Year ($ in millions)	2011	2010	2009
Net Interest Income	$ 1,071	$ 951	$ 946
Provision for Loan Losses	58	60	80
Net Income	707	614	565
Patronage Distribution	341	285	269

At Year End ($ in millions)	2011	2010	2009
Agribusiness	$ 18,869	$ 22,676	$ 17,469
Strategic Relationships	15,236	15,392	15,271
Rural Infrastructure	12,180	11,924	11,434
Total Loans	46,285	49,992	44,174
Reserve for Credit Exposure	542	501	498
Total Assets	63,290	65,826	58,161
Total Shareholders' Equity	4,896	4,406	4,058

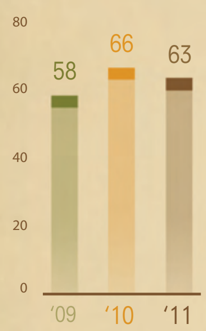
Financial Ratios for the Year	2011	2010	2009
Return on Average Common Equity	16.05 %	15.31 %	15.96 %
Return on Average Assets	1.07	1.03	0.93
Return on Active Patron Investment	22.65	19.77	19.68
Net Interest Margin	1.69	1.66	1.66
Permanent Capital Ratio	16.37	14.30	15.29

Loan Portfolio

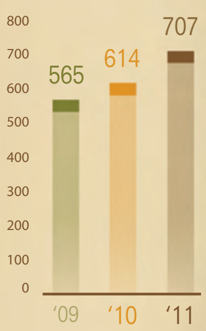


$46.3 billion
at 12/31/11

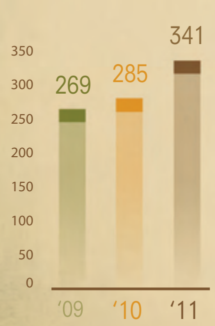
Agribusiness	41%
Strategic Relationships	33%
Rural Infrastructure	26%



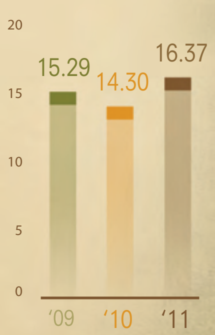
Total Assets
($ in billions)



Net Income
($ in millions)



Patronage Distribution
($ in millions)



Permanent Capital Ratio
(in percentages)

OUR MISSION, AS AN INTEGRAL 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.

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Proud Member of the Farm Credit System

EVERETT DOBRINSKI
Chairman

ROBERT B. ENGEL
President and CEO

To Our Shareholders

CoBank's history has always been characterized by a long, steady process of business transformation.

The nation's original Banks for Cooperatives – the predecessors of CoBank today – were formed in the 1930s to serve farmer-owned co-ops across rural America. The agricultural cooperatives who founded those banks could not have known how right they were, because they couldn't have imagined the complexity, the volatility and the ambiguity of modern financial, agricultural and capital markets. But they clearly understood the importance of dependable credit, and the need for a lender that would stand by them, in good times and bad, to reliably serve their borrowing needs.

In the decades since, our business has continued to grow and evolve in a never-ending effort to better serve our customers and fulfill our mission. In the 1960s and 1970s, the Banks for Cooperatives expanded into the rural infrastructure market, making their first loans to rural electric, communications and water service providers. In 1989, 11 of the 13 BCs combined to form CoBank, with $12 billion in assets and a national, highly diversified customer base. The 1990s saw additional mergers with the remaining two Banks for Cooperatives as well as the Farm Credit Bank of Springfield, which enabled CoBank to begin serving as the funding bank for Farm Credit associations that were the "front door" to the rapidly changing market of production agriculture. Northwest Farm Credit Services affiliated with CoBank in 2003, providing a critical shot in the arm for our association partnering strategy. All the while, CoBank

> "From the earliest years of the bank, our cooperative roots have enabled our directors to focus on the long-term health and position of the enterprise."

continued to invest in people and technology in order to create more value and deliver a truly superior customer experience.

The year 2011 marked yet another transformative event for CoBank and its customer-owners. Our board and management team pursued and finalized a merger with U.S. AgBank, which dramatically expands our wholesale lending business and our roster of affiliated Farm Credit association customers. The combined bank now has nearly $90 billion in total assets, and is firmly positioned as a leading provider of credit to the American rural economy. CoBank also recorded its 12th consecutive year of net income growth in 2011, despite continued turmoil in the global credit markets and persistently difficult economic conditions here in the U.S.

The theme of our annual report this year – "Building for Tomorrow" – is meant to recognize and celebrate this continuous pattern of progress, investment and forward-looking change. From the earliest years of the bank, our cooperative roots have enabled our directors to focus on the long-term health and position of the enterprise. As the U.S. AgBank merger demonstrates, that continues to be true today.

At the same time, CoBank's mission and higher purpose are the same as they always have been. We remain dedicated to meeting the needs of cooperatives, Farm Credit associations and other businesses in vital industries across rural America, and to building our capacity to serve them effectively both today and into the future.

The U.S. AgBank Merger

The merger of CoBank and U.S. AgBank, which closed on January 1, 2012, delivers immediate value from a financial perspective. It diversifies CoBank's loan portfolio and revenue streams, builds our capital base, and enhances our overall lending capacity. But the real impact will be felt over the long term. We firmly believe the combined bank will be a stronger, more durable financial services institution, and better positioned to serve future generations of rural borrowers. Dependable credit is more essential than ever for agriculture, for rural infrastructure companies, and for the other rural businesses we finance. The merger helps ensure that the service and value offered by CoBank are available not only for today's customers, but for tomorrow's as well.

"We firmly believe the combined bank will be a stronger, more durable financial services institution, and better positioned to serve future generations of rural borrowers."

From beginning to end, the merger took almost two years of planning and effort by the boards, management teams and employees of both CoBank and U.S. AgBank. But it could not have been accomplished without the strong support we received from you, our customer-owners. We deeply appreciate the time our customer-owners invested to understand the merger, and the support they provided throughout the regulatory and stockholder approval process. Much of the next two years at CoBank will be spent on further integrating the two banks into a seamless organization. As we undertake that effort, we will remain committed to delivering on the promises we've made and to maintaining the superior level of service our customers expect from us.

2011 Financial Results

CoBank's financial performance in 2011 was remarkably strong. Net income grew 15 percent to $706.6 million, an all-time high, and average loan volume increased by more than 10 percent. Higher average prices for grains and other agricultural commodities were a primary factor, translating into increased seasonal borrowing by cooperatives and other agribusiness customers that use CoBank to finance their inventory and receivables. As a result, average loan volume in our Agribusiness operating segment rose 22 percent over prior-year levels. In our other operating segments, average loan growth was modest. Rural Infrastructure lending grew by 3 percent, consistent with a slow housing market and generally sluggish economic conditions in the United States.

Loans to Farm Credit associations in our Strategic Relationships segment increased by 1 percent, due to tepid demand for debt capital from the farmers and ranchers they serve. Ironically, slow growth in that segment reflected generally strong conditions at the producer level of the farm economy, where many farmers are currently opting to finance their operations with cash rather than through loans.

Credit quality across our $46.3 billion loan portfolio improved by most measures during 2011 and remained well within the risk-bearing capacity of the bank. The provision for loan losses totaled $58 million, compared with $60 million the year before, and our nonaccrual loans were $135 million at December 31, 2011, compared with $167 million at year-end 2010. The bank's reserve for credit exposure – $542 million at year-end – is robust; it serves as a strong source of protection for the bank and its capital base against future losses in our loan portfolio. CoBank had $4.9 billion of shareholders' equity as of the end of the year, and our permanent capital ratio increased to 16.4 percent, more than double the current regulatory minimum.

Our strong financial performance will once again enable CoBank to return a significant portion of our earnings to our customer-owners. In March, the bank will distribute a total of $341 million in cash and stock patronage, which represents a strong return on their investment in CoBank. Patronage effectively lowers the net cost of borrowing for our customers, and it is a critical part of the value proposition we offer to businesses who choose CoBank as their financial partner.

Supporting Our Customers

The most remarkable strength of CoBank is its base of customers, every one of which operates in an industry that is vital to people. Our agribusiness customers deliver a meaningful share of the food products consumed every day by people across the U.S. and, increasingly, around the world. Our power customers generate and distribute reliable, affordable electricity to millions of rural homes and businesses. Our water customers provide clean water that rural communities depend on to survive and thrive. And our communications customers offer voice, video and data services that rural subscribers rely on every day. Equally important are our affiliated Farm Credit associations. As a group in 2012, these borrower-owned lending institutions will provide dependable credit and financial services to more than 70,000 farmers, ranchers and other rural borrowers in 23 states around the country.

A wonderful cross-section of these businesses is featured in the customer profiles that follow this letter. As you'll see in the stories, our borrowers are also actively investing in the future, seeking to improve the value they deliver to their customers and other stakeholders. Examples include the Midwestern grain co-op opening a new 50,000-ton storage facility to warehouse fertilizer. Or the apple processing cooperative leveraging solar power to lower its operating costs. An electric cooperative in rural Vermont is using "smart grid" technology to reduce outage times and improve efficiency on behalf of its subscribers. And Farm Credit

CoBank's financial performance in 2011 was remarkably strong.

A key measure of success for CoBank is our commitment to being a socially responsible corporate citizen.

associations are partnering with CoBank to better serve their rural customers, taking advantage of the bank's significant lending capacity and our diverse array of financial products and services.

The health and quality of life in rural America depends on enterprises like these operating in every state across the country. For CoBank, it is enormously gratifying to serve as the financial partner for these businesses, and to support them as they position themselves for future success.

Corporate Citizenship

As a mission-based lender, CoBank measures success differently than other banks. We always strive to deliver strong financial results, but other things matter as well. That includes standing by our customers in difficult market conditions, and serving as an effective partner for other institutions in the Farm Credit System.

Another measure of success for CoBank is our commitment to being a socially responsible corporate citizen. We recognize that we have a responsibility to support civic, charitable and industry organizations across rural America and in the communities where our directors and associates live and work. And over the past few years, we have made a concerted effort to increase our focus in this regard. We're proud of the fact that, during 2011, the bank contributed $1.85 million to non-profit organizations through its multi-faceted corporate citizenship program, and committed another $3.8 million to gifts in future years.

"The most remarkable strength of CoBank is its base of customers, every one of which operates in an industry that is vital to people."

Information about the program is provided in the "Corporate Social Responsibility" section of this report, which we hope you will read in detail. Our board continues to be extremely supportive of our activities in this area, and we're pleased to be in a position to give back when the overall level of need remains so high.

Business Outlook

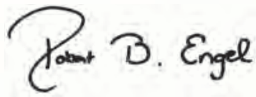
From today's vantage point, we see a number of challenges that could make the lending and earnings environment less favorable for CoBank in the year ahead. Ag commodity prices have retreated from 2011's highs, and growth remains lackluster in the broader economy. Meanwhile, competition is increasing in many sectors we serve. Notwithstanding these challenges, we fully expect CoBank to see strong financial performance in 2012 that will allow us to deliver on our promise of dependable patronage while further building CoBank's financial strength. We will be concentrating on preserving the strength of our balance sheet, on executing our merger integration plan, on enhancing our enterprise-wide risk management capabilities, and on maintaining the bank's capacity to serve customers in all market conditions. Our board is supportive of this approach, and we are fortunate to be led by directors who are focused not on short-term financial results but on the long-term future of the bank.

"Building for Tomorrow" will be an ongoing process at CoBank throughout 2012 and beyond. Our customers around the country are building for tomorrow as well – expanding their facilities, improving their product and service offerings, and enhancing their human capital, all with an eye to a future that they believe is bright with promise.

As we move forward, we'll continue to rely on the leadership of our directors, who deeply understand the needs of our customers and the increasingly important role that CoBank plays in financing the nation's rural economy. We'll also leverage the talent, expertise and dedication of our associates, who are fully committed to the mission of the bank and the success of our customers.

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 DOBRINSKI
Chairman



ROBERT B. ENGEL
President &
Chief Executive Officer

BOARD OF DIRECTORS

2012 BOARD OF DIRECTORS

Occupation: Farming
Hometown: Makoti, ND

Occupation: Almond growing
Hometown: Turlock, CA

Occupation: Farming
Hometown: Normal, IL

Occupation: Farming and ranching
Hometown: Chester, MT

Occupation: Ranching
Hometown: Mountainair, NM

Occupation: Farming
Hometown: Nevada City, CA

Occupation: Farming
Hometown: Yakima, WA

Occupation: Accounting
Hometown: Ada, OK

Occupation: Farming and ranching
Hometown: Redvale, CO

Occupation: Retired, Federal Farm Credit Banks Funding Corporation
Hometown: Middletown, NJ

Occupation: Farming and ranching
Hometown: Tuttle, OK

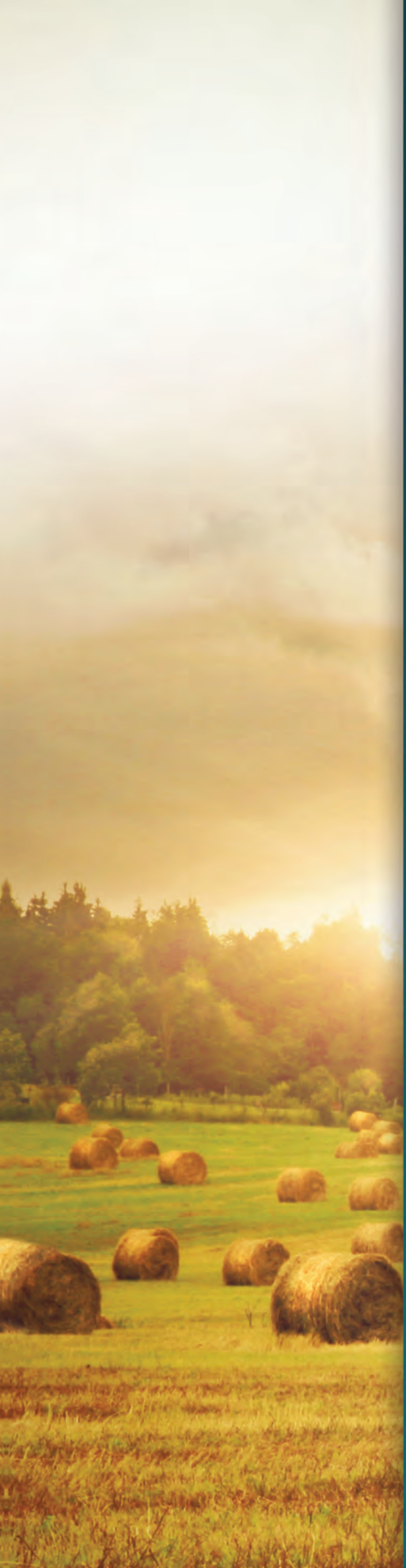
Occupation: Business consulting
Hometown: Chicago, IL

Occupation: Farming and ranching
Hometown: Porterville, CA

Occupation: Farming
Hometown: LeRoy, NY

Occupation: Livestock
Hometown: Flemington, WV

Occupation: Farming
Hometown: Felton, MN



Occupation:
Farming
Hometown:
Constableville, NY

Occupation:
Rural electric cooperative management
Hometown:
Douglasville, GA

Occupation:
Rural communications management
Hometown:
Ulysses, KS

Occupation:
Farming and ranching
Hometown:
Altamont, UT

Occupation:
Retired, agribusiness cooperative management
Hometown:
North Newton, KS

Occupation:
Almond growing
Hometown:
Ripon, CA

Occupation:
Farming
Hometown:
Kensington, KS

Occupation:
Agribusiness cooperative management
Hometown:
Sunray, TX

Occupation:
Farming and livestock
Hometown:
Arapaho, OK

Occupation:
Retired, commercial banking
Hometown:
Winnetka, IL

Occupation:
Retail services
Hometown:
Kentwood, LA

Occupation:
Farming and ranching
Hometown:
Richfield, UT

Occupation:
Agribusiness cooperative management
Hometown:
Danville, IN

Occupation:
Winery owner
Hometown:
Gilroy, CA

Occupation:
Farming, equipment manufacturer
Hometown:
Clay Center, KS

Occupation:
Farming
Hometown:
Otis, CO

"WE ARE COMMITTED TO GOOD GOVERNANCE AT COBANK, IN KEEPING WITH THE BEST COOPERATIVE PRINCIPLES."

Everett Dobrinski
Chairman

CoBank–U.S. AgBank Merger

AT A GLANCE

In the corporate world, the vast majority of mergers and acquisitions follow a predictable pattern. The operations of the merging companies are combined. Redundant costs and other "synergies" are identified and eliminated. Value for shareholders is created by driving expense out of the business as quickly as possible.

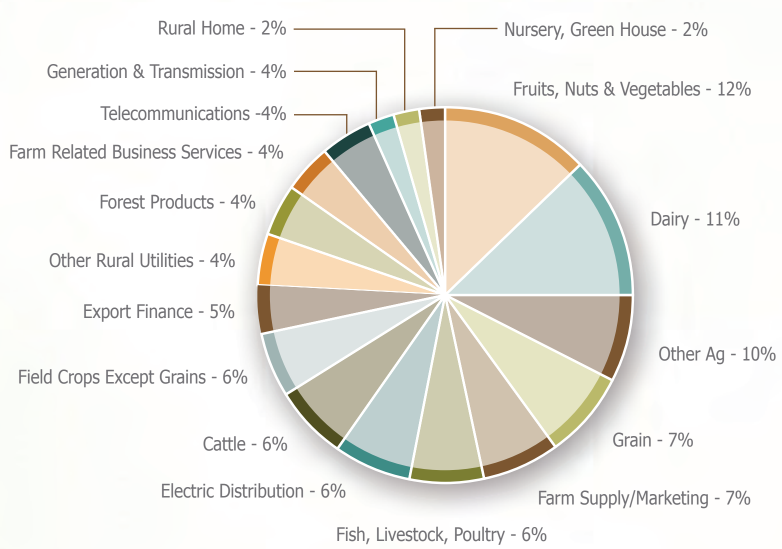
The merger of CoBank and U.S. AgBank, which closed on January 1, 2012, is different. The benefits of the transaction lie elsewhere – in improved diversification of the bank's loan portfolio, in enhanced lending capacity, and in the long-term financial strength of the combined enterprise. With the merger, the new CoBank is firmly established as a leading provider of credit to the U.S. rural economy – and will remain so for generations to come.

Portfolio Diversification and Other Benefits

Prior to the merger, CoBank's portfolio included loans to customers in all 50 states. But its highest concentrations of direct loans were in the central region of the U.S. and in the grain, farm supply, dairy and rural electric industries. The bank also served as a wholesale provider of financing to four Farm Credit associations in the northeast and northwest regions of the country.

The merger delivers substantial diversification benefits by adding U.S. AgBank's portfolio of high-quality wholesale loans to 25 Farm Credit associations operating in 11 states. Those states include California, the state with the nation's largest agricultural economy, along with Arizona, New Mexico, Nevada, Utah, Wyoming, Idaho, Colorado, Kansas, Oklahoma and Hawaii.

Industry Diversification



CoBank post-merger loan portfolio
$66 billion as of January 1, 2012

Merger Timeline

2010

January	February	March	April	May	June	July	August	September	October	November	December
		AgBank board launches strategic review							AgBank board votes to pursue merger with CoBank		AgBank & CoBank boards approve merger Letter of Intent

U.S. AgBank CEO Darryl Rhodes (front left) and CoBank CEO Bob Engel (front right) sign merger documents at a joint meeting of the banks' boards in Denver, Colorado.

The combined bank's larger capital base and more varied income streams also enhance its long-term ability to meet the borrowing needs of its customers in increasingly complex and volatile market conditions. In addition, the merger increases the human capital of the bank by adding U.S. AgBank's experienced work force of professionals in Wichita and Sacramento.

Governance

CoBank remains structured as a cooperative, with qualified borrowers earning cash and equity patronage in proportion to the amount of business they do with the bank during the year. And customer-owners continue to have a direct voice in the governance of the institution, electing directors on both a one-member-one-vote and modified equity basis. That methodology has been employed by CoBank for many years, and it helps ensure that all customers have a fair and equitable voice in the direction of the business.

However, the merger does result in some changes to the bank's governance structure. On January 1, 2012, the boards of both CoBank and U.S. AgBank were combined, and the merged bank will operate under a 32-member board during its first year. Following a 12-month transition period, the size of the board will be reduced to 24 elected directors chosen from six voting regions around the country (compared to three at CoBank pre-merger). It will also have between two and five appointed directors. The combined board will continue to utilize a system of committees, including an Executive Committee, Compensation Committee, Governance Committee, Audit Committee and Risk Committee.

An independent Nominating Committee will continue to identify and put forth qualified candidates for the board to ensure the bank is governed in accordance with the best cooperative principles.

2011

January | February | March | April | May | June | July | August | September | October | November | December

2012

January

- March: CoBank & AgBank submit merger application to the FCA
- June: FCA preliminary approval
- September: CoBank and AgBank stockholders approve merger
- December: FCA final approval
- January: Merger closes on January 1, 2012

CoBank Affiliated Associations – Post-Merger

Thanks to our recently completed merger with U.S. AgBank, CoBank now serves as a funding bank for 29 affiliated Farm Credit associations across the country.

On a combined basis, these strategic partners provide loans and financial services to more than 70,000 farmers, ranchers and other rural borrowers in 23 states. They serve a diverse array of agricultural industries, from grains, produce and dairy to beef, poultry, aquaculture and forest products. As a group, they are an essential conduit of dependable credit to the American rural economy.

CoBank stands behind each of these associations, providing them with wholesale financing as well as other value-added products and services. In turn, our affiliated associations provide the bank with substantial added lending capacity by serving as syndication partners on large credit transactions.

As members of the Farm Credit System, CoBank and its affiliated associations all share a common mission – to meet the credit needs of rural borrowers, in good times and bad.

373,102,760:
Acres of farmland in the expanded CoBank wholesale district

70,000+:
Number of farmers, ranchers and other rural borrowers served by CoBank's 29 affiliated Farm Credit associations

$37 billion:
Total loans outstanding by CoBank affiliated associations as of December 31, 2011

$97 billion:
Total aggregate value of agricultural products produced annually in the CoBank wholesale district

Arizona

FCS Southwest, ACA — Tempe (1)

California

American AgCredit, ACA — Santa Rosa (2)

Farm Credit West, ACA — Roseville (3)

Kingsburg Land Bank, FLCA — Kingsburg (4)

Fresno Madera Farm Credit, ACA — Fresno (5)

FCS of Colusa-Glenn, ACA — Colusa (6)

Northern California Farm Credit — Chico (7)

Yosemite Farm Credit, ACA — Turlock (8)

Colorado

FC of Southern Colorado, ACA — Colorado Springs (9)

Premier Farm Credit, ACA — Sterling (10)

Connecticut

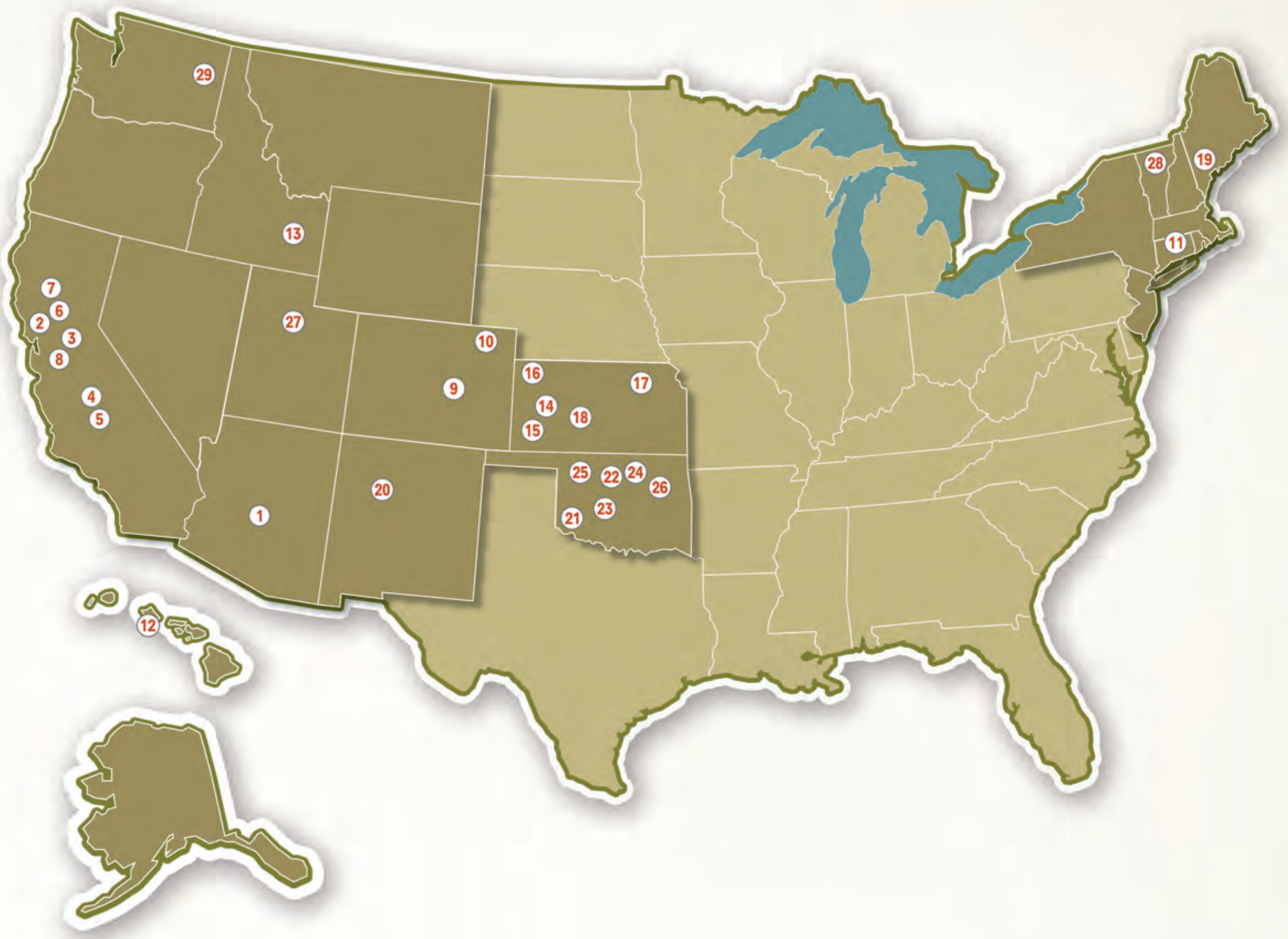
Farm Credit East, ACA — Enfield (11)

Hawaii

FCS of Hawaii, ACA — Honolulu (12)

Idaho

Idaho, ACA — Blackfoot (13)



Kansas

FC of Ness City, FLCA (14)
Ness City

FC of Southwest Kansas, ACA (15)
Garden City

FC of Western Kansas, ACA (16)
Colby

Frontier Farm Credit, ACA (17)
Manhattan

High Plains Farm Credit, ACA (18)
Larned

Maine

Farm Credit of Maine (19)
Auburn

New Mexico

FC of New Mexico, ACA (20)
Albuquerque

Oklahoma

AgPreference, ACA (21)
Altus

Chisholm Trail Farm Credit, ACA (22)
Enid

FC of Central Oklahoma, ACA (23)
Anadarko

FC of Enid, ACA (24)
Enid

FC of Western Oklahoma, ACA (25)
Woodward

FCS of East Central Oklahoma, ACA (26)
Broken Arrow

Utah

Western AgCredit, ACA (27)
South Jordan

Vermont

Yankee Farm Credit (28)
Williston

Washington

Northwest Farm Credit Services (29)
Spokane

States served by CoBank affiliated associations

- Headquarters location

CORPORATE SOCIAL RESPONSIBILITY

AT COBANK, IT'S NOT JUST ABOUT THE BOTTOM LINE.

Yes, we are committed to delivering solid financial performance on behalf of our customer-owners and other stakeholders. After all, strong earnings are what fund our patronage program, and they help build the capital foundation of the bank so we can meet the needs of borrowers over the long term, in good times and bad.

But as a cooperative, mission-based lender, we also recognize we have an obligation to be a good corporate citizen in the business world and in the local communities where our directors and associates live and work. That's why CoBank has invested millions of dollars over the years to support civic, industry, charitable and educational institutions throughout the country.

Corporate Citizenship
at CoBank

Support for United Way

CoBank has a longstanding workplace giving program that enables its employees to designate a portion of each paycheck for the United Way, which provides funding to a wide variety of member agencies around the country. CoBank also supports United Way with corporate contributions; it has committed more than $3.3 million to United Way over the past five years.

Other Charitable Strategic Partnerships

In addition to United Way, CoBank has established formal strategic partnerships with a number of other nonprofit organizations dedicated to helping people in need, including Food Bank of the Rockies, Big Brothers Big Sisters, and Komen for the Cure. The bank backs these organizations with significant corporate contributions each year, and its executives provide further support by serving on the charities' boards of directors.

Board- and Associate-Directed Giving

Each year, members of the CoBank board of directors are able to direct $10,000 in contributions from the bank to nonprofit organizations they select. Our board includes farmers, ranchers, cooperative executives and others from across the country, so it's a great way for the bank to identify and support high-quality organizations doing good work in a wide array of rural communities.

In addition, each CoBank associate is able to direct a $300 contribution from the bank every year to a nonprofit organization of his or her choosing.

Contributions made by CoBank through its board- and associate-directed giving program totaled over $384,000 in 2011 to more than 400 organizations.

Support for Higher Education

CoBank funds scholarships for students around the country pursuing studies in finance, agribusiness and related disciplines. Universities involved in the program include leading educational institutions in California, Colorado, Indiana, Kansas, Minnesota, Missouri, Nebraska, New York and North Dakota.

In addition, the bank has provided support for a number of university programs focused on cooperatives and cooperative development. Such programs include the Graduate Institute of Cooperative Leadership at the University of Missouri, the Arthur Capper Cooperative Center at Kansas State University, and the Quentin Burdick Center for Cooperatives at North Dakota State University.

Young, Beginning & Small Farmers

CoBank partners with Farm Credit East and Yankee Farm Credit in FarmStart, a program that enables beginning farmers to get their businesses off the ground through working capital investments of up to $50,000. The investment functions the same as an operating line of credit and is intended to overcome the timing mismatch that makes it difficult for startup farming operations to generate working capital. Since inception, a total of $3.5 million has been invested through the program in 80 individual businesses, including dairy producers, greenhouse operators, and fruit and vegetable growers.

Special Contributions

Every year, CoBank considers special, one-time contributions to help people and fill unmet needs. While the bank cannot grant every request, it makes an effort to support organizations and causes that are important to our customers, employees and partners and aligned with our mission of service to rural America.

In 2011, these special contributions took many forms. For example, the bank contributed $100,000 in partnership with Farm Credit East to assist farmers and other rural residents impacted by Hurricane Irene and Hurricane Lee. It partnered with Farm Credit Bank of Texas to jointly contribute $35,000 to assist the Texas Department of Agriculture's STAR Fund, which helps ranchers rebuild fences destroyed by wildfires that plagued much of the state during the year. Another $10,000 was contributed to the American Red Cross in Minot, North Dakota, to help that community rebuild from devastating floods early in the year.

CoBank employees join thousands of other people in the annual Komen Race for the Cure event in Denver to raise funds for breast cancer treatment and research.

United Way of the Plains
Wichita, Kansas

To celebrate its merger with U.S. AgBank, CoBank gave $1.1 million to United Way of the Plains and other charities in Wichita. The three-year gift is primarily focused on health care, hunger relief and housing for the poor.

CoBank CEO Bob Engel (right) with United Way's Patrick Hanrahan (center) and Wichita Mayor Carl Brewer at a merger celebration event in Wichita

L to R: Keith James, Hospital Board Chair; Mark Olson, MD, Chief of Staff at hospital; Russ Tomky, President and CEO, Farm Credit of Southern Colorado; Herman Schreivogel, CEO at hospital; Andrew Jacob - CoBank; Jim Maras - CoBank

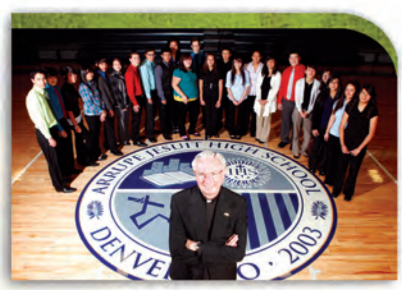
Lincoln Community Hospital
Limon, Colorado

Knowing that access to quality health care can be a challenge in rural areas, CoBank and Farm Credit of Southern Colorado partnered in 2011 to help Lincoln Community Hospital finance a new 4,385-square-foot health clinic in Limon, Colorado. The clinic, to be completed in 2012, was made possible by CoBank's Agricultural and Rural Community (ARC) bond program.

FarmStart

Talented, hardworking individuals who want a career in agriculture in the northeast can get a leg up from the FarmStart program, which CoBank supports in partnership with Farm Credit East and Yankee Farm Credit. The program, which has invested a total of $3.5 million in 80 individual businesses, gives young people the difficult-to-find, day-to-day working capital needed to establish roots in the farming industry.

FarmStart program participants Alex Balsam and Ian Calder-Piedmonte, owners of Balsam Farms



Father Michael Sheeran with students from Denver's Arrupe Jesuit High School

Regis University and
Arrupe Jesuit High School

In addition to funding scholarships at universities around the country, CoBank in 2011 established an endowment at Denver-based Regis University to honor the school's retiring president, the Rev. Michael Sheeran. It will be used to help underprivileged students to attend Regis, including graduates of Arrupe Jesuit High School.

D.C. Central Kitchen

The D.C. Central Kitchen turns leftover food from restaurants and hotels into millions of meals for at-risk individuals in Washington, D.C., while offering job training to once homeless and hungry adults. A gift from CoBank in 2011 will allow the group to buy a large produce truck and a delivery van to help meet its goal of providing fresh, local, healthy food in "urban food deserts."

Todd Van Hoose and Sarah Tyree from CoBank with Michael F. Curtin, Jr., (center) CEO, D.C. Central Kitchen

Strategic Relationships

Farm Credit of Maine and Richard Carrier

Richard Carrier started his trucking company in 1974 with just one truck. With hard work, and the values he learned growing up on a dairy farm in Quebec with 11 brothers and a sister, Carrier's little trucking company has grown to exceed even his dreams. Today, he owns three trucking companies, two saw mills, two woodchip plants, one mulch company and 33,000 acres of timberland. His businesses employ more than 300 people in Maine and parts of Canada.

Since 1988, Carrier has relied on Farm Credit of Maine and its strategic relationship with CoBank to help finance his conglomerate of forest-related businesses. Farm Credit of Maine serves as lead lender, while CoBank provides extra lending capacity to meet the needs of the business.

"We understand his industry and its volatile cycles," said Fred Morton, Farm Credit of Maine's chief lending officer. "Because of our long-standing relationship with CoBank, Mr. Carrier is able to do business with a local bank that makes its decisions at a local level, but he also has access to CoBank's large balance sheet."

The partnership brings the collective benefits and strengths of the Farm Credit System to rural America, said Will Baildon, a lead relationship manager in CoBank's Enfield, Connecticut banking center. "The relationship just continues to grow, and Mr. Carrier has been a fantastic customer for us."

For Carrier, the relationship is about trust and stability. Morton actually closed Carrier's first loan in 1988. Carrier said he will always appreciate CoBank and Farm Credit of Maine's willingness to believe in him and his company.

"We're all on the same side," Carrier says. "I've been given the chance to go elsewhere many times by many other banks but I always tell them I'm happy with CoBank and Farm Credit of Maine. They are fantastic partners for us."

WILL BAILDON, COBANK
Lead Relationship Manager

FRED MORTON,
FARM CREDIT OF MAINE
Chief Lending Officer

RICHARD CARRIER,
RICHARD CARRIER TRUCKING, INC.
President

"STRONG RELATIONSHIPS WE'VE BUILT IN THE FARM CREDIT SYSTEM CAN BE LEVERAGED TO BENEFIT A CUSTOMER."

Yankee Farm Credit and Adirondack Farms

In 1996, Adirondack Farms was just an empty plot of land in Peru, New York. But over the past 15 years it has grown into a 3,100-acre dairy operation with more than 2,000 dairy cows producing 56 million pounds of milk a year.

Vermont-based Yankee Farm Credit has served as Adirondack's primary lender since the beginning. As one of CoBank's affiliated Farm Credit associations, Yankee has, in turn, relied on CoBank to offer the customer enhanced lending capacity and other specialized financial services.

"Yankee Farm Credit and CoBank have been with us since the very beginning, and we know they will continue to stick with us as we grow our operations," says Jake Swyers, who co-owns Adirondack Farms with partners Jon Rulfs and Rocky Giroux.

Adirondack recently leased milking parlor equipment through CoBank Farm Credit Leasing. It also partnered with Farm Credit East, another CoBank affiliate, for business consulting services. "It's a perfect example of how the strong relationships we've built in the Farm Credit System can be leveraged to benefit a customer," says David Sparks, Eastern Region President of CoBank's Regional Agribusiness Banking Group.

Mike Farmer, senior vice president with Yankee Farm Credit, says it has been "amazing" to see Adirondack's growth and success. "We've been able to step up and help them with all of their needs," Farmer says. "We really appreciate the partnership with CoBank, which helps us fulfill our mission and better serve our borrowers."

MIKE FARMER, YANKEE FARM CREDIT
Senior Vice President

MICHAEL OLEKSAK, COBANK
Relationship Manager

JAKE SWYERS, ADIRONDACK FARMS
Co-Owner

JON RULFS, ADIRONDACK FARMS
Co-Owner

Regional Agribusiness
BANKING GROUP

Ceres Solutions

For Ceres Solutions, a diversified agriculture, grain and farm supply cooperative, meeting member expectations is increasingly about speed and volume. The co-op, based in Crawfordsville, Indiana, serves more than a dozen counties and sells more than 200,000 tons of dry fertilizer annually. While Ceres has never had a problem meeting customer needs, the logistics can be challenging.

"Farms are getting larger and the speed of doing business is getting faster," says Ceres Solutions CEO Jeff Troike. "Our customers want to know that we have the product they want when they want it. To do that, we need to be more efficient."

Ceres recently partnered with Minnesota-based CHS, Inc., the nation's largest cooperative enterprise, to form Whitesville Crop Nutrients, LLC and began the process of building a new 50,000-ton storage facility. CHS, which has had a long relationship with CoBank, needed to store fertilizer in the area without paying costly warehousing fees, while Ceres needed a convenient option for maintaining large amounts of inventory.

"When it came time to look for financing, our decision was easy," says Troike. "Ceres Solutions has a longstanding relationship with CoBank. They've been our lender of choice forever. The loan process is simple – something I really appreciate. I also appreciate their understanding of our business. CoBank recognizes that we're building for the future."

The new facility, completed in 2011, has exceeded expectations. "Farmers can drive their trucks in most any time of day and be loaded and back on the road in 15 minutes," Troike says. "In just a few months we've been able to consolidate retail operations, reduce expenses and increase efficiencies. That's good for us, and good for our members."

JEFF TROIKE, CERES SOLUTIONS
Chief Executive Officer

CHRIS JONES, COBANK
Senior Relationship Manager

DERRICK WAGGONER, COBANK
Regional Vice President

"WE'RE EXCITED TO BE WORKING WITH COBANK ON MOVING OUR COMPANY FORWARD."

Total Grain Marketing

When three Illinois cooperatives banded together in 2006 to form Total Grain Marketing, they created what is now one of the largest grain companies in the region. Today, TGM operates more than 30 grain elevators with 40 million bushels of licensed storage space.

But TGM is still expanding and plans to add significant grain storage capacity and improvements that will speed up operations for customer convenience and location efficiency. To help accommodate that growth, TGM worked with CoBank in 2011 to increase its line of credit and secure a $50 million term loan.

"As TGM grows, they need to be able to more efficiently move and store grain," says Amy Gales, executive vice president and manager of CoBank's Regional Agribusiness Banking Group. "This will allow them to expand their capacity in a way that makes good fiscal sense for all of the parties involved."

Any improvements TGM undertakes will use the newest technological innovations to reduce waiting time for customers. Their overarching goal is speed and customer convenience.

"We're excited to be working with CoBank on moving our company forward," says Joe Meinhart, TGM's chief financial officer. "CoBank proved to be a true partner back in 2008 when grain prices jumped. They stuck not only with us, but with the industry overall. They've been able to meet our needs at every critical juncture."

DAVID SPARKS, COBANK
Eastern Region President

JIM RENNEKER, COBANK
Senior Credit Officer

RANDY HANDEL, TGM
Chief Executive Officer

KIM HOLSAPPLE, TGM
Grain Manager

JOE MEINHART, TGM
Chief Financial Officer

Corporate Agribusiness
BANKING GROUP

Knouse Foods

With roots going back to the early 1900s, Knouse Foods has grown into one of the largest apple processors in the world. A commitment to quality and a focus on the future have enabled the co-op's more than 100 grower members to thrive despite natural fluctuations in apple harvests and increasing industry consolidation.

Based in Peach Glen, Pennsylvania, the co-op recently faced a dramatic increase in operating costs at its main processing plant due to the expiration of statutory rate caps on electricity. Knouse knew it needed to take action to protect the long-term health of the business. A long-standing commitment to sustainability made the self-generation of solar energy a natural solution.

"Solar energy is non-polluting, operating costs are relatively low and the cells have a long lifespan, making it both environmentally friendly and economical once operational," said Tom DeNisco, vice president and general manager/CFO. A more than 50-year history with the Farm Credit System and a solid relationship with CoBank made it easy for Knouse to select a financing partner.

"No other lender invested the time to learn about the project like CoBank did," says Knouse Foods President and CEO Ken Guise. "If you think about it, they were really taking a leap of faith with us. When people think of solar fields they think of places like Arizona and Florida, not the chilly northeast."

Since its completion, the facility has been producing 7 to 10 percent more electricity than anticipated. "In the end, it doesn't matter how cold it is as long as the sun is out," DeNisco said. "We're really pleased with the outcome of this project – and with our ongoing relationship with CoBank."

KENNETH E. GUISE, KNOUSE FOODS
President and Chief Executive Officer

SCOTT TRAUTH, COBANK
Vice President, Relationship Manager

TOM DENISCO, KNOUSE FOODS
Vice President-General Manager
Chief Financial Officer

"COBANK IS ALWAYS THERE WHEN WE NEED THEM – IN HARD TIMES AS WELL AS GOOD TIMES."

Land O'Lakes

Land O'Lakes Chief Financial Officer Dan Knutson acknowledges that most people think of their brand simply as "the butter company." But company factories across the country also churn out deli cheese, eggs, branded dairy-based food service products, lifestyle and livestock feed, and wholesale seed and crop protection products. In fact, "the butter company" is the largest wholesale distributor of seed and chemicals in the United States.

With 9,000 employees doing business in all 50 states and more than 60 countries, Land O'Lakes is one of the nation's largest cooperative enterprises. And a cooperative of that size needs a strong, dependable banking partner with the capacity to handle its debt capital needs.

"CoBank understands us," says Knutson. "They understand agriculture and what we stand for, and that allows them to represent us appropriately in the marketplace. So when CoBank approached us this past year with a refinancing package, we knew we were in good hands."

Jacquie Fredericks, managing director of CoBank's Capital Markets Division, notes that in 2011, favorable market conditions and higher commodity prices presented an opportunity for a refinancing package of more than $1 billion.

"The Farm Credit System played a key role in the financing, as did a number of prominent commercial banks," Fredericks says. "But overall we were able to take the lead and offer very favorable terms, which made this deal good for Land O'Lakes and for investors."

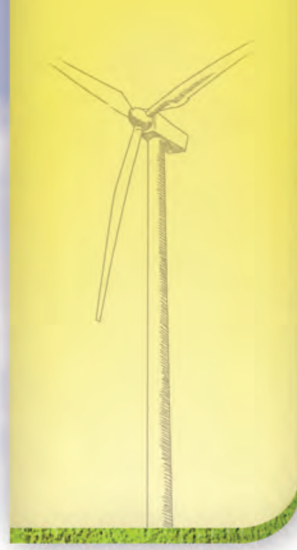
"CoBank is always there when we need them – in hard times as well as good times," says Pete Simonse, Land O'Lakes vice president and treasurer. "Over the years, we've really come to trust their judgment."

JACQUIE FREDERICKS, COBANK
Managing Director,
Capital Markets Division

MICHAEL TOUSIGNANT, COBANK
Sector Vice President,
Relationship Manager

DAN KNUTSON, LAND O'LAKES
Executive Vice President and
Chief Financial Officer

PETE SIMONSE, LAND O'LAKES
Vice President and Treasurer



Electric Distribution

BANKING DIVISION

Vermont Electric Cooperative

On the day David Hallquist became CEO of the Vermont Electric Cooperative in 2005, Northern Vermont was getting socked with a nasty winter storm. Thousands of people lost power, and the co-op's aging electric system made it hard to pinpoint exactly where the problems were located. Eventually, 110 complaints were filed with the Public Service Board over VEC's outage response.

In the wake of that storm, Hallquist pushed the cooperative to build a state-of-the-art "smart grid" system. The system allows for two-way communication with customers, who can monitor their power usage and costs.

"Installing smart grid has dramatically reduced the length of power outages and made it much easier to manage overall power supply," Hallquist says. "It has also increased customer satisfaction among our members."

Michael Bursell, the cooperative's chief financial officer, says VEC needed a strong financial partner for this project – and found one in CoBank and Farm Credit Leasing. "Not only do we get good service, but we also get really good rates," Bursell says. "And CoBank Farm Credit Leasing came through with a creative, non-traditional lease financing tool that really helped enable the project."

More recently, when another winter storm blew through northern Vermont doing $1.8 million in damages, VEC was able to more quickly pinpoint outages and dispatch crews to the right spots along the lines. Rather than receiving complaints, VEC's response eventually earned more than 150 thank-you notes from customers. In 2011, VEC was the winner of *Power* magazine's first-ever Smart Grid Award.

"We're pleased CoBank could be a partner in VEC's success. When our customer-owners are successful, we're successful," said Candace Roper, senior vice president of CoBank's Electric Distribution Banking Division.

NOIEL FONTAINE, COBANK FARM CREDIT LEASING
Regional Vice President

DAVE HALLQUIST, VERMONT ELECTRIC COOPERATIVE
Chief Executive Officer

CLARENCE J. MAHOVLICH, COBANK
Relationship Manager

MIKE BURSELL, VERMONT ELECTRIC COOPERATIVE
Chief Financial Officer

Energy & Water Services
BANKING DIVISION

Breezy Hill

The people at Breezy Hill Water and Sewer know that nothing grows without water. It's true for crops, businesses and communities. The private, non-profit utility has been serving both residents and industry in rural Aiken County, South Carolina, for more than 40 years and has had to buy increasing amounts of water from other utilities to meet its growth needs.

Breezy Hill General Manager Charles Hilton's long-nurtured dream has been the construction of a surface water treatment plant that would allow Breezy Hill to meet its own water demands and provide for the future growth of the business and community. Today, grants from USDA Rural Development and an interim loan from CoBank are making that dream a reality.

Working with USDA, Breezy Hill was able to secure a $2 million grant and other funding to offset the cost of the $9.5 million venture. However, to reduce the back-office administration necessary to launch these projects, USDA requires loan applicants to secure interim financing from other lenders. That's where CoBank came in.

"I've been doing business for 40 years and this was the easiest loan process ever," says Hilton. "We put this project out for proposal, and CoBank's service and interest rates just couldn't be beat."

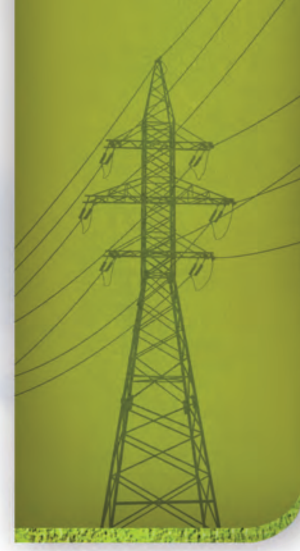
Breezy Hill expects the treatment plant to be completed by the end of 2012. "With a combination of groundwater and our new surface water capability, Breezy Hill will be 100 percent self-sufficient," says Hilton. "We expect that this project will put us in good shape for the next 30 years or more."

BRYAN ERVIN, COBANK
Relationship Manager

CHARLES HILTON, BREEZY HILL
General Manager

JIM MARAS, COBANK
Relationship Manager

JEFF LOWE, BREEZY HILL
Assistant Manager



POWER SUPPLY
BANKING DIVISION

TRI-STATE GENERATION AND TRANSMISSION

Tri-State Generation and Transmission Association delivers electricity to 44 electric distribution cooperatives serving 1.5 million members across 200,000 square miles.

It's a formidable task – and one that requires a consistent focus on long-term planning. That's especially due to continued rapid growth in its four-state service territory, which includes portions of Colorado, Nebraska, New Mexico and Wyoming.

In 2011, the Colorado-based generation and transmission cooperative purchased a 272-megawatt natural gas-fired combined cycle power plant in Fort Lupton, Colorado, and the Colowyo Mine in northwest Colorado in order to help meet future energy needs. CoBank served as a lead arranger on a $500 million revolving credit facility used for both purchases. Given the scale of the transaction, CoBank also syndicated the deal to a group of partners that included commercial banks and other Farm Credit institutions.

"Transactions involving more than one bank can get complicated, but CoBank took the lead on this one and made it much easier for all of us," Tri-State Chief Financial Officer Pat Bridges says. "As a cooperative, we're pleased to be partners with a cooperative lender like CoBank because we share the same principles."

Todd Telesz, senior vice president and manager of CoBank's Power Supply Banking Division, notes that serving rural electric cooperatives is a key part of CoBank's broader mission.

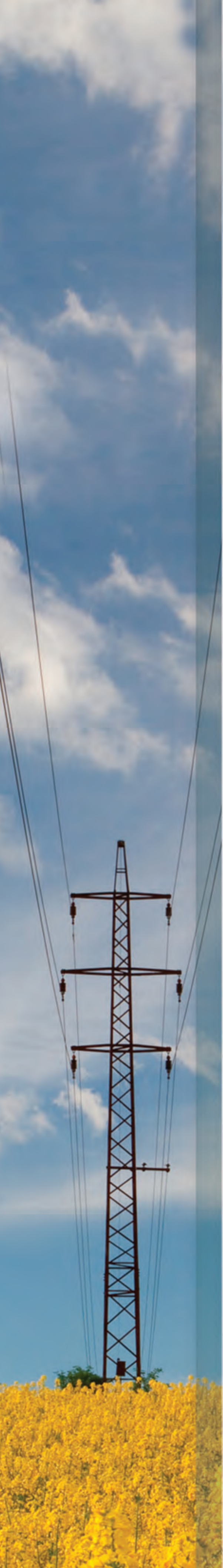
"Reliable, affordable electric power is essential to the quality of life in rural communities served by Tri-State and its member cooperatives," Telesz says. "We're extremely pleased to have served as Tri-State's financial partner on this transaction, and gratified to be able to help them meet the needs of their members."

CAROLINE WHITE, TRI-STATE
Senior Manager, Corporate Finance

PAT BRIDGES, TRI-STATE
Senior Vice President and
Chief Financial Officer

JACQUIE FREDERICKS, COBANK
Managing Director,
Capital Markets Division

BROCK TAYLOR, COBANK
Vice President



Communications
BANKING DIVISION

Bluebird Network

Slicing six feet deep into the Missouri prairie, work crews spent much of 2011 laying broadband fibers across vast stretches of countryside in order to bring high-speed Internet and beefed-up communication capabilities to rural hospitals, schools and colleges.

Columbia-based Bluebird Network was awarded a federal stimulus grant to build a "middle mile broadband network" to underserved areas in rural Northern Missouri. But without additional financing from CoBank, the project may not have been possible.

In early 2011, Bluebird merged with the Missouri Network Alliance, a former CoBank customer that already operated a 3,000-mile fiber optic network throughout the state. The loan from CoBank not only helped seal the merger, but it also provided the additional capital required by the federal grant to complete the three-year, $65 million project. "The federal grant makes the project possible, but the financing, and the confidence CoBank has in our newly merged company, makes it complete," says Chris Bach, Bluebird CFO.

Rob West, CoBank senior vice president and manager of the bank's Communications Banking Division, said the transaction underscores the value of CoBank's experience serving the rural communications industry.

"This is one of those situations where we were able to turn our strong, long-term association with the Missouri Network Alliance into a new partnership with Bluebird," West says. "We're delighted with this project, which will give thousands of people in Missouri access to high-speed Internet and the tools they need to compete in the 21st century."

STEVE GANN, BLUEBIRD NETWORK
Board Member

ANDY SMITH, COBANK
Vice President, Relationship Manager

CHRIS BACH, BLUEBIRD NETWORK
Chief Financial Officer

CHRIS MARTIN, BLUEBIRD NETWORK
Board Member

Industry Portfolios

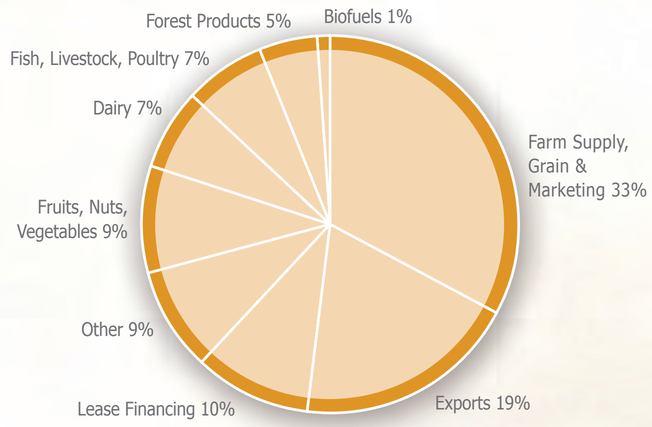
CoBank ended 2011 with total loan volume of $46.3 billion. For a detailed discussion and analysis of the bank's 2011 financial performance, see the financial section of this report starting on page 29.

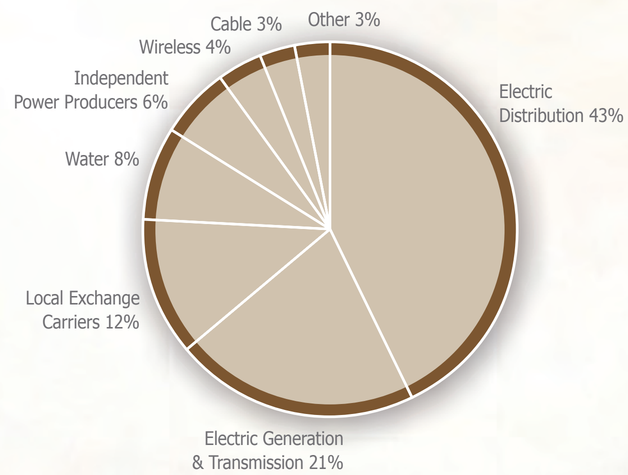
Agribusiness

The Agribusiness operating segment includes the Regional Agribusiness Banking Group, Corporate Agribusiness Banking Group, Agricultural Export Financing 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. Average loan volume in the Agribusiness portfolio was $23.1 billion in 2011.

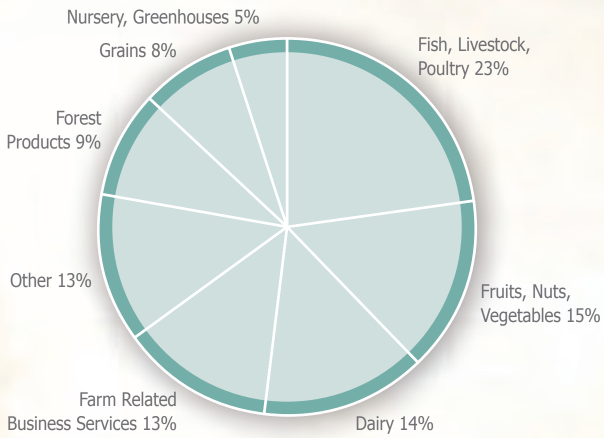
Rural Infrastructure

The Rural Infrastructure operating segment includes the Electric Distribution Banking Division, Energy & Water Services Banking Division, Power Supply Banking Division and Communications Banking Division. 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 wireline, cable and wireless communications service providers. Average loan volume in CoBank's Rural Infrastructure portfolio was $11.9 billion in 2011.





Year-End Loan Volume by Industry



YEAR-END LOAN VOLUME
by Industry

STRATEGIC RELATIONSHIPS

Through its Strategic Relationships operating segment, CoBank served as a wholesale provider of funds to four affiliated Farm Credit associations in 2011: Farm Credit East, Farm Credit of Maine, Northwest Farm Credit Services, and Yankee Farm Credit. CoBank also served as a partner of choice for a number of other Farm Credit banks and associations, via loan participations and syndications and through providing cash management, treasury products, leasing and other non-credit services. Average loan volume in this portfolio was $15.2 billion in 2011.

On January 1, 2012, CoBank's wholesale financing business expanded to include 25 more Farm Credit associations because of the merger with U.S. AgBank. The average loan volume of those associations is not included in this report. For more information on CoBank's new wholesale district, see the map and information on pages 12–13.

Our 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 2011 Financial Report

TABLE OF CONTENTS:

BUILDING FOR TOMORROW

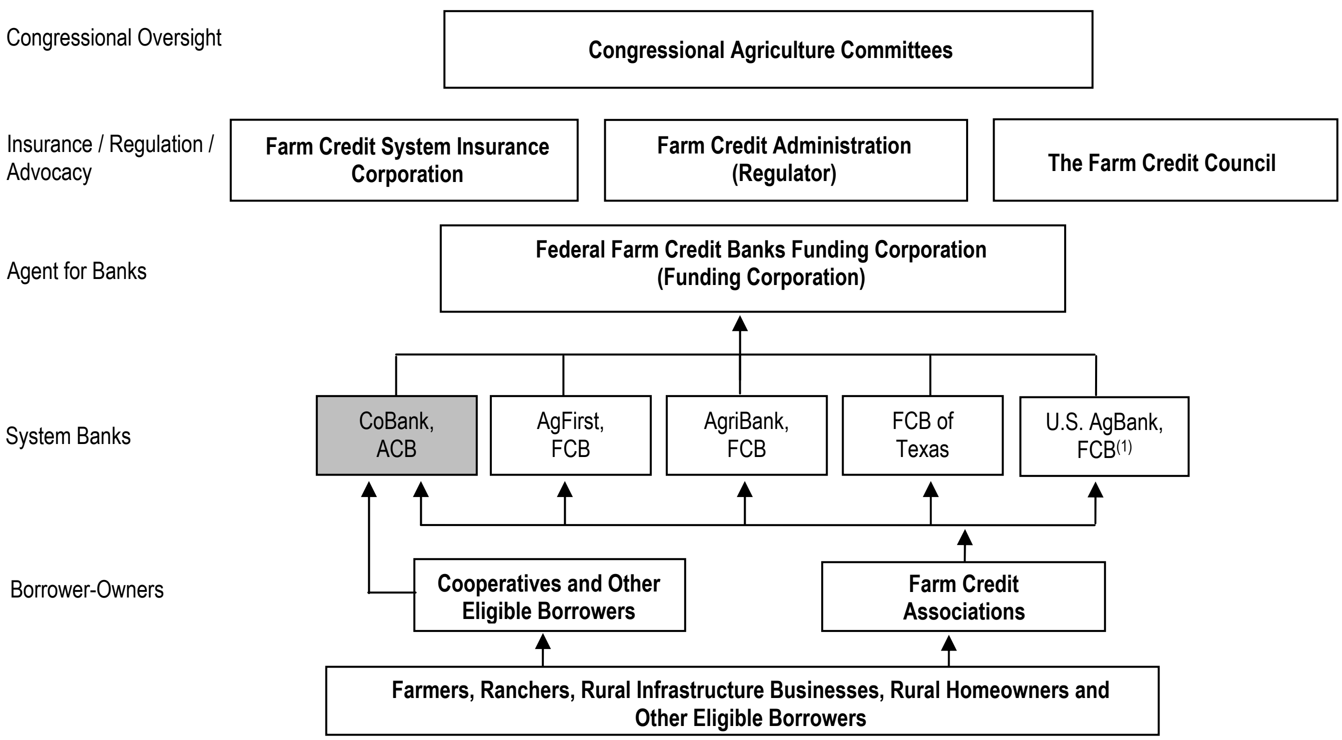
2011 FINANCIAL REPORT

Company Introduction

CoBank, ACB (CoBank or the Bank) is one of the banks of the Farm Credit System (System) and provides loans, leases and other financial services to vital industries across rural America. At December 31, 2011, there were five System banks; however, U.S. AgBank, FCB merged with and into CoBank effective January 1, 2012, reducing the number of System banks to four.

The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. Cooperatives are organizations that are owned and governed by their members who use the cooperative's products or services. The System was established in 1916 by the United States Congress, and is a Government Sponsored Enterprise (GSE).

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



(1) Effective January 1, 2012, U.S. AgBank, FCB merged with and into CoBank

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 utility 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 System banks.

We are cooperatively owned by our U.S. customers. Our customers consist of agricultural cooperatives, rural energy, communications and water companies, farmer-owned financial institutions including Agricultural 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.

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 System 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 Federal Farm Credit Banks Funding Corporation 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. Similar links are also available at the CoBank website at www.cobank.com.

Merger with U.S. AgBank, FCB

U.S. AgBank, FCB (AgBank) merged with and into CoBank effective January 1, 2012. The merged bank operates under the CoBank name and is headquartered outside Denver, Colorado. Robert B. Engel is the president and chief executive officer of the merged bank.

Upon the date of the merger, CoBank became the funding bank for the 25 Farm Credit Associations previously affiliated with AgBank. The merger with AgBank diversifies CoBank's loan portfolio, builds our capital base and enhances our overall lending capacity.

The 2011 results discussed within this Annual Report to Shareholders are not reflective of the merger executed on January 1, 2012. The merger is further discussed in "Business Outlook" on page 62 and in Notes 1 and 18 to the accompanying consolidated financial statements.

Overview

CoBank recorded another year of record financial performance in 2011. Our earnings grew to $706.6 million in 2011, a 15 percent increase compared to 2010. Increased earnings were driven by greater net interest income, which grew to $1.1 billion, or by 13 percent. Growth in fee income also contributed to stronger 2011 earnings. Higher net interest income resulted from an increase in average loan volume, which grew by $4.7 billion, or 10 percent, primarily due to increases in loans to customers in our Agribusiness operating segment, where increased prices and continued volatility for grains and certain other agricultural commodities led to greater customer financing requirements. Our total loans outstanding were $46.3 billion at December 31, 2011.

Our financial position remains strong as of December 31, 2011, reflecting capital and liquidity levels significantly above regulatory minimums. With $4.9 billion in shareholders' equity, our permanent capital and core surplus ratios were 16.37 percent and 10.02 percent, respectively, as of December 31, 2011, both well in excess of the regulatory minimum requirements of 7.00 and 3.50 percent, respectively. As of year-end 2011, we held $15.8 billion in investments and cash as a liquidity reserve and our days liquidity was 234 days, also well in excess of the regulatory minimum of 90 days.

Overall credit quality in our loan portfolio improved in 2011. Adversely classified loans decreased to 1.25 percent of total loans and related accrued interest at December 31, 2011, compared to 1.71 percent at December 31, 2010. Nonaccrual loans decreased to $134.9 million at December 31, 2011 from $167.0 million at December 31, 2010. Our provision for loan losses decreased to $58.0 million in 2011 compared to $60.0 million for 2010.

Due to continued weakness in the U.S. housing market and broader economy, we recorded $10.0 million in impairment losses in 2011 on certain of our mortgage- and asset-backed investment securities held in our investment portfolio. Credit risk in this portfolio is minimal given that approximately 98 percent of our investment securities are guaranteed by the U.S. government or issued by a GSE.

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

Five-Year Summary of Selected Consolidated Financial Data

($ in Thousands)	2011	2010	2009	2008	2007
Consolidated Income Statement Data					
Net Interest Income	**$ 1,071,027**	$ 950,845	$ 945,963	$ 862,609	$ 645,440
Provision (Reversal) for Loan Losses	**58,000**	60,000	80,000	55,000	(5,000)
Noninterest Income	**117,936**	98,559	84,961	68,411	47,839
Operating Expenses	**228,270**	216,210	219,231	215,181	185,467
Provision for Income Taxes	**196,106**	159,427	166,277	127,406	97,202
Net Income	**$ 706,587**	$ 613,767	$ 565,416	$ 533,433	$ 415,610
Net Income Distributed					
Patronage Distributions:					
Common Stock	**$ 109,900**	$ 90,450	$ 85,067	$ 106,681	$ 87,794
Cash	**230,751**	194,110	183,828	207,216	156,949
Total Patronage Distributions	**340,651**	284,560	268,895	313,897	244,743
Preferred Stock Dividends	**63,799**	63,799	60,955	48,075	37,442
Total Net Income Distributed	**$ 404,450**	$ 348,359	$ 329,850	$ 361,972	$ 282,185
Consolidated Balance Sheet Data					
Total Loans	**$ 46,285,142**	$ 49,992,338	$ 44,174,464	$ 44,550,121	$ 40,491,486
Less: Allowance for Loan Losses	**388,056**	400,744	369,817	329,198	447,226
Net Loans	**45,897,086**	49,591,594	43,804,647	44,220,923	40,044,260
Investment Securities	**12,995,458**	12,616,696	11,808,207	11,536,848	10,434,371
Cash	**2,771,842**	1,922,586	923,083	3,127,204	40,415
Other Assets	**1,625,829**	1,695,014	1,624,765	2,277,082	1,669,850
Total Assets	**$ 63,290,215**	$ 65,825,890	$ 58,160,702	$ 61,162,057	$ 52,188,896
Debt Obligations with Maturities ≤ 1Year	**$ 22,019,899**	$ 22,271,349	$ 16,593,682	$ 19,404,201	$ 16,083,564
Debt Obligations with Maturities > 1Year	**35,084,587**	38,052,964	36,317,632	36,961,221	31,980,178
Reserve for Unfunded Commitments[a]	**153,919**	99,799	128,373	154,223	n/a
Other Liabilities	**1,136,277**	995,581	1,063,386	1,047,563	891,730
Total Liabilities	**58,394,682**	61,419,693	54,103,073	57,567,208	48,955,472
Preferred Stock	**700,000**	700,000	700,000	700,000	500,000
Common Stock	**1,654,314**	1,568,989	1,520,054	1,401,192	1,291,421
Unallocated Retained Earnings	**2,439,531**	2,137,394	1,871,986	1,638,596	1,470,191
Accumulated Other Comprehensive Income (Loss)	**101,688**	(186)	(34,411)	(144,939)	(28,188)
Total Shareholders' Equity	**4,895,533**	4,406,197	4,057,629	3,594,849	3,233,424
Total Liabilities and Shareholders' Equity	**$ 63,290,215**	$ 65,825,890	$ 58,160,702	$ 61,162,057	$ 52,188,896
Key Financial Ratios					
For the Year:					
Return on Average Common Shareholders' Equity	**16.05 %**	15.31 %	15.96 %	17.32 %	14.64 %
Return on Average Total Shareholders' Equity	**15.02**	14.30	14.65	15.65	13.48
Return on Average Assets	**1.07**	1.03	0.93	0.91	0.93
Net Interest Margin	**1.69**	1.66	1.66	1.51	1.45
Net (Charge-offs) Recoveries / Average Loans	**(0.03)**	(0.13)	(0.15)	(0.04)	0.04
Patronage Distributions / Total Average Common Stock Owned by Active Borrowers	**22.65**	19.77	19.68	25.10	20.89
At Year-end:					
Debt / Total Shareholders' Equity (: 1)	**11.93**	13.94	13.33	16.01	15.14
Total Shareholders' Equity / Total Assets	**7.74 %**	6.69 %	6.98 %	5.88 %	6.20 %
Reserve for Credit Exposure[b] / Total Loans	**1.17**	1.00	1.13	1.09	1.10
Permanent Capital Ratio	**16.37**	14.30	15.29	14.75	12.14
Total Surplus Ratio	**16.01**	13.96	15.01	14.61	12.14
Core Surplus Ratio	**10.02**	8.42	8.77	7.98	4.94
Net Collateral Ratio	**109.05**	108.03	108.67	107.75	107.09

[a] Beginning in 2008, we established a separate reserve for unfunded commitments following a refinement in methodology for determining the allowance for loan losses

[b] Includes the allowance for loan losses and the reserve for unfunded commitments

Financial Condition and Results of Operations

Our 2011 net income grew to $706.6 million compared to $613.8 million in 2010. Increased earnings were driven principally by greater net interest income resulting from strong loan growth in our Agribusiness operating segment. To a lesser extent, earnings also increased due to reduced impairment losses in our investment securities portfolio and greater fee income. Our provision for income taxes, losses on early extinguishments of debt and operating expenses were each higher in 2011 and somewhat offset those favorable factors. Our return on average common shareholders' equity increased to 16.05 percent for 2011 from 15.31 percent in 2010. Our return on average assets increased to 1.07 percent for 2011, compared to 1.03 percent for 2010. Both measures improved in 2011 due to our stronger earnings.

Our 2010 net income increased to $613.8 million, or by 9 percent, from $565.4 million in 2009. The 2010 increase was principally driven by $33.3 million in refunds of Farm Credit insurance fund premiums paid in prior years and a $40.7 million decrease in the 2010 insurance fund premium assessment, which more than offset higher impairment losses in our investment securities portfolio and costs related to the settlement of a business dispute. In addition, net interest income and fees increased in 2010 and the improved credit quality of our loan portfolio led to a lower provision for loan losses.

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,	2011			2010			2009		
($ 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	$ 50,199	3.02 %	$ 1,518	$ 45,538	3.09 %	$ 1,408	$ 44,527	3.25 %	$ 1,447
Investment Securities	13,051	2.08	271	11,618	2.22	258	12,360	2.66	329
Other Earning Assets	-	-	-	-	-	-	33	-	-
Total Interest-earning Assets	$ 63,250	2.83	$ 1,789	$ 57,156	2.91	$ 1,666	$ 56,920	3.12	$ 1,776
Interest-bearing Liabilities									
Bonds and Notes	$ 50,942	1.28 %	$ 651	$ 48,804	1.35 %	$ 660	$ 51,382	1.48 %	$ 763
Discount Notes	7,113	0.27	19	3,009	0.27	8	1,960	1.22	24
Subordinated Debt	1,000	4.40	44	1,000	4.50	45	1,000	4.80	48
Other Notes Payable	1,354	0.30	4	1,525	0.13	2	1,689	(0.30) *	(5)
Total Interest-bearing Liabilities	$ 60,409	1.19	$ 718	$ 54,338	1.31	$ 715	$ 56,031	1.48	$ 830
Interest Rate Spread		1.64			1.60			1.64	
Impact of Equity Financing	$ 4,705	0.05		$ 4,292	0.06		$ 3,861	0.02	
Net Interest Margin and Net Interest Income		1.69 %	$ 1,071		1.66 %	$ 951		1.66 %	$ 946

* Amounts are negative for 2009 due to changes in the fair values of derivatives.

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*

($ in Millions)	2011 Increase (Decrease) From Previous Year Due To			2010 Increase (Decrease) From Previous Year Due To		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
Total Loans	$ 142	$ (32)	$ 110	$ 33	$ (72)	$ (39)
Investment Securities	31	(18)	13	(19)	(52)	(71)
Total Interest Income	173	(50)	123	14	(124)	(110)
Total Interest Expense	75	(72)	3	(23)	(92)	(115)
Changes in Net Interest Income	$ 98	$ 22	$ 120	$ 37	$ (32)	$ 5

* 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 13 percent to $1.1 billion in 2011, compared to $950.8 million in 2010. The increase in net interest income primarily resulted from increased average loan volume, which totaled $50.2 billion in 2011, compared to $45.5 billion in 2010. The most substantial increases were in loans to customers in our Agribusiness operating segment, as increased prices and continued volatility for grains and certain other agricultural commodities led to greater customer financing requirements. To a much lesser extent, we also experienced average loan growth in our Rural Infrastructure and Strategic Relationships operating segments. Rural Infrastructure loan growth was primarily the result of increased volume in the electric distribution division, while Strategic Relationships loan volume increased due to modest growth at certain of our affiliated Associations. Notwithstanding growth in average loan volume in 2011, period-end loans decreased to $46.3 billion at December 31, 2011 compared to $50.0 billion at December 31, 2010. The decrease in outstanding loan volume primarily resulted from lower demand for seasonal financing at the end of 2011 as compared to the end of 2010, due to a drop in the price of some agricultural commodities in the latter part of 2011 as well as changing delivery patterns at grain cooperatives.

Our overall net interest margin increased to 1.69 percent in 2011 from 1.66 percent in 2010, while interest rate spread increased to 1.64 percent in 2011 from 1.60 percent in 2010. These increases were primarily due to a greater level of average agribusiness loan volume in 2011. Agribusiness loan volume generally carries a higher spread and higher risk than certain other portfolios, including lending to Associations, where lower spread is commensurate with lower risk and lower regulatory capital requirements. Lower returns on our invested capital due to the low interest rate environment partially offset the benefit of increased agribusiness loan volume.

Average investments increased to $13.1 billion in 2011 from $11.6 billion in 2010. The increase in our average investments primarily reflects the greater liquidity requirements associated with higher average loan volume. Average investments do not include average cash balances of $1.7 billion and $923.1 million in 2011 and 2010, respectively.

In 2010, our net interest income increased slightly to $950.8 million, compared to $946.0 million in 2009. Greater 2010 net interest income resulted from an increase in average loan volume, particularly in loans to customers in our Agribusiness operating segment, and higher lending spreads in most of our lending portfolios. These factors were mostly offset by a decreased benefit to our asset/liability position and lower spreads earned on our investment portfolio. Our 2010 net interest margin remained unchanged from 2009 at 1.66 percent, while interest rate spread decreased slightly to 1.60 percent in 2010 from 1.64 percent in 2009. The decrease in spread in 2010 was primarily the result of a reduced benefit to our asset/liability position of low market interest rates, as the slope of the yield curve was more positive in 2009.

Provision for Loan Losses and Reserve for Credit Exposure

The provision for loan losses reflects our expense estimates for losses inherent in our loan and finance lease portfolios, including unfunded commitments. Our allowance for loan losses covers the funded portion of our loans outstanding, while the reserve for unfunded commitments is held to cover unfunded lending commitments. The sum of our allowance for loan losses and reserve for unfunded commitments is referred to as our reserve for credit exposure. We maintain a reserve for credit exposure for probable and estimable losses based on the factors discussed in "Critical Accounting Estimates – Reserve for Credit Exposure" on page 60. The tables on page 39 summarize the activity in our reserve for credit exposure, by operating segment, for the past five years.

Our provision for loan losses decreased to $58.0 million in 2011 compared to $60.0 million for 2010. The 2011 provision primarily relates to a higher level of average commitments in our Agribusiness operating segment, credit challenges facing a small number of customers in our Agribusiness and Rural Infrastructure operating segments, and continued weakness in the broader economy. The 2010 provision primarily related to a limited number of rural energy customers in our Rural Infrastructure operating segment.

The overall credit quality in our loan portfolio improved in 2011. Adversely classified loans ('Substandard' and 'Doubtful') decreased to 1.25 percent of total loans and related accrued interest at December 31, 2011, compared to 1.71 percent at December 31, 2010, while 'Special Mention' loans decreased to 2.07 percent of loans and related accrued interest from 3.53 percent. These improvements included upgrades in the credit quality classification of loans to two nonaffiliated Associations.

Loan charge-offs, net of recoveries, decreased to $16.6 million in 2011 from $57.6 million in 2010, as the 2010 period included greater charge-offs related to rural energy and communications customers. Our nonaccrual loans decreased to $134.9 million (0.29 percent of total loans) at December 31, 2011 from $167.0 million (0.33 percent of total loans) at December 31, 2010 primarily due to pay downs and a small number of charge-offs in our loan portfolio.

In 2009, we recorded an $80.0 million provision for loan losses, largely reflective of credit stress in certain customer industries, including communications, livestock, ethanol and dairy, as well as the broader impact of the global recession on our customers. Net charge-offs were $65.2 million in 2009, and nonaccrual loans at December 31, 2009 were $307.6 million (0.70 percent of total loans).

Our reserve for credit exposure was $542.0 million at December 31, 2011, compared to $500.5 million and $498.2 million as of December 31, 2010 and 2009, respectively. The reserve for credit exposure represented 1.17 percent of total loans as of the end of 2011, compared to 1.00 percent and 1.13 percent of total loans at December 31, 2010 and 2009, respectively. At December 31, 2011, our reserve for credit exposure represented 1.92 percent of non-guaranteed loans when loans to Associations are excluded, compared to 1.60 percent at December 31, 2010.

Refer to "Corporate Risk Profile – Credit Risk Management" beginning on page 43 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 overall reserve for credit exposure.

Noninterest Income

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

Noninterest Income ($ in Thousands)

Year Ended December 31,	2011	2010	2009
Net Fee Income	**$ 117,741**	$ 102,620	$ 89,947
Prepayment Income	**24,691**	18,820	13,745
Losses on Early Extinguishments of Debt	**(50,421)**	(26,537)	(18,234)
Other-Than-Temporary Impairment Losses, Net	**(10,000)**	(44,000)	(15,000)
Other, Net	**35,925**	47,656	14,503
Total Noninterest Income	**$ 117,936**	$ 98,559	$ 84,961

Noninterest income is composed of net fee income, loan prepayment fee income and miscellaneous gains and losses, reduced by losses on early extinguishments of debt and impairment losses on investment securities.

Noninterest income increased 20 percent in 2011 to $117.9 million from $98.6 million in 2010, due to lower impairment losses in our investment securities portfolio and higher fee income. Partially offsetting these items was an increase in losses on early extinguishments of debt, net of prepayment income. These and other changes in noninterest income are discussed below.

We recorded $10.0 million in impairment losses on investment securities in 2011 compared to $44.0 million in 2010. The impairment losses in 2011 resulted from continued weakness in the U.S. housing market and broader economy and the related impact on our non-agency residential mortgage-backed and asset-backed investment securities. The 2010 impairment losses were driven by uncertainty regarding the ability of a bond insurer to fulfill its contractual obligations to make payments on certain securities as well as a greater level of losses on the residential mortgage obligations that back certain investment securities. The credit quality of our investment portfolio is discussed in "Liquidity and Capital Resources" beginning on page 55.

Net fee income grew to $117.7 million in 2011 from $102.6 million in 2010. The increase in fee income was primarily driven by greater arrangement fees earned on loan transactions in our agribusiness and rural energy portfolios, where many customers refinanced their loans to take advantage of lower market interest rates.

Prepayment income increased to $24.7 million in 2011 from $18.8 million in 2010 due to a higher level of customer refinancing resulting from the low interest rate environment. 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 2011, we extinguished $649.3 million of debt compared to $235.7 million in 2010. Losses on these early extinguishments of debt were $50.4 million in 2011 compared to $26.5 million in 2010. This increase resulted from a higher level of debt extinguishments in an effort to achieve the desired mix of interest-bearing liabilities in a low interest rate environment.

Other noninterest income decreased to $35.9 million in 2011 compared to $47.7 million in 2010. The 2010 amount included $33.3 million in premium refunds from the Farm Credit System Insurance Corporation (Insurance Corporation) related to the Farm Credit Insurance Fund (Insurance Fund). There were no Insurance Fund premium refunds during 2011. As described in Note 5 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. Other noninterest income for 2011 included a $10.0 million increase in customer derivative income driven by customers locking-in or protecting their term funding costs in the low interest rate environment and a $4.5 million gain on the sale of one of our previously impaired investment securities.

Total noninterest income increased by $13.6 million, or 16 percent, in 2010 from $85.0 million in 2009. The increase in 2010 noninterest income included the previously mentioned refunds of Insurance Fund premiums. In addition, fee income improved by $12.7 million in 2010, primarily driven by increased arrangement fees earned on loan transactions in our communications and rural energy portfolios. Partially offsetting these items were $29.0 million in increased impairment losses in 2010 as compared to 2009.

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,	2011	2010	2009
Employee Compensation	**$ 117,531**	$ 98,971	$ 101,868
Insurance Fund Premium	**20,245**	13,281	53,968
Information Services	**18,846**	16,115	16,387
General and Administrative	**25,415**	42,789	17,093
Purchased Services	**18,958**	20,559	7,578
Occupancy and Equipment	**7,404**	6,479	6,806
Travel and Entertainment	**12,425**	10,922	8,895
Farm Credit System Related	**7,446**	7,094	6,636
Total Operating Expenses	**$ 228,270**	$ 216,210	$ 219,231
Total Operating Expenses/ (Net Interest Income + Net Fee Income)	**19.2 %**	20.5 %	21.2 %
Operating Expenses, Net of Insurance Fund Premium/ (Net Interest Income + Net Fee Income)	**17.5**	19.3	16.0

Total operating expenses increased 6 percent in 2011 to $228.3 million, compared to $216.2 million for 2010, due to increases in employee compensation expenses, Insurance Fund premiums and expenses related to the merger with AgBank.

Employee compensation expense, which primarily includes salaries, incentive compensation and employee benefits, increased 19 percent in 2011 to $117.5 million, largely due to higher incentive compensation expense related to stronger financial performance and increased employee staffing levels. As of December 31, 2011, we employed 762 associates, compared to 719 and 698 at December 31, 2010 and 2009, respectively.

The increase in Insurance Fund premium expense resulted from an increase in premium rates for 2011, which were six basis points of average outstanding adjusted insured debt obligations, compared to five basis points for 2010. To a lesser extent, the increase also resulted from an increase in insured debt obligations which funded the increase in average loan volume.

General and administrative expenses decreased to $25.4 million in 2011 from $42.8 million in 2010, as the 2010 period included costs related to the settlement of a business dispute in our Rural Infrastructure operating segment. General and administrative expenses in 2011 included $3.2 million in merger-related expenses.

Purchased services expense decreased to $19.0 million in 2011 from $20.6 million in 2010. The 2011 period included $9.8 million of merger-related expenses compared to $5.0 million in 2010, both of which largely related to outside advisors who assisted with transaction analysis and integration activities. Purchased services expense in 2010 included legal fees relating to the settlement of a business dispute and costs associated with efforts to more closely align our loan processing practices with our enterprise-wide risk management objectives.

Information services expense increased to $18.8 million in 2011 from $16.1 million in 2010 due largely to merger integration efforts. Occupancy and equipment expenses were $7.4 million and $6.5 million in 2011 and 2010, respectively. Our travel and entertainment expenses increased to $12.4 million in 2011 from $10.9 million in 2010, due primarily to merger-related travel costs and a greater level of expenditures on customer meetings and other customer-facing activities.

Farm Credit System related expenses of $7.4 million in 2011 increased from $7.1 million in 2010 and substantially represent our share of costs to fund the operations of the FCA, our regulator. 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.

Total operating expenses as a percent of net interest income plus net fee income was 19.2 percent in 2011 compared to 20.5 percent in 2010 and 21.2 percent in 2009. Excluding the impact of Insurance Fund premium expense, operating expenses as a percent of net interest income plus net fee income was 17.5 percent in 2011, compared to 19.3 percent in 2010 and 16.0 percent in 2009. The decreases in the 2011 operating expense ratios primarily reflect greater net interest income and fee income more than offsetting increased operating expenses.

The decrease in total operating expenses in 2010 from 2009 resulted principally from a $40.7 million decrease in Insurance Fund premiums. In the second quarter of 2010, the Insurance Corporation reduced full-year 2010 premiums to five basis points of average outstanding adjusted insured debt obligations from the 10 basis points it had initially set for 2010. Premium rates were 20 basis points for all of 2009. Partially offsetting this item was a $25.7 million increase in general and administrative expenses and a $13.0 million increase in purchased services. General and administrative expenses increased in 2010 due to the settlement of a business dispute in our Rural Infrastructure operating segment. Purchased services expense increased in 2010 as a result of merger-related expenses, legal costs related to the settlement of a business dispute, and costs associated with a loan processing initiative.

Provision for Income Taxes

Our provision for income taxes increased to $196.1 million in 2011 from $159.4 million in 2010, resulting from the increase in our pre-tax earnings. Our effective tax rate increased to 21.7 percent for 2011 from 20.6 percent for 2010, reflecting a change in estimated taxes applicable to certain deferred tax items and a higher level of earnings in the taxable portion of our business activities. Our effective tax rates are significantly less than the applicable federal and state statutory income tax rates primarily due to tax-deductible patronage distributions and our tax-exempt business activities, which includes our Strategic Relationships operating segment.

Our effective tax rate decreased to 20.6 percent for 2010 compared to 22.7 percent for 2009. The decrease resulted from increased earnings in 2010 in the tax-exempt portion of CoBank's business activities.

Operating Segment Financial Review

We conduct lending operations through three operating segments – Agribusiness, Strategic Relationships and Rural Infrastructure.

We hold investment securities to provide the liquidity necessary to support our core lending operations. Accordingly, net interest income on investment securities is 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 and non-credit products and services. As part of its capital markets services, which support our lending divisions, BSG manages syndications and loan sales with approximately 130 financial institutions. In 2011, we syndicated or sold approximately $23.6 billion of loan commitments to System entities and other financial institutions to help meet customers' credit needs and to effectively manage our capital and risk diversification.

BSG's non-credit products and services include cash management, commercial credit card and merchant card processing solutions. Revenues generated from non-credit products and services, as well as BSG's operating expenses, are allocated to the appropriate operating segments. BSG's Knowledge Exchange Division provides the Bank and the industries we serve strategic insight to enhance understanding of emerging business opportunities and risks.

Net income by operating segment is summarized in the accompanying table and is more fully disclosed in Note 14 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,	2011	2010	2009
Operating Segment:			
Agribusiness	**$ 438,082**	$ 365,247	$ 288,533
Strategic Relationships	**80,806**	80,446	96,964
Rural Infrastructure	**194,418**	175,596	184,477
Total Operating Segments	**713,306**	621,289	569,974
Corporate/Other	**(6,719)**	(7,522)	(4,558)
Total	**$ 706,587**	$ 613,767	$ 565,416

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

December 31,	2011	2010	2009	2008	2007
Agribusiness	**$ 18,869**	$ 22,676	$ 17,469	$ 18,498	$ 19,582
Strategic Relationships	**15,236**	15,392	15,271	15,026	12,211
Rural Infrastructure	**12,180**	11,924	11,434	11,026	8,698
Total Loans	**$ 46,285**	$ 49,992	$ 44,174	$ 44,550	$ 40,491

Average Loan Portfolio by Operating Segment ($ in Millions)

Year Ended December 31,	2011	2010	2009	2008	2007
Agribusiness	**$ 23,104**	$ 18,896	$ 18,229	$ 21,843	$ 16,866
Strategic Relationships	**15,215**	15,118	15,062	13,670	10,602
Rural Infrastructure	**11,880**	11,524	11,236	9,861	7,941
Total Average Loans	**$ 50,199**	$ 45,538	$ 44,527	$ 45,374	$ 35,409

The following table presents activity in the reserve for credit exposure by operating segment.

Analysis of the Reserve for Credit Exposure ($ in Thousands)

	2011	2010	2009	2008	2007
Beginning of Year	**$ 500,543**	$ 498,190	$ 483,421	$ 447,226	$ 438,231
Charge-offs:					
Agribusiness	**(10,559)**	(25,893)	(36,958)	(17,574)	(1,859)
Strategic Relationships	**-**	-	-	-	-
Rural Infrastructure	**(12,956)**	(50,502)	(33,240)	(8,000)	-
Total Charge-offs	**(23,515)**	(76,395)	(70,198)	(25,574)	(1,859)
Recoveries:					
Agribusiness	**6,527**	4,234	4,850	3,916	7,508
Strategic Relationships	**-**	-	-	-	-
Rural Infrastructure	**420**	14,514	117	2,853	8,346
Total Recoveries	**6,947**	18,748	4,967	6,769	15,854
Net (Charge-offs) Recoveries	**(16,568)**	(57,647)	(65,231)	(18,805)	13,995
Provision (Reversal) Charged (Credited) to Earnings	**58,000**	60,000	80,000	55,000	(5,000)
End of Year	**$ 541,975**	$ 500,543	$ 498,190	$ 483,421	$ 447,226
Components:					
Allowance for Loan Losses	**$ 388,056**	$ 400,744	$ 369,817	$ 329,198	$ 447,226
Reserve for Unfunded Commitments[a]	**153,919**	99,799	128,373	154,223	n/a
Total Reserve for Credit Exposure (RCE)	**$ 541,975**	$ 500,543	$ 498,190	$ 483,421	$ 447,226
RCE/Total Loans	**1.17 %**	1.00 %	1.13 %	1.09 %	1.10 %
RCE/Non-guaranteed Loans (Excluding Loans to Associations)	**1.92**	1.60	1.98	1.85	1.66
RCE/Impaired Loans	**402**	299	154	218	2,677
RCE/Nonaccrual Loans	**402**	300	162	222	3,020
Net (Charge-offs) Recoveries /Average Loans	**(0.03)**	(0.13)	(0.15)	(0.04)	0.04

[a] Beginning in 2008, we established a separate reserve for unfunded commitments following a refinement in methodology for determining the allowance for loan losses

Reserve for Credit Exposure by Operating Segment ($ in Thousands)

December 31,	2011	2010	2009	2008	2007
Agribusiness	**$ 385,784**	$ 352,816	$ 367,308	$ 360,416	$ 304,074
Strategic Relationships	**-**	-	-	-	-
Rural Infrastructure	**156,191**	147,727	130,882	123,005	143,152
Total Reserve for Credit Exposure	**$ 541,975**	$ 500,543	$ 498,190	$ 483,421	$ 447,226

Agribusiness

Overview

The Agribusiness operating segment includes loans and other financial services to cooperatives and other businesses engaged in agricultural activities such as grain handling and marketing, farm supply, food processing, dairy, livestock, fruits, nuts, vegetables, cotton, biofuels and forest products. Primary products and services include term loan and revolving line of credit financing, leasing, trade finance, tax-exempt bond issuances, capital markets services, and cash management and investment products. To enhance portfolio diversification, and to assist System partners in meeting the needs of their customers, we purchase participations in agribusiness loans from other System entities and financial institutions.

A significant level of Agribusiness loan volume relates to the seasonal financing of grain inventories through the use of lines of credit. This seasonal volume is affected by a number of factors, including commodity prices, selling patterns, transportation availability, grain volume 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 in late winter or early spring.

Our Agribusiness customers face evolving globalization of markets, changing market demands and increasing regulation. These trends are leading some of our cooperative customers to consolidate and merge, enter into joint ventures, or form alliances while developing new markets. This consolidation trend has resulted in larger individual credit commitments in some cases. We have been able to meet our customers' needs while maintaining appropriate exposure to individual customers by partnering with System entities and commercial banks in loan syndications and sales.

The Agribusiness segment includes our Agricultural Export Finance Division, which provides short- and medium-term trade finance to support the export of U.S. agricultural products. Borrowers consist primarily of commercial banks in foreign countries (generally emerging markets) who support our domestic customers in selling and shipping U.S. agricultural products to international markets. In financing the export of U.S. agricultural products, the Agricultural Export Finance Division places emphasis on supporting the U.S. government-sponsored export loan guarantee General Sales Manager program. As of December 31, 2011, the Agricultural Export Finance Division had $3.8 billion in loans outstanding, 76 percent of which were guaranteed by the U.S. government. The Agricultural Export Finance Division maintains a representative office in Singapore.

The Agribusiness segment also includes Farm Credit Leasing Services Corporation (FCL), which provides lease-related products and financial services to Association partners, agribusinesses, agricultural producers and rural utilities. As of December 31, 2011, FCL had $1.9 billion in leases outstanding.

2011 Performance

Our Agribusiness segment generated $438.1 million in net income for 2011, a 20 percent increase from the $365.2 million in net income for 2010. The increase in earnings resulted primarily from a $134.3 million increase in net interest income due to significantly higher loan volume, partially offset by lower returns on invested capital due to the low interest rate environment.

Average Agribusiness loan volume increased 22 percent to $23.1 billion in 2011 from $18.9 billion in 2010, largely due to increased prices and continued volatility for grains and certain other agricultural commodities. This drove increased seasonal borrowing by agribusiness customers, particularly those in the farm supply and grain marketing sectors. Generally, higher and/or more volatile prices for agricultural commodities lead to increased financing requirements for many of these customers, which borrow to finance and hedge inventories and receivables. The following table shows five-year price trends for certain 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,	2011	2010	2009	2008	2007
Commodity					
Corn:					
High	**$ 8.00**	$ 6.30	$ 4.50	$ 7.61	$ 4.56
Low	**5.95**	3.25	3.06	3.09	2.34
Soybeans:					
High	**14.56**	13.84	12.67	16.49	12.21
Low	**12.70**	9.00	6.28	7.76	6.64
Wheat:					
High	**8.93**	8.08	6.74	12.53	9.80
Low	**5.80**	4.26	4.40	4.76	4.38

Notwithstanding the increase in average loan volume, Agribusiness period-end loan volume decreased to $18.9 billion at December 31, 2011 from $22.7 billion at December 31, 2010. The decrease in period-end loan volume resulted from lower seasonal agribusiness lending due to a drop in prices for some agricultural commodities in the latter part of 2011 as well as changing delivery patterns at grain cooperatives.

Agribusiness recorded a $37.0 million provision for loan losses in 2011 compared to $7.2 million for 2010. The increase reflects an overall higher level of average Agribusiness commitments as well as specific credit challenges facing a small number of customers. Net charge-offs decreased to $4.0 million in 2011 compared to $21.7 million for 2010. Nonaccrual loans decreased to $80.3 million at December 31, 2011 compared to $93.4 million at December 31, 2010.

Noninterest income in our Agribusiness segment increased by $19.8 million in 2011 due to a decrease in the level of impairment losses in our investment portfolio and an increase in fee income, which was driven primarily by greater arrangement fees. Noninterest income also improved due to customer derivative income and the gain on the sale of an investment security in 2011. As described on page 37, the 2010 period included refunds of a portion of Insurance Fund premiums paid in prior years. Operating expenses in our Agribusiness segment increased by $28.0 million in 2011 due to greater employee compensation expense, merger-related expenses and Insurance Fund premiums. Income tax expense in the Agribusiness operating segment increased $23.5 million due to the growth in pretax earnings.

Strategic Relationships

Overview

As of year-end 2011, the Strategic Relationships operating segment includes the direct funding relationships with our four affiliated Association customer-owners, as well as our funding relationships with nonaffiliated System institutions. See Note 17 to the accompanying consolidated financial statements for further discussion of our affiliated Associations. In addition, the supplemental schedules that follow the accompanying consolidated financial statements contain unaudited combined financial information of our affiliated Associations.

As a result of the merger with AgBank, on January 1, 2012 the number of our affiliated Associations increased by 25 and now includes Associations headquartered in Arizona, California, Colorado, Connecticut, Hawaii, Idaho, Kansas, Maine, New Mexico, Oklahoma, Utah, Vermont and Washington. The merger resulted in an $18.9 billion increase in outstanding loan volume in our Strategic Relationships operating segment on January 1, 2012. For additional information on the financial impact of the merger, refer to Note 18 for our unaudited pro forma condensed combined financial statements as of December 31, 2011.

At December 31, 2011, our Strategic Relationships portfolio included $11.2 billion of direct loans to our four affiliated Associations and $4.0 billion of purchased participations in loans made by three other System banks to certain of their affiliated Associations, most notably, the Farm Credit Bank of Texas ($3.4 billion).

We are focused on developing and maintaining strong relationships with Farm Credit Associations and banks. Partnerships with Associations allow us to provide credit and non-credit services to a more diverse set of customers. The Associations' strong market presence and local relationship management, combined with our product suite and lending capacity, provide a competitive advantage in attracting and retaining customers.

2011 Performance

Average Strategic Relationships loan volume increased 1 percent to $15.2 billion in 2011 compared to $15.1 billion in 2010, reflecting modest loan demand at our affiliated Associations. Strategic Relationships net income increased slightly to $80.8 million for 2011 from $80.4 million for 2010. The increase in earnings was primarily the result of a $2.2 million increase in net interest income, partially offset by the impact of merger-related expenses. Strategic Relationships has no income tax expense as the earnings on its business activities are tax exempt.

Overall loan quality in our Strategic Relationships portfolio remains strong. As a wholesale lender to Association customers, we benefit from the diversification of the Association loan portfolios and our 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 margins in the Strategic Relationships operating segment are commensurate with the lower risk profile and lower regulatory capital requirements. No provisions for loan losses or reserve for credit exposure have been recorded related to any loan to an Association. The credit quality classifications of loans to two nonaffiliated Associations were upgraded in 2011 from the 'Substandard' and 'Special Mention' categories to 'Acceptable.'

Rural Infrastructure

Overview

The Rural Infrastructure operating segment includes loan and other financial services to companies in the power, communications and water industries. Primary products and services include term loan and revolving line of credit financing, leasing, project financing, tax-exempt bond issuances, capital markets services and cash management and investment products.

Power industry customers include rural electric generation and transmission cooperatives, electric distribution cooperatives, renewable energy providers, independent power producers, and investor-owned utilities. Loan demand from power supply customers has declined as a result of continued weakness in the economy and regulatory uncertainty. Nonetheless, customers undertaking infrastructure enhancements to meet long-term requirements or to comply with environmental regulations continue to demand debt capital. Growth in renewable energy projects also contributes to loan demand from power supply customers. Loan growth has also resulted from opportunities to refinance the borrowings of other lenders, particularly in the electric distribution sector.

Communications industry customers include rural local exchange carriers, wireless providers, data transport networks, and cable television systems. We focus on rural communications companies that are positioned to provide a range of services, including voice (both wireline and wireless), broadband and video. Loan volume in our communications portfolio declined in 2011 due to weak demand for debt capital and increased availability of government stimulus funding in certain sectors. However, we anticipate future opportunities in merger and acquisition activity, and expect consolidation to continue as carriers seek to improve operating efficiencies and gain market share in this highly competitive industry. Capital spending will also likely continue as wireline carriers enhance their networks with fiber optics and wireless carriers 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 tighter standards for water quality. While much of this need has been filled by financing from federal stimulus programs, 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 stimulus funds, we expect private lending to this industry to grow.

2011 Performance

Rural Infrastructure net income increased 11 percent to $194.4 million for 2011 from $175.6 million for 2010. The increase in earnings primarily resulted from a $31.8 million decrease in the provision for loan losses and a $14.7 million decrease in operating expenses.

Net interest income declined to $300.9 million for 2011 from $315.6 million in the prior year primarily as a result of lower returns on our invested capital, partially offset by a modest increase in average loan volume. Average loan volume grew 3 percent to $11.9 billion in 2011 from $11.5 billion in 2010. Growth in Rural Infrastructure average loan volume primarily resulted from increased lending activity in the electric distribution sector driven by refinancing of borrowings from other lenders. This growth was partially offset by a decline in loans to our communications customers.

Rural Infrastructure recorded a $21.0 million provision for loan losses in 2011, compared to a $52.8 million provision in the prior year. The decrease in the provision for loan losses primarily resulted from the resolution of a troubled loan to a communications customer in 2011, as well as greater provisions in the 2010 period for specific customers in our rural energy portfolio. Nonaccrual loans decreased to $54.5 million at December 31, 2011 from $73.6 million at December 31, 2010. Rural Infrastructure recorded net charge-offs of $12.5 million and $36.0 million for 2011 and 2010, respectively. Net charge-offs in both periods related to a small number of rural energy and communications customers.

Noninterest income in the Rural Infrastructure operating segment was $42.1 million in 2011 compared to $41.8 million in 2010. The 2011 results include a higher level of fee income, primarily driven by greater arrangement fees, lower investment impairment losses, greater customer derivative income and a gain on the sale of an investment security. As noted previously, 2010 results included refunds of a portion of Insurance Fund premiums paid in prior years.

Rural Infrastructure operating expenses decreased by $14.7 million in 2011. Operating expenses in 2010 included costs related to the settlement of a business dispute. Excluding such prior-year costs, operating expenses in 2011 increased primarily due to greater employee compensation and merger-related costs, and, to a lesser extent, increased Insurance Fund premium expenses. Rural Infrastructure income tax expense increased $13.3 million due to growth in its pre-tax earnings.

Corporate Risk Profile

Managing enterprise risk is an essential part of successfully operating our Bank. Our primary risk exposures are credit, interest rate, liquidity, operational and reputation. Credit risk is the risk of not collecting the amounts due on loans, investments or derivatives. Interest rate risk is the potential reduction of net interest income and the market value of equity as a result of changes in interest rates. Liquidity risk is the potential inability to repay obligations or fund borrowers on a timely basis. Operational risk is the risk of loss resulting from inadequate or failed processes or systems, breaches of internal controls or compliance requirements, the risk of fraud, and other operational matters. Reputation risk is the risk of loss arising from negative public opinion.

Business segments have the responsibility of identifying, controlling and monitoring risks. Our Risk Management Group provides oversight of the Bank's enterprise-wide risk management through measurement and control processes addressing all of the Bank's primary risk exposures, including credit, interest rate, liquidity, operational and reputation. The following is a discussion of these risks, and our approach to managing them.

Credit Risk Management

Credit risk exists in our lending, investing and derivatives activities. Credit risk in lending arises from changes in a borrower's ability to repay funds borrowed, changes in collateral values, and changes in industry and economic conditions. Credit risk in our investment portfolio primarily results from changes in residential real estate values, default rates on collateral underlying mortgage-backed and asset-backed securities, and the credit worthiness of bond insurers who insure certain of our investment securities. Credit risk in our derivatives portfolio results from changes in a derivative counterparty's ability to perform under the contract terms.

We actively manage credit risk through a well-defined, Board-approved portfolio strategy, a structured and centralized credit approval process, a disciplined risk management process, and a sound credit administration program. We have established comprehensive credit guidelines and procedures to ensure consistency and integrity of information related to the credit risk in our loan, 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 and reserve policies. It also approves the loan 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 President and CEO, and includes the 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 based on size of exposure and risk rating, and approves 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 and CEO. 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 recommends 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 President and CEO (with certain individuals within this group having direct reporting responsibility to the Audit Committee and the Board of Directors). The Risk Management Group oversees development of the loan portfolio strategy, the analysis of the reserve for credit exposure, and economic capital. 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.

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

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, which are explained below.

<u>Portfolio Strategy</u>

As part of the annual business and financial planning process, the Board of Directors reviews and approves the Bank's loan portfolio strategy. Management regularly analyzes performance with respect to the portfolio strategy and reports the results to the Board of Directors. The objectives of our portfolio strategy are to safely fulfill our lending mission to our customers, ensure appropriate portfolio diversification, and optimize returns based on risk and profitability, all within established capital parameters.

Credit Approval

The most critical element in managing and controlling risk in the extension of credit 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 management and business, the initial credit analysis and the approval process. We emphasize cash flow and payment capacity as primary sources for repayment of loans, while 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.

The earnings, capital and loan loss reserves of the 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 in Note 17 to the accompanying consolidated financial statements.

With the exception of certain small-dollar lease transactions, no single individual is granted credit approval authority within CoBank. All approvals or credit actions require formal documentation. Management assigns a risk rating to each borrower based on two measurements: probability of default (PD) and loss given default (LGD). 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.

Exposure and Concentration Limits

We make extensive use of 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 examined at the time of each borrower's formal review, which occurs 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 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 necessary. Exceptions to these exposure limits may be granted by the CLC if conditions warrant.

We also manage lending credit exposures and concentrations by selling and purchasing loans. Our capabilities in selling and purchasing loans will continue to be critical to managing the portfolio and maintaining market discipline.

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.

Agribusiness

The relationship of demand for and supply of U.S. agricultural products in a global marketplace can significantly impact the volume, earnings and loan quality of our Agribusiness portfolio. In addition, changes in credit markets can affect our ability to buy and sell loans in this portfolio.

Changes in the prices of agricultural commodities can impact the profitability and loan quality of a significant portion of our Agribusiness customers. Changes in prices for agricultural commodities result from, among other factors, seasonal weather conditions; changes in the production levels of ethanol, which can be impacted by legislative initiatives, the price of oil and other factors; financial investment in the commodity futures markets by non-agricultural interests; and changing export markets. Market prices for food products also have a significant affect on a number of customer sectors within our Agribusiness portfolio.

Major international events, including military conflicts, terrorism, political disruptions or 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 or livestock populations can impact the supply of and demand for agricultural products. Certain of our customers also have exposure to counterparties in the commodities exchange markets.

U.S. agriculture receives financial support from the U.S. government through direct payments, crop insurance and other benefits. While U.S. government support for agriculture has been consistent, there is no assurance that such financial support will remain at current levels, especially given recent discussions surrounding the need to reduce federal government spending. Although most of our customers do not generally receive direct support from federal programs, a significant reduction or elimination of such support could have a negative impact on the loan quality of certain borrowers, including Associations, who derive a significant share of their earnings from farmers who may be affected by such a reduction. Other political, legislative and regulatory activities may also impact the level or existence of certain government programs.

Strategic Relationships

Approximately $15.2 billion of our total loan portfolio at December 31, 2011 represented direct loans to our affiliated Associations and participations in the direct loans of nonaffiliated Associations. 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 of our Strategic Relationships portfolio is enhanced by our strong collateral position and the earnings, capital and loan loss reserves of the Associations, which provide us a buffer from losses in their respective loan portfolios.

Rural Infrastructure

We fund the construction, operations and maintenance activities of rural energy, communications and water companies. A general slowdown in the U.S. economy can reduce industrial and residential demand for services and negatively affect customers in our Rural Infrastructure portfolio. Changes in credit markets can also impact our ability to buy and sell loans in this portfolio.

Fluctuating weather conditions can adversely affect our customers in the energy industry. The pace and degree of the restructuring of the electric energy industry in the United States, including the need for additional generating capacity and the lack of open access transmission, 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. 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.

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,	2011	2010	2009
Acceptable	**96.68 %**	94.76 %	95.83 %
Special Mention	**2.07**	3.53	2.00
Substandard	**1.20**	1.62	2.02
Doubtful	**0.05**	0.09	0.15
Loss	**-**	-	-
Total	**100.00 %**	100.00 %	100.00 %

The overall credit quality in our loan portfolio improved in 2011. Adversely classified loans ('Substandard' and 'Doubtful') decreased to 1.25 percent of total loans and related accrued interest at December 31, 2011, compared to 1.71 percent at December 31, 2010, while 'Special Mention' loans decreased to 2.07 percent of loans and related accrued interest from 3.53 percent. These improvements included the impact of upgrades in the credit quality classification of loans to two nonaffiliated Associations. At December 31, 2010, a $150.0 million loan to a nonaffiliated Association was classified as 'Substandard' while another $400.0 million loan was classified as 'Special Mention.' Both of these loans were upgraded to 'Acceptable' in 2011. We have a strong collateral position in the assets of Association borrowers, and the earnings, capital and loan loss reserves of the Associations serve as an additional layer of protection against losses. No provisions for loan losses or reserve for credit exposure have been recorded at the Bank related to any loans to Associations.

Summary of High-Risk Assets ($ in Millions)

December 31,	2011	2010	2009	2008	2007
Nonaccrual Loans	**$ 135**	$ 167	$ 308	$ 218	$ 15
Accruing Loans 90 Days or More Past Due	**-**	1	15	4	2
Restructured Loans	**-**	-	-	-	-
Total Impaired Loans	**135**	168	323	222	17
Other Property Owned	**1**	7	-	-	-
Total High-Risk Assets	**$ 136**	$ 175	$ 323	$ 222	$ 17

Total nonaccrual loans were $134.9 million at December 31, 2011 compared to $167.0 million and $307.6 million at December 31, 2010 and 2009, respectively. The decrease from 2010 to 2011 reflected the pay down of balances as well as charge-offs related to a small number of agribusiness and communications customers. The decrease in nonaccruals from 2009 to 2010 was primarily due to charge-offs related to agribusiness, rural energy and communications customers, the return to accruing status of certain agribusiness customers whose financial performance improved, and the sale of a limited number of nonaccrual loans in our communications portfolio. Nonaccrual loans as a percent of our total loan portfolio was 0.29 percent as of December 31, 2011 compared to 0.33 percent at December 31, 2010. Over the past 10 years, nonaccrual loans have averaged 0.60 percent of the total loan portfolio.

Net loan charge-offs totaled $16.6 million in 2011 and $57.6 million in 2010. Gross charge-offs in 2011 were $23.5 million compared to $76.4 million in 2010. Gross charge-offs in 2011 were primarily associated with a limited number of agribusiness, communications and rural energy customers.

Our reserve for credit exposure totaled $542.0 million and represented 1.17 percent of outstanding loans as of the end of 2011, compared to 1.00 percent and 1.13 percent of total loans at December 31, 2010 and 2009, respectively. At December 31, 2011, our reserve for credit exposure represented 1.92 percent of non-guaranteed loans when excluding loans to Associations.

While overall loan quality improved in 2011, we could see a decline in credit quality in certain areas of our loan portfolio as a result of ongoing challenges in the global economy. As part of our overall assessment of risk in the loan portfolio and the reserve for credit exposure as of December 31, 2011, we have considered a wide variety of factors impacting the industries we serve. These include weakness in the global economy and increasing sovereign debt issues; the slow and prolonged recovery of the U.S. economy, along with a constrained ability to respond to additional geopolitical or economic shocks, and the related impact to consumer markets that are particularly important to animal protein, dairy, communications and energy customers; changes in grain markets and the impact of commodity price volatility on the liquidity, leverage and earnings of our farm supply and grain marketing, and animal protein customers; adverse weather resulting in delayed and prevented plantings, and transportation issues creating volatility and risk in these markets; a decline in the value of poorly positioned power generation assets in the wake of uncertain environmental policy as well as easing industrial and commercial demand for power; the potential negative impact of reforms to subsidies that impact certain communications customers; and a significant level of customer concentrations.

See "Critical Accounting Estimates – Reserve for Credit Exposure" on page 60 for a more complete description of our process to determine the adequacy of our reserve for credit exposure.

Credit Risk Related to Investments and Derivatives

We minimize credit risk in our liquidity investment portfolio by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies. At year-end 2011, approximately 98 percent of our investment portfolio is composed of securities with either an implicit or explicit guarantee of the U.S. government. More specifically, 41 percent of our investment portfolio securities carry a full faith and credit guarantee of the U.S. government. Such securities include mortgage-backed securities issued by the Government National Mortgage Association, and U.S. Treasury and other debt securities, including loans backed by the Small Business Administration. Approximately 57 percent of our investment portfolio consists of securities issued by government agencies that carry the implicit backing of the U.S. government, primarily mortgage-backed securities issued by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). Government actions since mid-2008 to strengthen the capital of, and improve the liquidity of securities issued by, Fannie Mae and Freddie Mac indicate a strong level of support by the U.S. government regarding the obligations of these housing GSEs. To a much lesser extent, and largely prior to 2006, we also invested in non-agency mortgage- and asset-backed securities. Such securities comprised approximately 2 percent of our investment portfolio at December 31, 2011.

The significant downturn in the U.S. housing and employment markets, coupled with the deterioration in the financial conditions of certain bond insurers, led to the impairment of certain of our non-agency investment securities. The credit quality of our investment portfolio as of December 31, 2011 and impairment losses on investment securities are more fully discussed in "Liquidity and Capital Resources" beginning on page 55.

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" beginning on page 51.

Interest Rate Risk Management

We are subject to interest rate risk, which is defined as the risk of changes to future earnings and long-term market value of equity due to changes 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 financing obtained to fund 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, 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

The existence of shareholders' equity that serves as an interest-free source of funding for the balance sheet requires us to make decisions about the maturity mix of the assets funded by this equity. 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. We choose to use this equity to fund intermediate-term assets (generally, maturing equally over five years) to balance the risks to net interest income and market value of equity.

Repricing Risk

Occasionally, mismatches in interest rate repricing of assets and liabilities arise from the interaction of customer business needs, our investment portfolio and liability management activities. 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 execution of interest rate risk management products, including interest rate swaps and other financial instruments (derivatives). Refer to page 50 for additional information related to derivatives.

Prepayment/Extension Risk

Prepayment risk in our loan portfolio is very limited as approximately 93 percent of our fixed-rate loans contain, at a minimum, make-whole prepayment penalties. These provisions require a borrower to compensate us for the cost we absorb in retiring debt funding associated with loan prepayments. This allows us to generally fund our loan assets with debt of similar maturities to manage the risk of prepayments in the loan portfolio.

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 moderate based on the type and average life of securities. Purchases of mortgage-backed securities 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 mortgage-backed securities, other than hybrid-ARMS (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 the fixed-rate prepayable investment portfolio with short-term liabilities and term fixed-rate callable debt that provide a partial hedge against investment prepayments in certain falling interest rate scenarios. 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 fund extended securities to maintain the same risk profile. 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 mortgage-backed securities in our investment portfolio. When short-term interest rates rise, the interest rate paid by the floating-rate mortgage-backed securities may become capped and limit the amount of income paid by the securities while underlying funding costs are not capped. Exposure to cap risk is managed by monitoring the concentration of strike levels in our floating-rate mortgage-backed securities 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. While we attempt to match all indices, we will always have some basis risk as unanticipated loan volume changes cause an excess or shortage of some forms of funding. We manage our basis risk through match funding, when possible, and using derivatives (primarily interest rate swaps) and other funding strategies.

Measurement and Monitoring of Interest Rate Risk

We utilize several key risk measurement and monitoring tools to assist in the management of interest rate 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, 2011. 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, 2011 ($ 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	$ 14,795	$ 2,555	$ -	$ -	$ -	$ 17,350
Administered-rate Loans	5,282	-	-	-	-	5,282
Fixed-rate Loans:						
Fixed-rate Loans (1)	4,736	3,648	1,687	6,014	5,825	21,910
Fixed-rate Loans, Prepayable (2)	87	154	156	556	655	1,608
Nonaccrual Loans	-	-	-	-	135	135
Total Loans	24,900	6,357	1,843	6,570	6,615	46,285
Investment Securities	3,683	1,481	1,462	4,201	2,168	12,995
Total Interest-earning Assets (3)	$ 28,583	$ 7,838	$ 3,305	$ 10,771	$ 8,783	$ 59,280
Interest-bearing Liabilities:						
Callable Bonds and Notes	$ 319	$ 279	$ 132	$ 456	$ 1,444	$ 2,630
Noncallable Bonds and Notes (4)	14,577	8,624	5,036	15,964	7,961	52,162
Bonds, Medium Term Notes and Discount Notes (4)	14,896	8,903	5,168	16,420	9,405	54,792
Effect of Interest Rate Swaps, Forwards, Futures, etc.	15,805	(2,111)	(1,609)	(10,935)	(1,150)	-
Cash Investment Services Payable and Other Interest-bearing Liabilities	2,312	-	-	-	-	2,312
Total Interest-bearing Liabilities	$ 33,013	$ 6,792	$ 3,559	$ 5,485	$ 8,255	$ 57,104
Interest Rate Sensitivity Gap (Total Interest-earning Assets less Total Interest-bearing Liabilities)	$ (4,430)	$ 1,046	$ (254)	$ 5,286	$ 528	$ 2,176
Cumulative Gap	$ (4,430)	$ (3,384)	$ (3,638)	$ 1,648	$ 2,176	
Cumulative Gap/Total Interest-earning Assets	(7.47) %	(5.71) %	(6.14) %	2.78 %	3.67 %	

(1) Prepayment penalties apply that compensate CoBank for economic losses

(2) Freely prepayable or only minimal prepayment penalties apply

(3) Does not include $2.8 billion in cash as of December 31, 2011

(4) Includes subordinated debt

The previous table excludes $2.8 billion of cash as of December 31, 2011. 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 as depicted in such scenarios. Our interest rate sensitivity position at December 31, 2011 may be characterized as slightly "liability sensitive." Typically, when our position is liability-sensitive, our net interest income will be favorably impacted in a stable or declining interest rate environment and when the slope of the yield curve is relatively steep. This position will be unfavorably impacted in a rising interest rate environment or when the slope of the yield curve is flatter. We have adjusted our position to be slightly liability-sensitive in anticipation of stable short-term rates over the next few years.

We continually monitor interest rates and have the ability to reposition our balance sheet as a result of anticipated interest rate changes. For example, if we expected a more immediate and meaningful increase in short-term interest rates, we can shift our position to an asset-sensitive position.

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 2.1 months at both December 31, 2011 and 2010.

Sensitivity Analysis

We use asset/liability models to evaluate the dynamics of the 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 twelve month period, and the estimated market value of equity.

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 -1 basis point, -6 basis points, and -3 basis points at December 31, 2011, 2010, and 2009, 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,	2011	2010	2009
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
- 6 bp shock	**n/a**	-	n/a
- 3 bp shock	**n/a**	n/a	-
- 1 bp shock	**-**	n/a	n/a
+ 100 bp shock	**-**	0.2 %	(3.5) %
+ 200 bp shock	**(0.3) %**	0.7	(7.1)
+ 300 bp shock	**(0.9)**	1.1	(10.9)
- 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	**0.6**	0.1	(1.2)
+ 200 bp ramp	**1.3**	0.7	(2.4)
+ 300 bp ramp	**1.9**	1.4	(3.7)

Market Value of Equity at Risk

December 31,	2011	2010	2009
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
- 6 bp shock	**n/a**	0.2 %	n/a
- 3 bp shock	**n/a**	n/a	0.1 %
- 1 bp shock	**-**	n/a	n/a
+ 100 bp shock	**(4.1) %**	(3.7)	(4.6)
+ 200 bp shock	**(8.8)**	(7.2)	(9.3)
+ 300 bp shock	**(13.3)**	(10.7)	(13.9)

Our net interest income is lower in the rising interest rate scenarios due to our liability-sensitive position. 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, 2011, 2010 and 2009, we were within our policy limits as detailed in the table above.

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, third-party economic 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 forecasts are derived utilizing different interest rate scenarios. As noted previously, we obtain independent market interest rate projections when preparing our forecasts. These interest rate projections are designed around economic forecasts that are meant to estimate the most likely path of interest rates for the planning horizon and alternate views of a rapidly expanding economy, and a dramatically slowing economy. In addition, we review scenarios based on the market's implied forward rates and unchanged rates. We also review the impact on net interest income of parallel and nonparallel shifts in the yield curve over different time horizons using stochastic processes, or those involving a randomly determined sequence of observations.

Use of Derivatives

We use derivatives as an integral part of our interest rate 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 interest rate 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, 2011, are shown in the following table. We also discuss derivatives in Note 11 to the accompanying consolidated financial statements.

Derivative Financial Instruments at December 31, 2011 ($ in Millions)

Derivative Product	Notional Amount	Weighted Average Receive Rate	Weighted Average Pay Rate	Fair Value
Receive Fixed Swaps	$ 19,230	2.57 %	0.32 %	$ 956
Receive Fixed Amortizing Swaps	1,031	2.86	0.51	78
Pay Fixed Swaps	1,963	0.55	1.80	(62)
Pay Fixed Amortizing Swaps	1,031	0.51	2.64	(66)
Interest Rate Options	1,999	-	-	2
Foreign Currency Spots and Forwards	299	-	-	4
Total	$ 25,553	2.32 %	0.55 %	$ 912

We have included a summary of our derivatives portfolio by strategy with further explanation of each strategy in the following section.

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

December 31,	2011	2010	2009
Liquidity Management	**$ 14,364**	$ 21,474	$ 24,325
Equity Positioning	**2,903**	3,088	2,928
Options Risk Management (1)	**1,850**	1,850	1,500
Customer Transactions	**6,193**	4,411	3,685
Foreign Currency Risk Management (2)	**243**	131	128
Total	**$ 25,553**	$ 30,954	$ 32,566

(1) Excludes $149.0 million, $206.0 million and $100.0 million of interest rate options at December 31, 2011, 2010 and 2009, respectively, which are classified as customer transactions.

(2) Excludes $56.0 million, $68.0 million and $90.0 million of foreign currency spots and forwards at December 31, 2011, 2010 and 2009, respectively, which are classified as customer transactions.

The total notional amount of our derivatives portfolio decreased by $5.4 billion in 2011. The decrease was largely due to a lower level of liquidity management derivatives, as a portion of our liquidity objectives were met through the increase of floating-rate term debt instead of the use of derivatives that convert fixed-rate term debt to floating-rate. This was partially offset by a higher level of customer derivative activity in 2011, as customers took advantage of the low rate environment to lock-in or protect their term funding costs.

The total notional amount of our derivatives portfolio decreased by $1.6 billion in 2010. The decrease was largely due to lower levels of liquidity management derivatives, as we issued larger amounts of floating-rate term debt to meet our liquidity objectives instead of using derivatives that convert fixed-rate term debt to floating-rate. This was partially offset by increased options risk management hedging to manage our risk to rising interest rates and higher levels of equity positioning hedging resulting from the Bank's continued growth in capital.

Liquidity Management

A majority of our interest rate swaps are executed to improve liquidity, primarily by 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 52.

Equity Positioning

We also use interest rate swaps to manage interest rate 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 the investment portfolio, we periodically hedge cap risk embedded within our floating-rate investment securities that do not meet our current risk management objectives. We enter into offsetting derivative transactions to hedge this risk.

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 substantially 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, requiring collateral with daily posting and zero thresholds to support credit exposures with active counterparties, evaluating the creditworthiness of each counterparty, establishing individual credit exposure limits and dealing exclusively with counterparties that have an investment grade or better 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.

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

We also perform stress tests on the derivative portfolio using asset/liability 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 following table details the notional amount of our derivatives and related exposure to dealer counterparties classified by their Standard & Poor's credit rating as of December 31, 2011.

Derivative Counterparty Exposure ($ in Millions)

	AAA	AA	A	Below A
Exposure to Counterparties in Net Gain Position	$ -	$ 327	$ 542	$ -
Collateral Held	-	321	530	-
Exposure, Net of Collateral	$ -	$ 6	$ 12	$ -
Total Notional Amount	$ -	$ 8,784	$ 13,683	$ -
Total Number of Counterparties	-	6	11	-

The notional amount of our derivatives and related exposure to customer counterparties were $3.1 billion and $152.5 million, respectively, at December 31, 2011 compared to $2.2 billion and $77.4 million, respectively, at December 31, 2010. Customer derivative agreements are secured through our loan agreements.

Liquidity Risk Management

We must continually raise funds to provide credit and related services to customers, repay maturing debt obligations and meet other obligations.

Our primary source of liquidity is the ability to issue Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities), as well as the use of available cash. Additionally, if necessary, we could convert high credit quality and liquid investments to cash. We and other System banks maintain a liquidity framework wherein U.S. Treasury and other U.S. government-guaranteed securities are maintained. Pursuant to these requirements, the first 15 days of maturing debt coverage must be maintained with cash, cash equivalents and/or U.S. Treasury securities with maturities of less than three years. The next 30 days of debt coverage is generated from investment securities with an explicit guarantee from the U.S. government, and highly-rated commercial paper that matures in 45 days or less. We were in compliance with the 15 and 45 day liquidity requirements throughout 2011.

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 the 2011 downgrades of 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 54.

Our liquidity management objectives are to meet maturing debt obligations, provide a reliable source of funding to borrowers, provide additional liquidity if market conditions deteriorate for a period of time and fund operations on a cost-effective basis. Approximately 67 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. 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 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, 2011 ($ in Millions)

	Book	Par
1 Day [1]	$ 2,312	$ 2,312
2-7 Days	84	84
8-30 Days	1,901	1,901
31-90 Days	3,199	3,199
91-180 Days	4,423	4,403
181-365 Days	10,102	10,069
1-5 Years	24,689	24,104
Over 5 Years	10,394	10,144
Total	$ 57,104	$ 56,216

[1] Includes $792.3 million of cash collateral payable to derivative counterparties that does not have a stated maturity date.

See Notes 5 and 15 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 customer sectors, in particular Agribusiness customer sectors impacted by seasonal borrowing requirements and changing commodity prices, we provide a significant amount of revolving loan commitments. At December 31, 2011, commitments to extend credit and commercial letters of credit were $27.3 billion and $383.3 million, respectively. In addition, we provide standby letters of credit, which guarantee payment or performance of an obligation. As of December 31, 2011, the maximum potential amount of future payments that we may be required to make under standby letters of credit was $1.3 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 10 to the accompanying consolidated financial statements for a full discussion of financial instruments with off-balance sheet risk.

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 liquidating investments. FCA regulation requires us 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. Our management target is 180 days of liquidity. During 2011, we averaged 199 days of liquidity compared to an average of 240 days in 2010. As of December 31, 2011, we had 234 days of liquidity, compared to 198 days at December 31, 2010.

As a condition of the merger with AgBank, effective January 1, 2012, the FCA requires CoBank to maintain a minimum days liquidity of 130 (40 days greater than the 90 day regulatory minimum). Additionally, through December 31, 2014, if days liquidity were to fall below 150 for five consecutive days, the Bank must notify the FCA and submit to them a written plan to restore and maintain the 150 days level.

Our liquidity plan covers certain contingencies in the event our access to normal funding mechanisms 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 mortgage- and asset-backed securities that are no longer rated triple-A by at least one major rating agency must be excluded from our liquidity reserve. In addition, such securities must be disposed of within six months of being downgraded unless approval to continue to hold these securities is obtained from the FCA. Approximately $192.7 million of our non-agency investment securities have been downgraded to ratings below triple-A and are no longer included in our liquidity reserve as of December 31, 2011. With the exception of three securities pending approval, the FCA has granted us approval to continue to hold all such securities. We continue to closely monitor market and credit conditions affecting all of our investment securities.

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.

Operational Risk Management

Operational risk is inherent in all business activities and the management of such risk is important to the achievement of our objectives. Operational risk represents the risk of loss resulting from conducting our operations, including the execution of unauthorized transactions by employees; errors relating to loan documentation, transaction processing and technology; the inability to perfect liens on collateral; breaches of internal control systems; and the risk of fraud by employees or persons outside the Bank. This risk of loss also includes potential legal actions that could arise as a result of operational deficiencies, noncompliance with regulatory standards, employee misconduct or adverse business decisions. In the event of a breakdown in the internal control system, improper access to or operation of systems or improper employee actions, the Bank could incur financial loss or face regulatory action.

We utilize a risk management framework, well-controlled business policies and processes and employee training to manage operational risk. Under this framework, business segments have direct and primary responsibility and accountability for identifying, controlling and monitoring operational risk. Business managers maintain controls with the objective of providing proper transaction authorization and execution, proper system operations, safeguarding of assets from misuse or theft 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. We also mitigate operational risk through the use of insurance coverages.

Business continuity and disaster recovery planning is also important to effectively manage our 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, among other matters, 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 function. 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.

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.*

Reputation Risk Management

Reputation risk is the risk to earnings and capital arising from negative public opinion. Such risk encompasses the loss of confidence, trust and esteem among customers, investors, partners, policymakers, shareholders and other key stakeholders. Like all businesses, the Bank is subject to a wide variety of reputation risk factors both within and outside its control, including credit difficulties with individual customers or industries, business disputes, lawsuits, credit market disruptions, regulatory events and public allegations of misconduct against employees. As a member of the Farm Credit System, the Bank could be indirectly impacted by events that damage the reputation of another System entity.

The Board of Directors and management regard the Bank's reputation as a critical asset and have implemented a number of policies, procedures and programs to ensure it is well protected. The controls and processes surrounding credit risk, interest rate risk, liquidity risk and operational risk also 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. The Bank also 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.

We place considerable emphasis on ethical behavior and ensure that our 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 140, each year all employees certify their compliance with our Associate Responsibilities and Conduct Policy. Finally, the Bank actively supports and participates in the Farm Credit System's reputation management committee, which consists of representatives of banks and associations from across the System.

Other Risk Factors

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

We, along with the other banks in the System, obtain funds for our operations primarily through participating in the issuance of Systemwide Debt Securities 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, 2011, we were primarily liable for $53.8 billion of Systemwide Debt Securities. Additionally, each System bank is contingently liable for Systemwide Debt Securities of the other System banks. At December 31, 2011, the total aggregate principal amount of the outstanding Systemwide Debt Securities was $184.8 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 15 to the accompanying consolidated financial statements for a more complete description of the interbank agreements among the System banks.

The Insurance Fund, which totaled $3.4 billion as of December 31, 2011, is available from the Insurance Corporation to ensure the timely payment by each System bank of its primary obligations on Systemwide Debt Securities. Under the Farm Credit Act, before joint and several liabilities 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 is insufficient, then the remaining System banks must 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.

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 negatively impacted. The Insurance Corporation does not insure any payments on our subordinated debt, preferred stock or common stock. See Note 5 to the accompanying consolidated financial statements for more information about the Insurance Fund.

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. We (as well as the other System banks) are not legally authorized to accept deposits and therefore cannot use deposits as a funding source. Instead, we raise funds for our operations primarily through Systemwide Debt Securities issued on our behalf by the Funding Corporation.

In August 2011, Standard & Poor's Ratings Services (S&P) downgraded the long-term sovereign credit rating of the United States from AAA to AA+ with a negative outlook. The credit ratings of GSEs, including the System, are influenced by the sovereign credit rating of the United States. 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. The other two major rating agencies, Moody's Investors Service (Moody's) and Fitch Ratings (Fitch), have affirmed the AAA sovereign credit rating of the United States and the AAA rating of the System. However, both Moody's and Fitch have assigned a negative outlook to the U.S. and System ratings. Notwithstanding these actions, to date we have continued to access the funding necessary to support our lending and business operations. However, such actions and any future downgrades could negatively impact funding costs, earnings and funding flexibility for CoBank and other System institutions.

Our Funding Costs Would Increase if the Farm Credit System Lost its Status as a Government Sponsored Enterprise

The System is a GSE and, as a member of the System, CoBank benefits from favorable debt-funding costs. Additionally, our individual credit ratings are positively impacted by the GSE status of the System.

The two largest housing GSEs, Fannie Mae and Freddie Mac, have been under increased public and congressional scrutiny as a result of their significant operating losses and U.S. government efforts to strengthen their capital and provide liquidity for securities they issue. Congressional deliberations over structural reform related to these housing GSEs began in 2011 and are likely to continue for a number of years. The Farm Credit System has not been the subject of specific congressional scrutiny, nor is it subject to the jurisdiction of the same congressional committees as the housing 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 increased funding flexibility.

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 mortgage-backed securities (Non-Agency securities) and asset-backed securities (ABS), which together represent approximately 2 percent of our investment securities. As a result of 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, 2011, our counterparties had posted $792.3 million in cash and $58.9 million in securities as collateral with us. At December 31, 2011, a parallel increase of 2.0 percentage points in the U.S. dollar LIBOR/swap curve would have required us to return substantially all of the collateral currently posted with us by our counterparties.

Liquidity and Capital Resources

Funding

We use our capital and both short-term and long-term borrowings to fund our assets. Our debt primarily represents Systemwide Debt Securities issued on CoBank's behalf. Refer to Notes 5 and 6 to the accompanying consolidated financial statements for additional information regarding our debt obligations.

As a member of the System, a GSE with continued strong earnings and capital levels, CoBank has traditionally maintained ready access to debt-funding. As of December 31, 2011, Systemwide Debt Securities were rated triple-A by Moody's Investors Service and Fitch Ratings, and AA+ by Standard & Poor's Ratings Services.

Liquidity Investments

Investment securities and cash are primarily held for the purposes of maintaining a liquidity reserve and managing short-term surplus funds. As detailed in Note 4 to the accompanying consolidated financial statements, in accordance with Board-approved policies, we purchase high credit quality investments to ensure that the portfolio is readily marketable and available to serve as a source of liquidity in the event of disruption to our normal funding mechanisms.

Investment securities totaled $13.0 billion at December 31, 2011, and $12.6 billion at December 31, 2010. Our cash balances were $2.8 billion and $1.9 billion at December 31, 2011 and 2010, respectively. The following table summarizes our investment securities and related unrealized gains/losses by asset class.

Investment Securities ($ in Millions)			
December 31, 2011	**Amortized Cost**	**Fair Value**	**Unrealized Gains (Losses)**
U.S. Treasury and Agency Debt	**$ 3,549**	**$ 3,638**	**$ 89**
U.S. Agency Mortgage-Backed	**8,899**	**9,061**	**162**
Non-Agency Mortgage-Backed	**265**	**242**	**(23)**
Asset-Backed	**78**	**54**	**(24)**
Total	**$ 12,791**	**$ 12,995**	**$ 204**
December 31, 2010			
U.S. Treasury and Agency Debt	$ 3,311	$ 3,358	$ 47
U.S. Agency Mortgage-Backed	8,673	8,739	66
Non-Agency Mortgage-Backed	424	402	(22)
Asset-Backed	143	118	(25)
Total	$ 12,551	$ 12,617	$ 66

We regularly 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 $138.8 million and $69.6 million in 2011 and 2010, respectively. The unrealized gains in both years primarily relate to the impact of interest rate changes on the values of certain fixed-rate securities.

Credit risk in our investment portfolio is primarily limited to the 2 percent of investment securities that do not contain either an implicit or explicit guarantee of the U.S. government, consisting of Non-Agency securities and ABS. The unrealized losses on such securities primarily relate to decreased market liquidity and widened credit spreads. We recorded impairment losses in earnings of $10.0 million in 2011 and $44.0 million in 2010. The impairment losses in 2011 related to four Non-Agency securities and four ABS, and totaled $5.5 million and $4.5 million, respectively. Increasing levels of defaults and foreclosures on residential mortgages, continued high unemployment, and weak economic conditions may result in further downward adjustments to the fair value of our Non-Agency securities and ABS and the need to record additional impairment losses in earnings.

As of December 31, 2011, all of our ABS are composed of home equity securities. These securities are supported by first- or second-lien mortgages and the substantial majority of them are insured by two bond insurance companies that have come under financial stress. During 2010 and 2009, we determined that we could no longer rely on these two bond insurers to fulfill their obligations related to certain ABS they insure, which resulted in $23.0 million of the 2010 impairment losses and $11.0 million of the 2009 impairment losses.

Derivatives

As noted 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 $12.3 million and $2.7 million for 2011 and 2010, respectively. Changes in the fair value of derivatives recorded as other comprehensive income (loss) totaled losses of $0.5 million and $6.3 million in 2011 and 2010, respectively.

Capital

We believe that a sound capital position is critical to our long-term financial success and future growth. We are primarily capitalized by common and preferred stock and by unallocated retained earnings. Our shareholders' equity increased by $489.3 million during 2011. This increase was primarily due to $706.6 million of earnings and a $101.9 million increase in accumulated other comprehensive income, primarily resulting from unrealized gains in our investment portfolio, net of tax. These factors were partially offset by $230.8 million in cash patronage, $63.8 million in preferred stock dividends and $24.6 million of common stock retirements, net of stock issuances.

As of December 31, 2011, we had $700.0 million of preferred stock outstanding. In 2008, our shareholders approved a measure allowing CoBank to issue preferred stock, subject to FCA approval, up to the then bylaw limit of $1.0 billion outstanding, at any time through September 2018. This measure allows 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. In September 2011, in connection with the merger with AgBank, shareholders approved an increase to the limits of both the preferred stock authorization and the bylaws to $1.5 billion. In conjunction with the merger, on January 1, 2012, AgBank's $225.0 million (par value) of preferred stock was converted into $225.0 million (par value) of a new series of CoBank preferred stock with substantially the same terms and conditions.

In August 2009, we exchanged $136.8 million of Series A preferred stock for Series D preferred stock. The exchange was completed to enhance the quality and durability of our capital. For regulatory capital purposes, our Series D preferred stock is included in permanent capital, total surplus and core surplus, whereas our Series A preferred stock is included only in permanent capital and total surplus. In connection with the exchange, holders of the Series A preferred stock voted to eliminate certain restrictions on our ability to make open market purchases or exchanges of the Series A preferred stock.

In August 2011, we amended the certificates of designation of our Series C and Series D preferred stock to rank on parity with Series A and Series B preferred stock as to dividend distributions or distributions upon liquidation. Our preferred stock is discussed in Note 7 to the accompanying consolidated financial statements.

At December 31, 2011, we had $1.0 billion in subordinated debt outstanding. 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. Our subordinated debt is discussed in Note 6 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 repurchases or exchanges, if any, will depend on prevailing market conditions, the Bank's capital position and liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

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 7 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, 2011, 2010 and 2009, we exceeded the minimum regulatory requirements, which are noted parenthetically.

Selected Capital Information ($ in Millions)

December 31,	2011	2010	2009
Total Shareholders' Equity	**$ 4,896**	$ 4,406	$ 4,058
Total Shareholders' Equity/ Total Assets	**7.74 %**	6.69 %	6.98 %
Permanent Capital Ratio (7.0%)	**16.37**	14.30	15.29
Total Surplus Ratio (7.0%)	**16.01**	13.96	15.01
Core Surplus Ratio (3.5%)	**10.02**	8.42	8.77
Net Collateral Ratio (104.0%)(1)(2)	**109.05**	108.03	108.67

(1) The regulatory minimum net collateral ratio is 103.0 percent, but the FCA requires the higher 104.0 percent during the period in which we have Series A preferred stock or subordinated debt outstanding.

(2) As a condition of the merger with AgBank, from January 1, 2012 through December 31, 2014, if the net collateral ratio falls below 105.0 percent, the Bank must notify the FCA and submit to them a written plan to restore and maintain a level of at least 105.0 percent.

Pursuant to FCA guidance, effective July 1, 2011, we began phasing out our Series A preferred stock ($163.3 million at December 31, 2011) from our permanent capital, total surplus and net collateral amounts at a rate of 20 percent per annum. The impact to our regulatory capital and collateral ratios was less than 0.1 percent during 2011.

Also pursuant to FCA guidance, a significant portion of our common stock is included in core surplus, subject to certain conditions. This inclusion will continue on a temporary basis until the earlier of December 31, 2012 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, 2011, our core surplus ratio excluding common stock was 7.91 percent. As a condition of the merger with AgBank, from January 1, 2012 through December 31, 2014, if our core surplus ratio excluding common stock falls below a threshold level, the Bank must notify the FCA and submit to them a written plan to restore and maintain the ratio to at least that level. The core surplus ratio excluding common stock was above the threshold level as of the date of the merger.

The FCA has issued Advance Notices of Proposed Rulemaking on capital adequacy which could ultimately lead to significant changes in the System's regulatory capital rules.

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 loan balance. Collectively, the customer-owners that hold voting stock elect our Board of Directors. We operate on a cooperative basis and return a portion of our earnings to our customer-owners in the form of patronage distributions.

In March 2009, our voting shareholders approved changes to our bylaws to convert all previously existing classes of common equity, including non-voting participation certificates, into a single class of common equity – Class A common stock – and to afford voting rights to certain borrowers that are not organized as cooperatives. 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. All other shareholders do not have voting rights. The number of voting shareholders increased by approximately 27 percent as a result of these bylaw changes, which were effective April 1, 2009.

In conjunction with the annual business and financial planning process, the Board of Directors reviews and approves a capital adequacy plan which includes capital targets and capital ratio baselines. The Board determines a targeted equity level based on projected asset levels, earnings, economic conditions, possible credit losses and other contingencies. 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.

When reviewing the capital adequacy plan, the Board considers the following: risk diversification of the loan portfolio, loan seasonality, anticipated future capital needs, equity levels required by the Bank's proprietary economic capital model, the Bank's capital levels in comparison to commercial banks and the regulatory minimum capital standards. As of December 31, 2011, the Board-established capital ratio baselines were 10 percent for the permanent capital and total surplus ratios, and 5 percent for the core surplus ratio. As part of our business planning process, we perform stress tests to examine the Bank's financial condition and performance under a variety of market and economic environments, including unanticipated loan growth and prolonged periods of financial and loan quality stress. These tests, which include severe scenarios, illustrate the Bank's ability to continue to maintain compliance with regulatory requirements and meet commitments to our stakeholders. Results of these tests are reviewed with the Board of Directors.

Capital Plans

We have four capital plans that dictate 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 expected to remain at 100 basis points of the current year average loan volume. The cash portion of patronage is 65 percent for all cooperative capital plan members.

The capital plan for loan participations purchased from System entities is identical 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 expected to remain at 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 a borrower's 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 expected to remain at 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.

All patronage payments and retirements of equity require the prior approval of our Board of Directors, which has increased or decreased 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.

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 2011 in the first quarter of 2012. Patronage distributions for 2011 were higher than the prior year primarily due to an increase in the level of patronage-based agribusiness average loan volume.

Patronage Distributions ($ in Thousands)

Year Ended December 31,	2011	2010	2009
Common Stock	**$ 109,900**	$ 90,450	$ 85,067
Cash	**230,751**	194,110	183,828
Total Patronage Distributions	**$ 340,651**	$ 284,560	$ 268,895
Patronage Distributions/ Total Average Common Stock Owned by Active Borrowers	**22.65 %**	19.77 %	19.68 %

Economic Capital

Economic capital is a measure of risk and is defined as the amount of capital required to absorb potential losses resulting from extremely severe events over a one-year time period. "Unexpected losses" are the difference between potential extremely severe losses and the expected (average) loss over a one-year time period. The amount of economic capital required is based on our risk profile and a targeted solvency standard. We attribute economic capital to credit risk, interest rate risk, operational risk and market risk. Credit risk, interest rate risk and operational risk are described under "Corporate Risk Profile" beginning on page 43. Market risk represents exposure to asset residual values related to our leasing activity. These risks are measured and aggregated to estimate the exposure to potential extremely severe events and any impact to our capital.

The economic capital model considers the economic capital requirements of our affiliated Associations through the evaluation of the Associations' retail credit risk, operational risk and interest rate risk. An economic capital shortfall (which is the difference between available capital and required economic capital) at any affiliated Association is included in our economic capital requirements.

For economic capital modeling purposes, we have targeted a "AA" solvency standard, which equates to a 99.97 percent confidence level. In other words, the likelihood of incurring losses greater than the required economic capital amount is estimated to be similar to the likelihood of a AA-rated bond defaulting, which is a 0.03 percent probability. At December 31, 2011, the Bank held capital in excess of the amount calculated by its economic capital model.

Credit Risk Capital

Credit risk capital requirements are based on the risk profile of the borrower or counterparty, repayment sources, the nature of underlying collateral and other support, given current events and conditions. Our credit risk ratings process uses a two dimensional loan rating structure, incorporating our 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default.

In assigning credit risk capital, our economic capital model considers retail borrower probability of default, loss given default, and portfolio concentrations. Other principal drivers of credit risk that differentiate capital allocation include exposure at default, asset maturity, and asset and inter-commodity correlations. We have developed standards for probability of borrower default and loss given default, based on external benchmarks.

Interest Rate Risk Capital

The amount of capital attributed to interest rate risk is based on potential changes in our market value of equity, calculated under randomly generated interest rate scenarios. We utilize widely accepted, third-party models to quantify the interest rate risk and related risk capital requirement.

Operational Risk Capital

Our approach to quantifying operational risk capital is based on the capital of non-financial companies with similar business risks. These non-financial companies hold capital primarily for operational risk. Their level of capital and credit rating yields an inferred estimate of the level of capital to be held for operational risk. Capital as a percent of operating expenses is the primary methodology used in determining operational risk capital.

Market Risk Capital

Market risk arises primarily from the volatility in the residual value of leased assets at the maturity of lease contracts. This risk exists because of the mismatch between the present value of future cash flows, the present value of the returned leased asset, and the underlying value of the equipment over time. This is because default can occur when the inherent value of the leased asset is below that of the present value of all future payments. This difference is used to calculate the exposure.

Other Risks

Other areas of risk in which we may have exposure are structural, liquidity, regulatory, reputation, and political risk. While capital is not specifically attributed to these risks, some of the excess capital – the amount by which book capital exceeds economic capital – is held for these other risks.

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 2 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 reserve for credit exposure 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 63.

Reserve for Credit Exposure

Our allowance for loan losses reflects 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 volatility in agricultural commodity prices. 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 "reserve for credit exposure."

Our reserve for credit exposure 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 reserve for credit exposure is maintained at a level consistent with this assessment, considering such factors as loss experience, portfolio quality, portfolio concentrations, current production conditions, and economic and environmental factors specific to our business segments.

The reserve for credit exposure is based on our regular evaluation of our loan and finance lease portfolio. We establish the reserve for credit exposure 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 and approve the reserve for credit exposure prior to final approval by the Board of Directors.

Our determination of the reserve for credit exposure is sensitive to the assigned risk ratings and probabilities of default, as well as assumptions surrounding loss given default. 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 expense and the related reserve for credit exposure, 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 reserve for credit exposure would have increased or decreased by $7.9 million at December 31, 2011.

Valuation of Financial Instruments with No Ready Markets

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.

As discussed in Note 12 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 our investment securities 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 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 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 values are determined through internal market valuation models. These models incorporate benchmark interest rate curves, 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.

All financial models used for the determination of the fair value of financial instruments in the financial statements 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 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 in measuring fair value. When observable market prices and inputs are not fully available, management judgment is necessary to estimate fair value. In addition, 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. Changes in assumptions could affect the fair values.

At December 31, 2011, approximately 22 percent of total assets, or $14.1 billion, consisted of financial instruments recorded at fair value. Approximately 99 percent of these financial instruments used valuation methodologies involving market-based or market-derived information to measure fair value. The remaining 1 percent of these financial instruments is measured using model-based techniques, constituting our entire asset-backed securities portfolio. At December 31, 2011, approximately 2 percent of total liabilities, or $939.0 million, consisted of financial instruments recorded at fair value.

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued guidance clarifying when a loan modification or restructuring is considered a troubled debt restructuring. The FASB's guidance provides criteria that a lender should evaluate in determining whether a borrower is experiencing financial difficulties and when a restructuring constitutes a concession. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. Early adoption is permitted. The adoption of these provisions is not expected to have a material effect on our consolidated financial position, results of operations or cash flows.

In May 2011, the FASB issued guidance clarifying certain aspects of fair value measurement and disclosure requirements. The guidance is effective prospectively for reporting periods (including interim periods) beginning after December 15, 2011. Early adoption is not permitted. We will adopt these provisions in 2012; however, they are not expected to have a material effect on our consolidated financial position, results of operations or cash flows, but are expected to result in additional fair value disclosures surrounding our Level 3 inputs, which are discussed in Note 12 to the accompanying consolidated financial statements.

In June 2011 and in December 2011, the FASB issued guidance which revises the manner in which entities present comprehensive income in their financial statements. The new guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income; or (2) two separate but consecutive statements. The guidance does not change the items that must be reported in other comprehensive income. These provisions are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. We will adopt these provisions effective March 31, 2012. The adoption will not have an effect on our consolidated financial position, results of operations or cash flows; however, it will result in changes to the presentation of comprehensive income.

In December 2011, 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 disclosure 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 will adopt these provisions effective March 31, 2013. The adoption of these provisions is not expected to have a material effect on our consolidated financial position, results of operations or cash flows.

Business Outlook

We closed our merger with AgBank on January 1, 2012. The merger will create opportunities across the industries we serve and will significantly enhance the geographic and industry diversification of our loan portfolio. It will also provide us with the opportunity to strengthen business operations and enhance market opportunities for CoBank's products and services. We believe the merger will create a stronger, more durable financial institution with an enhanced ability to fulfill its mission, both today and for future generations of rural borrowers.

As we look to 2012, we see a number of challenges that could make the lending and earnings environment less favorable for CoBank. Agricultural commodity prices have retreated from last year's highs and growth remains lackluster in the broader economy. Loan demand in our Strategic Relationships segment has moderated due to the strong liquidity positions of many farmers and ranchers. Customers in certain of the industries we serve continue to feel the impact of unpredictable and volatile agricultural commodity prices, a continued weak housing market, and regulatory and political uncertainty. These challenges could reduce the credit quality and level of loan demand in certain sectors of our lending portfolio. Continued weakness in the housing market and/or persistently high unemployment could also lead to further losses on our non-agency investment securities. Greater liquidity in debt funding markets and a renewed focus by banks on commercial lending continues to increase competition across many of the sectors we serve. In addition, the lower level of medium-term interest rates negatively impacts the return on our invested capital.

In 2012, we will focus on preserving the strength of our balance sheet, executing on our merger integration plan and enhancing our enterprise-wide risk management capabilities. Our strong capital and liquidity position will continue to provide the capacity to serve customers in all market conditions. We will continue our disciplined approach to managing risk and will closely monitor asset quality. We will also continue to enhance our financial condition through prudent expense discipline and the retention of a portion of our earnings.

Our continued success will be achieved by delivering on our value proposition, creating opportunities to partner with other System institutions, increasing market share, maintaining effective access to the agency debt capital markets, optimizing current lending authorities and pursuing various strategic alliances with other financial services organizations.

Under the guidance of our Board of Directors and through the focus of a proven executive management team, we look forward to continuing to deliver on our value proposition on behalf of our customers and to fulfilling our mission as a dependable and strategic source of credit and financial services to the nation's rural economy.

Forward Looking Statements

Certain of the statements contained in the 2011 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:

- Potential deterioration in the agricultural, energy, communications, water and leasing industries;
- Our ability to successfully integrate the operations of AgBank;
- Weak U.S. and global economic conditions;
- Legislative and regulatory actions;
- Government policies and developments in the United States and other countries in which we make loans;
- The European sovereign debt crisis and its potential impact on LIBOR funding markets;
- The effect of banking and financial services reforms;
- Possible amendments to, and interpretations of, risk-based capital guidelines;
- Environmental-related conditions or laws impacting our lending activities;
- Changes in the U.S. government's support of the agriculture industry and agricultural exports;
- Actions taken by the U.S. Congress relative to 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 fiscal policy;
- Actions taken by the Federal Reserve to manage the monetary policy of the United States;
- A decrease in the credit outlook or ratings of U.S. government debt and agency debt, including Farm Credit System debt securities;
- The level of interest rates;
- Relationships between various interest rate indices;
- Changes in assumptions underlying the valuations of financial instruments;
- Changes in the bases for our estimates underlying the reserve for credit exposure;
- Credit performance of the loan portfolio, portfolio growth and seasonal factors;
- 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;
- Weather-related, disease and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- Nonperformance by counterparties to our derivative positions; and
- Our ability to successfully execute and integrate any future business combinations or strategic alliances.

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 Income Statements
CoBank, ACB

($ in Thousands)

Year Ended December 31,	2011	2010	2009
Interest Income			
Loans	**$ 1,518,073**	$ 1,408,565	$ 1,446,663
Investment Securities	**271,074**	257,740	329,344
Total Interest Income	**1,789,147**	1,666,305	1,776,007
Interest Expense	**718,120**	715,460	830,044
Net Interest Income	**1,071,027**	950,845	945,963
Provision for Loan Losses	**58,000**	60,000	80,000
Net Interest Income After Provision for Loan Losses	**1,013,027**	890,845	865,963
Noninterest Income/ Expense			
Net Fee Income	**117,741**	102,620	89,947
Prepayment Income	**24,691**	18,820	13,745
Losses on Early Extinguishments of Debt	**(50,421)**	(26,537)	(18,234)
Total Other-Than-Temporary Impairment Losses	**(8,756)**	(49,851)	(48,036)
Portion of Loss Recognized in Other Comprehensive Income/Loss	**(1,244)**	5,851	33,036
Net Other-Than-Temporary Impairment Losses Included in Earnings	**(10,000)**	(44,000)	(15,000)
Other, Net	**35,925**	47,656	14,503
Total Noninterest Income	**117,936**	98,559	84,961
Operating Expenses			
Employee Compensation	**117,531**	98,971	101,868
Insurance Fund Premium	**20,245**	13,281	53,968
Information Services	**18,846**	16,115	16,387
General and Administrative	**25,415**	42,789	17,093
Purchased Services	**18,958**	20,559	7,578
Occupancy and Equipment	**7,404**	6,479	6,806
Travel and Entertainment	**12,425**	10,922	8,895
Farm Credit System Related	**7,446**	7,094	6,636
Total Operating Expenses	**228,270**	216,210	219,231
Income Before Income Taxes	**902,693**	773,194	731,693
Provision for Income Taxes	**196,106**	159,427	166,277
Net Income	**$ 706,587**	$ 613,767	$ 565,416

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

Consolidated Balance Sheets

CoBank, ACB

($ in Thousands)

As of December 31,	2011	2010	2009
Assets			
Total Loans	**$ 46,285,142**	$ 49,992,338	$ 44,174,464
Less: Allowance for Loan Losses	**388,056**	400,744	369,817
Net Loans	**45,897,086**	49,591,594	43,804,647
Cash	**2,771,842**	1,922,586	923,083
Investment Securities	**12,995,458**	12,616,696	11,808,207
Accrued Interest Receivable	**277,528**	386,401	406,700
Interest Rate Swaps and Other Financial Instruments	**1,048,629**	1,001,365	984,074
Other Assets	**299,672**	307,248	233,991
Total Assets	**$ 63,290,215**	$ 65,825,890	$ 58,160,702
Liabilities			
Bonds and Notes	**$ 56,104,486**	$ 59,324,313	$ 51,911,314
Subordinated Debt	**1,000,000**	1,000,000	1,000,000
Accrued Interest Payable	**255,021**	351,235	394,298
Interest Rate Swaps and Other Financial Instruments	**136,945**	92,580	123,379
Reserve for Unfunded Commitments	**153,919**	99,799	128,373
Other Liabilities	**744,311**	551,766	545,709
Total Liabilities	**58,394,682**	61,419,693	54,103,073
Commitments and Contingent Liabilities (Note 15)			
Shareholders' Equity			
Preferred Stock	**700,000**	700,000	700,000
Common Stock (Note 7)	**1,654,314**	1,568,989	1,520,054
Unallocated Retained Earnings	**2,439,531**	2,137,394	1,871,986
Accumulated Other Comprehensive Income (Loss)	**101,688**	(186)	(34,411)
Total Shareholders' Equity	**4,895,533**	4,406,197	4,057,629
Total Liabilities and Shareholders' Equity	**$ 63,290,215**	$ 65,825,890	$ 58,160,702

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,	2011	2010	2009
Cash Flows Provided by Operating Activities			
Net Income	**$ 706,587**	$ 613,767	$ 565,416
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Provision for Loan Losses	**58,000**	60,000	80,000
Deferred Income Taxes	**101,674**	27,237	61,409
Depreciation and Amortization/Accretion, Net	**10,520**	3,568	(7,009)
Losses on Impairments of Investments Available-for-Sale	**10,000**	44,000	15,000
Net Gain on Sale of Investment Securities	**(4,451)**	-	(913)
Decrease (Increase) in Accrued Interest Receivable	**108,873**	20,299	(56,566)
(Decrease) Increase in Other Assets	**20,376**	(67,906)	(6,419)
Decrease in Accrued Interest Payable	**(96,214)**	(43,063)	(52,226)
Increase (Decrease) in Other Liabilities	**17,284**	(50,495)	15,811
Net Gains on Interest Rate Swaps and Other Financial Instruments	**(9,943)**	(1,448)	(10,002)
Proceeds from Termination of Interest Rate Swaps	**31,788**	-	7,222
Other	**(1,758)**	(7,896)	(405)
Net Cash Provided by Operating Activities	**952,736**	598,063	611,318
Cash Flows Provided by (Used in) Investing Activities			
Net Decrease (Increase) in Loans	**3,688,075**	(5,871,365)	302,797
Investment Securities:			
Purchases	**(6,128,705)**	(14,332,036)	(9,875,713)
Proceeds from Maturities and Prepayments	**5,841,874**	13,547,385	9,760,110
Proceeds from Sales	**41,345**	-	3,396
Net Cash Provided by (Used in) Investing Activities	**3,442,589**	(6,656,016)	190,590
Cash Flows (Used in) Provided by Financing Activities			
Bonds and Notes Proceeds	**35,881,933**	40,122,110	21,260,036
Bonds and Notes Retired	**(40,119,400)**	(32,487,178)	(23,530,769)
Net Increase (Decrease) in Notes Payable and Other Interest-bearing Liabilities	**974,492**	(286,222)	(497,484)
Preferred Stock Exchange Costs	**-**	-	(2,176)
Preferred Stock Dividends Paid	**(63,799)**	(63,799)	(59,866)
Common Stock Issued	**5,324**	2,465	41,321
Common Stock Retired	**(29,899)**	(43,980)	(7,526)
Cash Patronage Distribution Paid	**(194,720)**	(185,940)	(209,565)
Net Cash (Used In) Provided by Financing Activities	**(3,546,069)**	7,057,456	(3,006,029)
Net Increase (Decrease) in Cash	**849,256**	999,503	(2,204,121)
Cash at Beginning of Year	**1,922,586**	923,083	3,127,204
Cash at End of Year	**$ 2,771,842**	$ 1,922,586	$ 923,083
Supplemental Noncash Investing and Financing Activities			
Net Change in Accrued Purchases of Securities	**$ -**	$ 6,002	$ (6,002)
Change in Unrealized Gains/Losses on Investment Securities, Before Taxes	**138,817**	69,608	170,418
Patronage in Common Stock	**109,900**	90,450	85,067
Supplemental Noncash Fair Value Changes Related to Hedging Activities			
(Increase) Decrease in Interest Rate Swaps and Other Financial Instrument Assets	**$ (47,264)**	$ (17,291)	$ 690,679
(Decrease) Increase in Bonds and Notes Related to Hedging Activities	**(10,878)**	49,182	(691,663)
Increase (Decrease) in Interest Rate Swaps and Other Financial Instrument Liabilities	**44,365**	(30,799)	(17,569)
Supplemental Disclosure of Cash Flow Information			
Interest Paid	**$ 815,746**	$ 755,518	$ 886,875
Income Taxes Paid	**95,225**	213,793	85,591

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, 2008	$ 700,000	$ 1,401,192	$ 1,638,596	$ (144,939)	$ 3,594,849
Comprehensive Income:					
Net Income			565,416		565,416
Other Comprehensive Income, Net of Taxes:					
Net Change in Unrealized Losses on Investment Securities Not Other-Than-Temporarily Impaired				134,717	134,717
Other-Than-Temporarily Impaired Investment Securities				(29,058)	(29,058)
Net Change in Unrealized Losses on Interest Rate Swaps and Other Financial Instruments				455	455
Net Pension Adjustment				4,414	4,414
Comprehensive Income					675,944
Preferred Stock Dividends			(60,955)		(60,955)
Preferred Stock Exchange Costs			(2,176)		(2,176)
Common Stock Issued, Net		33,795			33,795
Patronage Distribution:					
Cash			(183,828)		(183,828)
Common Stock		85,067	(85,067)		-
Balance at December 31, 2009	$ 700,000	$ 1,520,054	$ 1,871,986	$ (34,411)	$ 4,057,629
Comprehensive Income:					
Net Income			613,767		613,767
Other Comprehensive Income, Net of Taxes:					
Net Change in Unrealized Losses on Investment Securities Not Other-Than-Temporarily Impaired				42,010	42,010
Other-Than-Temporarily Impaired Investment Securities				1,147	1,147
Net Change in Unrealized Losses on Interest Rate Swaps and Other Financial Instruments				(3,893)	(3,893)
Net Pension Adjustment				(5,039)	(5,039)
Comprehensive Income					647,992
Preferred Stock Dividends			(63,799)		(63,799)
Common Stock Retired, Net		(41,515)			(41,515)
Patronage Distribution:					
Cash			(194,110)		(194,110)
Common Stock		90,450	(90,450)		-
Balance at December 31, 2010	$ 700,000	$ 1,568,989	$ 2,137,394	$ (186)	$ 4,406,197

(Table continues on the following page)

Consolidated Statements of Changes in Shareholders' Equity (Continued)

CoBank, ACB

($ in Thousands)

	Preferred Stock	Common Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2010	$ 700,000	$ 1,568,989	$ 2,137,394	$ (186)	$ 4,406,197
Comprehensive Income:					
Net Income			**706,587**		**706,587**
Other Comprehensive Income, Net of Taxes:					
Net Change in Unrealized Gains/Losses on Investment Securities Not Other-Than-Temporarily Impaired				**123,863**	**123,863**
Other-Than-Temporarily Impaired Investment Securities				**(7,034)**	**(7,034)**
Net Change in Unrealized Losses on Interest Rate Swaps and Other Financial Instruments				**(1,460)**	**(1,460)**
Net Pension Adjustment				**(13,495)**	**(13,495)**
Comprehensive Income					**808,461**
Preferred Stock Dividends			**(63,799)**		**(63,799)**
Common Stock Retired, Net		**(24,575)**			**(24,575)**
Patronage Distribution:					
Cash			**(230,751)**		**(230,751)**
Common Stock		**109,900**	**(109,900)**		**-**
Balance at December 31, 2011	**$ 700,000**	**$ 1,654,314**	**$ 2,439,531**	**$ 101,688**	**$ 4,895,533**

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

Note 1 – Organization

CoBank, ACB (CoBank or the Bank) is one of the 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 United States 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).

On January 1, 2012, pursuant to the terms of the Agreement and Plan of Merger between CoBank and U.S. AgBank, FCB (AgBank), 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 conducts its Title I lending business (primarily funding of Farm Credit Associations) through CoBank, FCB. Refer to Note 18 for additional information concerning the merger with AgBank.

We are cooperatively owned by our U.S. customers, which consist of agricultural cooperatives, rural energy, communications and water companies, farmer-owned financial institutions, including Agricultural Credit Associations (Associations) and other businesses that serve vital industries in rural America.

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 the following service organizations, which were created to provide a variety of services for the System:

(1) Federal Farm Credit Banks Funding Corporation (Funding Corporation), which issues, markets and processes Systemwide Debt Securities using a selling group, and also provides financial management and reporting services for the combined entities of the System;

(2) FCS Building Association, which leases premises and equipment to the Farm Credit Administration (FCA), the System's regulator, as required by the Farm Credit Act; and

(3) Farm Credit Association Captive Insurance Company, 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 Farm Credit Financial Partners, Inc., chartered under the Farm Credit Act as a service organization providing a range of support and technology services to certain Farm Credit Associations. Effective January 1, 2012, in connection with the merger of AgBank, we also have a minority ownership interest in AgVantis, Inc., who is also chartered under the Farm Credit Act as a service organization providing a range of support and technology services to certain Farm Credit Associations formerly affiliated with AgBank. Additionally, we have a small equity interest in other System banks 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.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of CoBank and FCL after elimination of all significant intercompany accounts and transactions.

The accompanying consolidated financial statements exclude financial information of Northwest Farm Credit Services, ACA (Northwest) as well as the Farm Credit Associations in the northeastern region of the United States (Northeast Associations), which are collectively referred to as our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the "District." Note 17 contains additional information about our affiliated Associations, and the supplemental information on pages 108 to 110 includes certain unaudited combined financial information of our affiliated Associations and the District.

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 2011 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.

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 collectibility 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 made to the borrower that would not otherwise be made if not for economic or legal reasons. 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 reflects an adjustment to the value of our total loan and finance lease portfolio for inherent credit losses, while 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 $27.3 billion and $383.3 million of commitments to extend credit and commercial letters of credit at December 31, 2011. 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 volatility in commodity prices. We refer to the combined amounts of the allowance for loan losses and the reserve for unfunded commitments as the “reserve for credit exposure.” At December 31, 2011, our reserve for credit exposure totaled $542.0 million, of which $388.1 million related to the allowance for loan losses and $153.9 million related to the reserve for unfunded commitments.

The reserve for credit exposure 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 reserve for credit exposure on our regular evaluation of these portfolios.

To determine our reserve for credit exposure, 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 a reserve for credit exposure 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, 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 review industry, geographic and portfolio concentrations, including current developments within operating segments. Changes in these factors, or our assumptions and estimates thereof, could result in a change in the reserve and could have a direct and material impact on the provision for loan losses and our results of operations. The total reserve for credit exposure is available to absorb probable and estimable credit losses within our entire portfolio.

We increase or decrease the reserve for credit exposure by recording a provision or reversal for loan losses in the income statement. 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.

Cash

For purposes of these financial statements, cash represents deposits at banks and cash on hand 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 4.

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.

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 sheets 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 11.

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 the three levels of inputs to the fair value measurement process. For additional information, refer to Note 12.

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 8. 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

We operate 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.

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. 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.

See Note 9 for further information regarding income taxes.

Note 3 – Loans, Loan Quality and Reserve for Credit Exposure

Loans Outstanding

Loans outstanding by operating segment are shown below.

($ in Millions)

December 31,	2011		2010		2009	
	Amount	%	Amount	%	Amount	%
Agribusiness	**$ 18,869**	**41 %**	$ 22,676	45 %	$ 17,469	39 %
Strategic Relationships	**15,236**	**33**	15,392	31	15,271	35
Rural Infrastructure	**12,180**	**26**	11,924	24	11,434	26
Total	**$ 46,285**	**100 %**	$ 49,992	100 %	$ 44,174	100 %
Loans Purchased	**$ 8,600**		$ 8,403		$ 8,650	
Loans Sold	**8,617**		8,291		6,859	

Loans are outstanding in all 50 states as well as 31 foreign countries and a limited number of U.S. territories.
Our agricultural export finance loan portfolio, included in our Agribusiness operating segment, reflects significant 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 $3.8 billion in agricultural export finance loans outstanding as of December 31, 2011, 76 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. Industries that represent 10 percent or more of total loans outstanding for any of the periods presented below are as follows:

December 31,	2011	2010	2009
Farm Supply and Grain Marketing	**16 %**	22 %	14 %
Electric Distribution	**11**	10	10

Loans to our affiliated Associations represented 24 percent, 23 percent, and 25 percent of total loans outstanding at December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011, our four affiliated Associations provided financing and other financial services to approximately 28,000 farmer-owners for rural real estate, equipment, working capital, agricultural production and operating purposes in geographic regions in the northwestern and northeastern United States. Participations in loans made by other System banks to their affiliated Associations represented 9 percent, 8 percent, and 9 percent of our total loans outstanding at December 31, 2011, 2010 and 2009, respectively.

Unamortized loan premiums and discounts, and unamortized deferred loan fees and costs totaled $70.0 million, $69.0 million and $70.7 million as of December 31, 2011, 2010 and 2009, respectively.

Reserve for Credit Exposure

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

	Agribusiness	Strategic Relationships[1]	Rural Infrastructure	Total
December 31, 2011				
Allowance for Loan Losses				
Beginning Balance	$ 284,217	$ -	$ 116,527	$ 400,744
Charge-offs	(10,559)	-	(12,956)	(23,515)
Recoveries	6,527	-	420	6,947
Provision for Loan Losses	37,000	-	21,000	58,000
Transfers to Reserve for Unfunded Commitments[2]	(47,868)	-	(6,252)	(54,120)
Ending Balance	269,317	-	118,739	388,056
Reserve for Unfunded Commitments				
Beginning Balance	68,599	-	31,200	99,799
Transfers from Allowance for Loan Losses[2]	47,868	-	6,252	54,120
Ending Balance	116,467	-	37,452	153,919
Reserve for Credit Exposure	$ 385,784	$ -	$ 156,191	$ 541,975
Reserve for Credit Exposure				
Ending Balance, Reserve for Credit Exposure Related to Loans:				
Individually Evaluated for Impairment	$ 16,254	$ -	$ 7,500	$ 23,754
Collectively Evaluated for Impairment	369,530	-	148,691	518,221
Total	$ 385,784	$ -	$ 156,191	$ 541,975
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 80,351	$ 15,275,708	$ 54,511	$ 15,410,570
Collectively Evaluated for Impairment	18,837,654	-	12,191,938	31,029,592
Total	$ 18,918,005	$ 15,275,708	$ 12,246,449	$ 46,440,162
December 31, 2010				
Allowance for Loan Losses				
Beginning Balance	$ 264,540	$ -	$ 105,277	$ 369,817
Charge-offs	(25,893)	-	(50,502)	(76,395)
Recoveries	4,234	-	14,514	18,748
Provision for Loan Losses	7,167	-	52,833	60,000
Transfers from (to) Reserve for Unfunded Commitments[2]	34,169	-	(5,595)	28,574
Ending Balance	284,217	-	116,527	400,744
Reserve for Unfunded Commitments				
Beginning Balance	102,768	-	25,605	128,373
Transfers from (to) Allowance for Loan Losses[2]	(34,169)	-	5,595	(28,574)
Ending Balance	68,599	-	31,200	99,799
Reserve for Credit Exposure	$ 352,816	$ -	$ 147,727	$ 500,543
Reserve for Credit Exposure				
Ending Balance, Reserve for Credit Exposure Related to Loans:				
Individually Evaluated for Impairment	$ 16,918	$ -	$ 23,200	$ 40,118
Collectively Evaluated for Impairment	335,898	-	124,527	460,425
Total	$ 352,816	$ -	$ 147,727	$ 500,543
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 93,373	$ 15,435,194	$ 73,600	$ 15,602,167
Collectively Evaluated for Impairment	22,644,294		11,917,340	34,561,634
Total	$ 22,737,667	$ 15,435,194	$ 11,990,940	$ 50,163,801

	Agribusiness	Strategic Relationships[1]	Rural Infrastructure	Total
December 31, 2009				
Allowance for Loan Losses				
Beginning Balance	$ 230,995	$ -	$ 98,203	$ 329,198
Charge-offs	(36,958)	-	(33,240)	(70,198)
Recoveries	4,850	-	117	4,967
Provision for Loan Losses	39,000	-	41,000	80,000
Transfers from (to) Reserve for Unfunded Commitments[2]	26,653	-	(803)	25,850
Ending Balance	264,540	-	105,277	369,817
Reserve for Unfunded Commitments				
Beginning Balance	129,421	-	24,802	154,223
Transfers from (to) Allowance for Loan Losses[2]	(26,653)	-	803	(25,850)
Ending Balance	102,768	-	25,605	128,373
Reserve for Credit Exposure	$ 367,308	$ -	$ 130,882	$ 498,190
Reserve for Credit Exposure				
Ending Balance, Reserve for Credit Exposure Related to Loans:				
Individually Evaluated for Impairment	$ 38,760	$ -	$ 27,052	$ 65,812
Collectively Evaluated for Impairment	328,548	-	103,830	432,378
Total	$ 367,308	$ -	$ 130,882	$ 498,190
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 209,141	$ 15,319,728	$ 98,489	$ 15,627,358
Collectively Evaluated for Impairment	17,303,598		11,400,984	28,704,582
Total	$ 17,512,739	$ 15,319,728	$ 11,499,473	$ 44,331,940

[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 reserve for credit exposure 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 table presents our loans and related accrued interest classified, by management, pursuant to our regulator's Uniform Loan Classification System.

December 31, 2011	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
Acceptable	$ 14,753,661	$ 2,850,689	$ 15,275,708	$ 12,019,166	$ 44,899,224
Special Mention	824,133	43	-	135,331	959,507
Substandard	473,432	-	-	84,452	557,884
Doubtful	16,047	-	-	7,500	23,547
Loss	-	-	-	-	-
Total	$ 16,067,273	$ 2,850,732	$ 15,275,708	$ 12,246,449	$ 46,440,162
December 31, 2010					
Acceptable	$ 17,577,545	$ 3,385,473	$ 14,885,307	$ 11,688,197	$ 47,536,522
Special Mention	1,192,436	208	399,787	177,407	1,769,838
Substandard	564,926	266	150,100	99,416	814,708
Doubtful	16,813	-	-	25,920	42,733
Loss	-	-	-	-	-
Total	$ 19,351,720	$ 3,385,947	$ 15,435,194	$ 11,990,940	$ 50,163,801
December 31, 2009					
Acceptable	$ 12,278,589	$ 3,595,914	$ 15,319,728	$ 11,290,307	$ 42,484,538
Special Mention	787,302	-	-	98,540	885,842
Substandard	811,229	-	-	83,574	894,803
Doubtful	39,705	-	-	27,052	66,757
Loss	-	-	-	-	-
Total	$ 13,916,825	$ 3,595,914	$ 15,319,728	$ 11,499,473	$ 44,331,940

Aging Analysis

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

December 31, 2011	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
30-89 Days Past Due	$ 68,847	$ -	$ -	$ -	$ 68,847
90 Days Past Due	20,126	-	-	-	20,126
Total Past Due	$ 88,973	$ -	$ -	$ -	$ 88,973
Current	15,978,300	2,850,732	15,275,708	12,246,449	46,351,189
Total	$ 16,067,273	$ 2,850,732	$ 15,275,708	$ 12,246,449	$ 46,440,162
Accruing Loans 90 Days or More Past Due	$ 114	$ -	$ -	$ -	$ 114
December 31, 2010					
30-89 Days Past Due	$ 8,606	$ -	$ -	$ -	$ 8,606
90 Days Past Due	5,664	-	-	33,716	39,380
Total Past Due	$ 14,270	$ -	$ -	$ 33,716	$ 47,986
Current	19,337,450	3,385,947	15,435,194	11,957,224	50,115,815
Total	$ 19,351,720	$ 3,385,947	$ 15,435,194	$ 11,990,940	$ 50,163,801
Accruing Loans 90 Days or More Past Due	$ 681	$ -	$ -	$ -	$ 681

December 31, 2009	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
30-89 Days Past Due	$ 42,368	$ -	$ -	$ 14,602	$ 56,970
90 Days Past Due	35,219	-	-	86,118	121,337
Total Past Due	$ 77,587	$ -	$ -	$ 100,720	$ 178,307
Current	13,839,238	3,595,914	15,319,728	11,398,753	44,153,633
Total Loans Outstanding	$ 13,916,825	$ 3,595,914	$ 15,319,728	$ 11,499,473	$ 44,331,940
Accruing Loans 90 Days or More Past Due	$ 13,138	$ -	$ -	$ 2,097	$ 15,235

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, 2011	Agribusiness Non-Guaranteed	Agribusiness Guaranteed(1)	Strategic Relationships(1)	Rural Infrastructure	Total
Nonaccrual Loans(2)	**$ 80,350**	**$ -**	**$ -**	**$ 54,512**	**$ 134,862**
Accruing Loans 90 Days or More Past Due	**114**	**-**	**-**	**-**	**114**
Accruing Restructured Loans	**-**	**-**	**-**	**-**	**-**
Total Impaired Loans	**$ 80,464**	**$ -**	**$ -**	**$ 54,512**	**$ 134,976**
December 31, 2010					
Nonaccrual Loans	$ 93,373	$ -	$ -	$ 73,600	$ 166,973
Accruing Loans 90 Days or More Past Due	681	-	-	-	681
Accruing Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 94,054	$ -	$ -	$ 73,600	$ 167,654
December 31, 2009					
Nonaccrual Loans	$ 209,141	$ -	$ -	$ 98,489	$ 307,630
Accruing Loans 90 Days or More Past Due	13,138	-	-	2,097	15,235
Accruing Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 222,279	$ -	$ -	$ 100,586	$ 322,865

(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, 2011 are $17.3 million 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, 2011	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[(1)]	Strategic Relationships[(1)]	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 25,589	$ -	$ -	$ 39,328	$ 64,917
Unpaid Principal	37,584	-	-	50,344	87,928
Average Balance	39,996	-	-	42,547	82,543
Interest Income Recognized	4,888	-	-	32	4,920
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	54,875	-	-	15,184	70,059
Unpaid Principal	75,761	-	-	16,893	92,654
Allowance for Loan Losses	16,254	-	-	7,500	23,754
Average Balance	65,783	-	-	17,450	83,233
Interest Income Recognized	-	-	-	-	-
Total Impaired Loans					
Carrying Amount	80,464	-	-	54,512	134,976
Unpaid Principal	113,345	-	-	67,237	180,582
Allowance for Loan Losses	16,254	-	-	7,500	23,754
Average Balance	105,779	-	-	59,997	165,776
Interest Income Recognized	4,888	-	-	32	4,920
December 31, 2010					
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 34,866	$ -	$ -	$ 20,952	$ 55,818
Unpaid Principal	47,004	-	-	39,939	86,943
Average Balance	106,480	-	-	28,357	134,837
Interest Income Recognized	4,405	-	-	1,059	5,464
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	59,188	-	-	52,648	111,836
Unpaid Principal	76,519	-	-	65,223	141,742
Allowance for Loan Losses	16,918	-	-	23,200	40,118
Average Balance	65,001	-	-	61,777	126,778
Interest Income Recognized	-	-	-	-	-
Total Impaired Loans					
Carrying Amount	94,054	-	-	73,600	167,654
Unpaid Principal	123,523	-	-	105,162	228,685
Allowance for Loan Losses	16,918	-	-	23,200	40,118
Average Balance	171,481	-	-	90,134	261,615
Interest Income Recognized	4,405	-	-	1,059	5,464

December 31, 2009	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[1]	Strategic Relationships[1]	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 80,118	$ -	$ -	$ 24,406	$ 104,524
Unpaid Principal	98,141	-	-	63,325	161,466
Average Balance	40,461	-	-	30,391	70,852
Interest Income Recognized	3,953	-	-	298	4,251
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	142,161	-	-	76,180	218,341
Unpaid Principal	154,354	-	-	95,267	249,621
Allowance for Loan Losses	38,760	-	-	27,052	65,812
Average Balance	166,189	-	-	88,922	255,111
Interest Income Recognized	2,154	-	-	3,184	5,338
Total Impaired Loans					
Carrying Amount	222,279	-	-	100,586	322,865
Unpaid Principal	252,495	-	-	158,592	411,087
Allowance for Loan Losses	38,760	-	-	27,052	65,812
Average Balance	206,650	-	-	119,313	325,963
Interest Income Recognized	6,107	-	-	3,482	9,589

[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, 2011	
Interest Income Which Would Have Been Recognized Per Original Terms	$ 15,771
Less: Interest Income Recognized	(4,919)
Forgone Interest Income	$ 10,852

Commitments on Impaired Loans

There were $23.8 million in commitments to extend additional credit to borrowers whose loans were classified as impaired at December 31, 2011.

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, 2011, 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 2. During the year ended December 31, 2011, we modified two loans to customers that qualified as TDRs. These loans totaled $11.6 million before and after modification. 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,	2011	2010	2009
Net Investment in Direct Financing Leases:			
Minimum Lease Payments to be Received, Net of Participation Interests	**$ 1,293**	$ 1,232	$ 1,342
Estimated Residual Values of Leased Property (Unguaranteed)	**344**	311	296
Initial Direct Costs	**11**	10	11
Less: Unearned Finance Income	**(196)**	(212)	(242)
Net Investment in Direct Financing Leases	**$ 1,452**	$ 1,341	$ 1,407
Property on Operating Leases:			
Vehicles and Other Equipment	**$ 750**	$ 750	$ 750
Initial Direct Costs	**2**	2	2
Total	**752**	752	752
Less: Accumulated Depreciation	**(327)**	(339)	(317)
Net Property on Operating Leases	**$ 425**	$ 413	$ 435
Year Ended December 31,	**2011**	**2010**	**2009**
Depreciation Expense	**$ 124**	$ 123	$ 124

At December 31, 2011, 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
2012	$ 382	$ 102
2013	321	71
2014	231	43
2015	140	24
2016	83	6
Subsequent Years	136	7

Note 4 – Investment Securities

A summary of investment securities available-for-sale follows. See Note 12 for disclosures about estimated fair values of financial instruments, including investments.

($ in Millions)

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Agency Debt	**$ 3,549**	**$ 89**	**$ -**	**$ 3,638**
Mortgage-Backed:				
U.S. Agency	**8,899**	**166**	**(4)**	**9,061**
Non-Agency	**265**	**-**	**(23)**	**242**
Asset-Backed	**78**	**-**	**(24)**	**54**
Total	**$ 12,791**	**$ 255**	**$ (51)**	**$ 12,995**

($ in Millions)

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Agency Debt	$ 3,311	$ 47	$ -	$ 3,358
Mortgage-Backed:				
U.S. Agency	8,673	124	(58)	8,739
Non-Agency	424	2	(24)	402
Asset-Backed	143	-	(25)	118
Total	$ 12,551	$ 173	$ (107)	$ 12,617

($ in Millions)

December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Agency Debt	$ 3,314	$ 12	$ (5)	$ 3,321
Mortgage-Backed:				
U.S. Agency	7,616	150	(26)	7,740
Non-Agency	656	-	(82)	574
Asset-Backed	225	-	(52)	173
Total	$ 11,811	$ 162	$ (165)	$ 11,808

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at December 31, 2011 is as follows:

U.S. Treasury and Agency Debt Securities

($ in Millions)	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ 1,794	$ 1,796	0.57 %
One to Five Years	1,255	1,264	1.11
Five to Ten Years	500	578	4.11
After Ten Years	-	-	-
Total	$ 3,549	$ 3,638	1.26

U.S. Agency Mortgage-Backed Securities

($ in Millions)	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	79	79	2.12
Five to Ten Years	425	434	3.18
After Ten Years	8,395	8,548	2.11
Total	$ 8,899	$ 9,061	2.16

Non-Agency Mortgage-Backed Securities

($ in Millions)	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	-	-	-
Five to Ten Years	20	19	0.75
After Ten Years	245	223	3.15
Total	$ 265	$ 242	2.98

Asset-Backed Securities

($ in Millions)	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	-	-	-
Five to Ten Years	-	-	-
After Ten Years	78	54	4.27
Total	$ 78	$ 54	4.27

While the substantial majority of our mortgage-backed securities and all of our asset-backed securities have contractual maturities in excess of 10 years, expected maturities for these securities are shorter than contractual maturities because borrowers have the right to call or prepay obligations with or without penalties.

The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized loss position at December 31, 2011, 2010 and 2009, respectively. The continuous loss position is based on the date the impairment first occurred. Unrealized loss positions related to these securities, including those impaired for longer than 12 months, are primarily due to widened credit spreads and decreased liquidity in the broader financial markets.

($ in Millions)	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2011				
U.S. Treasury and Agency Debt	**$ -**	**$ -**	**$ -**	**$ -**
Mortgage-Backed:				
U.S. Agency	**1,297**	**(3)**	**275**	**(1)**
Non-Agency	**57**	**(1)**	**143**	**(22)**
Asset-Backed	**-**	**-**	**54**	**(24)**
Total	**$ 1,354**	**$ (4)**	**$ 472**	**$ (47)**
December 31, 2010				
U.S. Treasury and Agency Debt	$ -	$ -	$ -	$ -
Mortgage-Backed:				
U.S. Agency	3,188	(56)	641	(2)
Non-Agency	-	-	315	(24)
Asset-Backed	-	-	115	(25)
Total	$ 3,188	$ (56)	$ 1,071	$ (51)
December 31, 2009				
U.S. Treasury and Agency Debt	$ 1,303	$ (5)	$ -	$ -
Mortgage-Backed:				
U.S. Agency	329	(2)	2,537	(24)
Non-Agency	9	-	559	(82)
Asset-Backed	-	-	170	(52)
Total	$ 1,641	$ (7)	$ 3,266	$ (158)

As of December 31, 2011, with the exception of the securities in the table below, 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, 2011		
Asset-Backed	**4**	**$ 5**
Non-Agency Mortgage-Backed	**4**	**5**
Total	**8**	**$ 10**
December 31, 2010		
Asset-Backed	7	$ 35 [1]
Non-Agency Mortgage-Backed	3	9
Total	10	$ 44
December 31, 2009		
Asset-Backed	2	$ 11 [1]
Non-Agency Mortgage-Backed	1	4
Total	3	$ 15

[1] During 2011, we sold a previously impaired asset-backed security for proceeds of $41.3 million and recorded a gain on disposition of $4.5 million. Impairment losses related to this security were $11.7 million in 2010 and $8.5 million in 2009.

The fair value of our impaired (OTTI) securities was $129.8 million, $184.3 million, and $112.7 million at December 31, 2011, 2010, and 2009, 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)
Balance at December 31, 2010	$ 59
Additional Credit Impairments Related to Securities Impaired as of December 31, 2010	7
Initial Credit Impairments Related to Securities Not Previously Impaired	3
Sales of Investments with Credit Impairments	(20)
Subsequent Accretion for Increases in Cash Flows Expected to be Collected	(1)
Balance at December 31, 2011	$ 48

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 3 percent to 20 percent for impaired investment securities at December 31, 2011. We apply historical performance information to estimate future defaults using a default timing curve. Lifetime default rates ranged from 6 percent to 39 percent for impaired investment securities at December 31, 2011. Loss severity assumptions are based on actual performance, where available, or are obtained from an independent third-party. Loss severity ranged from 34 percent to 100 percent for impaired investment securities at December 31, 2011.

Note 5 – Bonds and Notes

We are primarily liable for the following bonds and notes:

($ in Millions)

December 31,	2011	2010	2009
Bonds	**$ 49,174**	$ 50,416	$ 48,035
Medium-term Notes	**340**	376	499
Discount Notes	**4,278**	7,194	1,754
Systemwide Debt Securities	**53,792**	57,986	50,288
Cash Investment Services Payable	**1,515**	439	697
Other	**797**	899	926
Total Bonds and Notes	**$ 56,104**	$ 59,324	$ 51,911

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 hereinafter 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 with original maturities of up to 30 years. Bonds have original maturities of three months to 30 years. 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, 2011 was 179 days.

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

The aggregate maturities and the weighted average interest rates of CoBank's Systemwide Debt Securities at December 31, 2011 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
2012	$ 15,406	0.61 %	$ 25	2.50 %	$ 4,278	0.19 %	$ 19,709	0.52 %
2013	10,756	0.69	136	5.84	-	-	10,892	0.75
2014	7,990	0.86	9	8.16	-	-	7,999	0.87
2015	2,961	1.56	9	6.90	-	-	2,970	1.58
2016	2,809	1.50	19	6.27	-	-	2,828	1.53
2017 and thereafter	9,252	3.42	142	5.83	-	-	9,394	3.46
Total	$ 49,174	1.27	$ 340	5.70	$ 4,278	0.19	$ 53,792	1.21

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, 2011, callable debt was $2.6 billion, with the range of first call dates being from January 2012 through June 2015.

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 $6.1 billion at December 31, 2011. 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 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. 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. Periodically, the ratios in the CIPA model are reviewed to take into consideration current performance standards in the financial services industry. In connection with the most recent review, effective June 30, 2011, certain ratios were revised to continue to align with the current financial conditions and performance in the financial services industry. At December 31, 2011, 2010 and 2009, all System banks, including CoBank, were in compliance with all of the conditions of participation for the issuance of Systemwide Debt Securities.

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 2009 above the SBA and, as a result, in 2010 the Insurance Corporation agreed to distribute to System banks the excess premium amounts generated in 2009, as well as excess premium amounts previously set aside in 2003. We recorded $33.3 million in premium refunds from the Insurance Corporation that is classified in noninterest income in the consolidated income statement for the year ended December 31, 2010. We recorded no premium refunds from the Insurance Corporation in the years ended December 31, 2011 or December 31, 2009.

The Insurance Corporation premium rates were 6 basis points, 5 basis points, and 20 basis points of adjusted insured debt obligations for the years ended December 31, 2011, 2010 and 2009, 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.

At December 31, 2011, the assets of the Insurance Fund aggregated $3.4 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.

Early Extinguishments of Debt

During 2011, 2010 and 2009, we recorded losses of $50.4 million, $26.5 million and $18.2 million, respectively, on the early extinguishments of $649.3 million, $235.7 million and $231.2 million, respectively, of Systemwide Debt Securities. These early extinguishments of debt resulted from our general practice of extinguishing higher cost, similarly tenored debt to offset the impact of prepayments in both our loan and investment portfolios and to maintain a desired mix of interest-earning assets and interest-bearing liabilities. All losses on early extinguishments of debt are reported as a component of noninterest income.

Note 6 – Subordinated Debt

At December 31, 2011, we had $1.0 billion of subordinated debt outstanding, which is composed of two $500 million issuances – one in April 2008 and the other in June 2007. The net proceeds of these issuances ($993.5 million) were used to increase our regulatory permanent capital and total surplus, pursuant to FCA regulations, and for general corporate purposes. The subordinated debt is unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders.

The $500 million of unsecured subordinated notes issued in April 2008 are due in 2018 and bear interest at a fixed rate of 7.875 percent, payable semi-annually in cash on the 15th day of April and October each year. Our $500 million of unsecured subordinated notes issued in June 2007 are due in 2022 and bear interest at an annual rate equal to three-month USD LIBOR, reset quarterly, plus 0.60 percent, payable quarterly in cash on the 15th day of March, June, September and December each year. For both issuances, interest 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. Among certain other restrictions, we may not declare or pay any dividends or patronage distributions until interest payments are resumed and all deferred interest has been paid.

The 2007 issuance of subordinated debt may be redeemed, in whole or in part, at our option, on June 15, 2017, and each of the 2007 and 2008 issuances of subordinated debt may be redeemed, in whole, at our option at any time upon the occurrence of certain defined regulatory conditions. Any redemption of subordinated debt shall 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 not considered System 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 7 – Shareholders' Equity

Patronage

As a customer-owned bank, we return a portion of our earnings to shareholders in the form of qualified patronage distributions. Eligible shareholders will receive patronage for 2011 amounting to $340.7 million, of which $230.8 million will be paid in cash in 2012 and the balance will be paid in common stock. For 2010 and 2009, total patronage was $284.6 million and $268.9 million, respectively, of which $194.1 million and $183.8 million, respectively, was paid in cash in the subsequent year. All patronage distributions require the approval of our Board of Directors.

Capitalization Requirements

In accordance with the Farm Credit Act, eligible borrowers are required to purchase equity 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 required to invest in our common stock, as discussed in Note 17.

Most agricultural export finance customers, customers of FCL and certain other borrowers are not required to purchase, nor do they own, equity 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.

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, 2011.

At December 31, 2011, 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	2011	2010	2009
Permanent Capital Ratio	7.0 %	**16.37 %**	14.30 %	15.29 %
Total Surplus Ratio	7.0	**16.01**	13.96	15.01
Core Surplus Ratio	3.5	**10.02**	8.42	8.77
Net Collateral Ratio	104.0 [1][2]	**109.05**	108.03	108.67

(1) The regulatory minimum net collateral ratio is 103.0 percent, but the FCA requires the higher 104.0 percent during the period in which we have Series A preferred stock or subordinated debt outstanding.

(2) As a condition of the merger with AgBank, from January 1, 2012 through December 31, 2014, if the net collateral ratio falls below 105.0 percent, the Bank must notify the FCA and submit to them a written plan to restore and maintain a level of at least 105.0 percent.

The 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) as a percentage of quarterly average risk-adjusted assets.
- The total surplus ratio is quarterly average total surplus (generally shareholders' equity, net of purchased stock, and subordinated debt subject to certain limitations) 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 significant 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, effective July 1, 2011, we began phasing out our Series A cumulative perpetual preferred stock ($163.3 million at December 31, 2011) from our permanent capital, total surplus and net collateral ratios at a rate of 20 percent per annum. The impact to our regulatory capital and collateral ratios was less than 0.1 percent during 2011.

Also pursuant to FCA guidance, a significant portion of our common stock is included in core surplus, subject to certain conditions. This inclusion will continue on a temporary basis until the earlier of December 31, 2012 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, 2011, our core surplus ratio excluding common stock was 7.91 percent. As a condition of the merger with AgBank, from January 1, 2012 through December 31, 2014, if our core surplus ratio excluding common stock falls below a threshold level, the Bank must notify the FCA and submit to them a written plan to restore and maintain the ratio to at least that level. The core surplus ratio excluding common stock was above the threshold level as of the date of the merger.

Preferred Stock

The following table summarizes our outstanding preferred stock at December 31, 2011.

Preferred Stock as of December 31, 2011

	Series A	Series B	Series C	Series D
Type	Cumulative Perpetual	Cumulative Perpetual	Non-Cumulative Perpetual	Non-Cumulative Perpetual
Issue Date	June 2001	November 2003	July 2008	August 2009
Shares Outstanding (000)	3,265	4,000	4,000	2,735
Amount Outstanding (000)	$163,250	$200,000	$200,000	$136,750
Par Value (per share)	$50	$50	$50	$50
Dividend Rate (%)	7.814%	7.00%	11.00%	11.00%
Change in Dividend Rate (% and dates)	Greater of 7.814% or 3-month USD LIBOR + 4.72% on July 1, 2016	n/a	3-month USD LIBOR + 6.79% on July 1, 2013	n/a
Dividend Frequency	Quarterly	Quarterly	Quarterly	Quarterly
Optional Redemption Begins (date)	Quarterly calls on or after July 1, 2011 at par plus accrued dividends	Quarterly calls on or after January 2, 2009 at par plus accrued dividends	Annual calls on or after July 1, 2013 at par plus accrued dividends	Quarterly calls on or after October 1, 2014 at par plus accrued dividends
Rank as to Dividends and Upon Liquidation	Equal to Series B, C and D	Equal to Series A, C and D	Equal to Series A, B and D	Equal to Series A, B and C

In August 2009, $136.8 million of our Series A cumulative perpetual preferred stock was exchanged for Series D non-cumulative subordinated perpetual preferred stock, representing 2.735 million shares at $50 per share outstanding. Upon completion of this exchange transaction, $163.3 million of Series A preferred stock, representing 3.265 million shares at $50 per share, remained outstanding. In connection with this exchange, holders of the Series A preferred stock voted to eliminate certain restrictions on our ability to make open market purchases or exchanges of the Series A preferred stock. The exchange of the Series A preferred stock for new Series D preferred stock resulted in a higher core surplus ratio, thereby enhancing our capital position.

In August 2011, we amended the certificates of designation of our Series C and Series D preferred stock to rank on parity with Series A and Series B preferred stock as to dividend distributions or distributions upon liquidation.

As of December 31, 2011, we had $700.0 million of preferred stock outstanding. In 2008, our shareholders approved a measure allowing CoBank to issue preferred stock, subject to FCA approval, up to the then bylaw limit of $1.0 billion outstanding, at any time through September 2018. This measure allows 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. In September 2011, in connection with the merger with AgBank, shareholders approved an increase to the limits of both the preferred stock authorization and the bylaws to $1.5 billion. In conjunction with the merger, on January 1, 2012, AgBank's $225.0 million (par value) of preferred stock was converted into $225.0 million (par value) of a new series of CoBank preferred stock with substantially the same terms and conditions.

If preferred stock dividends have not been paid for six quarters on Series A or Series B preferred stock, or 18 months on Series C or Series D preferred stock, the preferred stockholders will have the right to appoint two non-voting observers to attend our Board of Directors meetings until all accumulated dividends are paid in the case of cumulative preferred stock, and until full dividends for a one year period are paid in the case of non-cumulative preferred stock. 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.

Description of Equities

In March 2009, our voting shareholders approved changes to our bylaws to convert all previously existing classes of common equity, including non-voting participation certificates, into a single class of common equity – Class A common stock – and to afford voting rights to certain borrowers that are not organized as cooperatives. 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. All other shareholders do not have voting rights. The number of voting shareholders increased by approximately 27 percent as a result of these bylaw changes, which were effective April 1, 2009.

Information regarding preferred stock and common stock at December 31, 2011 is shown below.

Preferred and Common Stock

	Stock		
	Preferred	Class A	Class A
Shares Authorized (000)	n/a [1]	Unlimited	Unlimited
Shares Outstanding (000)	14,000	997	15,546
Voting or Nonvoting	Nonvoting	Nonvoting	Voting
Par / Face Value (per share)	$ 50 [1]	$ 100	$ 100

[1] Shares authorized and par/face value can vary by issuance.

Holders of 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. Only preferred stock pays dividends.

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 A and Series B preferred stock at par plus all accrued but unpaid dividends, and of all Series C and Series D 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.

Note 8 – 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 a noncontributory, unfunded nonqualified supplemental executive retirement plan (SERP) covering certain senior officers as of December 31, 2011, and specified other senior managers, as well as 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, SERP and ERP are collectively referred to as Retirement Plans. We hold assets in a trust fund related to our SERP 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. 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. Our contributions to the 401(k) retirement savings plan, which are recorded as employee compensation expense, were $4.7 million, $3.9 million and $3.8 million for 2011, 2010 and 2009, respectively.

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 other postretirement health care benefits. Participant contributions are adjusted annually.

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, 2011, as well as a statement of funded status as of December 31 of each year.

	Retirement Plans			Other Postretirement Benefits		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Change in Projected Benefit Obligation:						
Benefit Obligation at Beginning of Year	**$ 179,292**	$ 161,616	$ 141,722	**$ 5,342**	$ 4,171	$ 4,189
Service Cost	**6,113**	6,117	5,735	**402**	178	158
Interest Cost on Benefit Obligation	**9,327**	8,960	8,865	**272**	228	255
Plan Participant Contributions	**-**	-	-	**482**	468	416
Plan Amendments	**4,043**	-	-	**-**	-	-
Curtailment[1]	**-**	(629)	-	**-**	-	-
Actuarial Loss (Gain)	**14,482**	10,538	11,305	**7**	782	(397)
Transfers	**-**	140	-	**-**	-	-
Benefits Paid	**(7,553)**	(7,450)	(6,011)	**(909)**	(485)	(450)
Projected Benefit Obligation at End of Year	**205,704**	179,292	161,616	**5,596**	5,342	4,171
Change in Plan Assets:						
Fair Value of Plan Assets at Beginning of Year	**167,796**	156,645	110,943	**-**	-	-
Actual Return on Plan Assets	**6,980**	14,201	28,338	**-**	-	-
Employer Contributions	**4,138**	4,260	23,375	**427**	17	34
Transfers	**-**	140	-	-	-	-
Benefits Paid	**(7,553)**	(7,450)	(6,011)	**(909)**	(485)	(450)
Plan Participant Contributions	**-**	-	-	**482**	468	416
Fair Value of Plan Assets at End of Year	**171,361**	167,796	156,645	**-**	-	-
Funded Status – Fair Value of Plan Assets Less Than Projected Benefit Obligation	**(34,343)**	(11,496)	(4,971)	**(5,596)**	(5,342)	(4,171)
Net Amount Recognized - December 31	**$ (34,343)**	$ (11,496)	$ (4,971)	**$ (5,596)**	$ (5,342)	$ (4,171)

[1] Curtailment resulted from the departure of senior officers from the ERP in 2010.

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

	2011	2010	2009
Projected Benefit Obligation:			
Funded Plans	**$ 177,216**	$ 154,366	$ 141,164
Unfunded SERP/ERP	**28,488**	24,926	20,452
Total	**$ 205,704**	$ 179,292	$ 161,616
Accumulated Benefit Obligation:			
Funded Plans	**$ 159,497**	$ 135,881	$ 123,373
Unfunded SERP/ERP	**24,050**	19,132	11,686
Total	**$ 183,547**	$ 155,013	$ 135,059

The $171.4 million in fair value of plan assets shown in the table on page 88 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 $177.2 million and $159.5 million, respectively, as of December 31, 2011.

We hold assets in trust accounts related to our SERP and ERP plans. Such assets had a fair value of $17.3 million as of December 31, 2011, 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 88. As depicted in the preceding table, our SERP and ERP plans had a projected benefit obligation and an accumulated benefit obligation of $28.5 million and $24.1 million, respectively, as of December 31, 2011.

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

	Retirement Plans			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
Prepaid Pension Assets	**$ -**	$ 13,430	$ 15,481	**$ -**	$ -	$ -
Accrued Benefit Liabilities	**(34,343)**	(24,926)	(20,452)	**(5,596)**	(5,342)	(4,171)
Net Amounts Recognized	**$ (34,343)**	$ (11,496)	$ (4,971)	**$ (5,596)**	$ (5,342)	$ (4,171)

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

	Retirement Plans			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
Service Cost	**$ 6,113**	$ 6,117	$ 5,735	**$ 402**	$ 178	$ 158
Interest Cost on Benefit Obligation	**9,327**	8,960	8,865	**272**	228	255
Expected Return on Plan Assets	**(13,463)**	(12,902)	(11,275)	**-**	-	-
Amortization of Prior Service Cost	**(133)**	284	(228)	**-**	(12)	(16)
Curtailment Gain(1)	**-**	(351)	-	**-**	-	-
Recognized Actuarial Loss (Gain)	**3,482**	1,496	1,340	**(52)**	(152)	(131)
Net Periodic Benefit Cost	**$ 5,326**	$ 3,604	$ 4,437	**$ 622**	$ 242	$ 266

(1) Curtailment gain resulted from the departure of senior officers from the ERP in 2010.

We anticipate that our total pension expense for the Retirement Plans will be approximately $7.5 million in 2012, as compared to $5.3 million in 2011. The increase is primarily the result of a 2012 reduction in the expected rate of return on plan assets to 7.25 percent from 8.00 percent.

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

Amounts Included in Accumulated OCI (Pre-Tax) at December 31, 2011	Qualified Retirement Plans	Nonqualified Retirement Plans	Other Postretirement Benefits	Total
Net Actuarial Loss (Gain)	$ 68,874	$ 11,689	$ (1,407)	$ 79,156
Prior Service Cost (Credit)	2,254	870	-	3,124
Amount Recognized in Accumulated OCI (1)	$ 71,128	$ 12,559	$ (1,407)	$ 82,280

(1) Amount recognized in accumulated OCI, net of tax, is $51.0 million as of December 31, 2011. Approximately $2.8 million, net of tax, will be amortized from OCI into net periodic benefit cost in 2012.

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 and expected rates of return on plan assets.

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

	2011	2010	2009
Discount Rate	**4.80 %**	5.35 %	5.70 %
Rate of Compensation Increase	**4.75**	5.00	5.00

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

	2011	2010	2009
Discount Rate	**5.35 %**	5.70 %	6.35 %
Expected Rate of Return on Plan Assets (Qualified Plans Only)	**8.00**	8.00	8.00
Rate of Compensation Increase	**5.00**	5.00	5.00

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 expected future anticipated 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.

Assumed health care cost trend rates have an effect on the amounts reported for other postretirement benefits. For measurement purposes, an 8 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2011. The rate was assumed to decrease by 0.5 percent each year through 2017 to 5.0 percent 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 $63 and total other postretirement benefit obligations by $398, as of January 1, 2011. Conversely, a 1-percentage-point decrease in the assumed health care cost trend rate would decrease total annual service and interest cost by $53 and total other postretirement benefit obligations by $349.

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, 2011, 2010 and 2009 are shown in the following table, along with the adopted range for target allocation percentages by asset class. The actual allocation percentages reflect the quoted 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 Benefit Plan Assets

	Target Allocation Range	Percentage of Plan Assets at December 31,		
		2011	2010	2009
Asset Category				
Domestic Equity	40-50 %	**46 %**	43 %	43 %
Domestic Fixed Income	35-50	**36**	37	48
International Equity	0-10	**8**	10	9
Emerging Markets Equity and Fixed Income	0-10	**4**	4	-
Real Assets	0-5	**6**	6	-
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, or that of any other System institution, is included in these investments.

The following table presents major categories of plan assets that are measured at fair value at December 31, 2011 for each of the fair value hierarchy levels as defined in Note 12.

Fair Value Measurements

December 31, 2011

	Level 1	Level 2	Total
Asset Category			
Cash	$ 486	$ -	$ 486
Domestic Equity:			
Large-cap Growth Funds (1)	39,537	29,846	69,383
Small-cap Growth Fund (1)	-	9,288	9,288
International Equity:			
International Fund (2)	13,284	-	13,284
Fixed Income:			
Total Return Fund (3)	62,388	-	62,388
Emerging Markets:			
Equity and Fixed Income Fund (4)	-	6,704	6,704
Real Assets: Gold Fund (5)	9,828	-	9,828
Total	$ 125,523	$ 45,838	$ 171,361

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

(2) Fund invests primarily in a diversified portfolio of equities of non-U.S. companies in various industries, including financial services, consumer goods, healthcare, industrial materials, technology and telecommunications.

(3) Fund invests primarily in a diversified portfolio of investment grade debt securities and cash instruments.

(4) Fund invests in equities and corporate debt securities of companies located in emerging international markets. Industries include telecommunications, information technology and financial services. Fund also invests in the sovereign debt of countries, including Brazil, Argentina, Indonesia and Mexico.

(5) Fund invests in gold bullion.

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. There were no Level 3 plan assets at December 31, 2011.

Investment strategy and objectives are described in the pension plans' formal investment policy document. The basic strategy and objectives as adopted in the investment policy are:

- Manage portfolio assets with a long-term time horizon appropriate for the participant demographics and cash flow requirements;
- Optimize long-term funding requirements by generating rates of return sufficient to fund liabilities and exceed the long-term rate of inflation; and
- Provide competitive investment returns as measured against appropriate benchmarks.

Expected Contributions

We expect to contribute approximately $21.6 million to our funded, qualified defined benefit pension plans in 2012 and a net $0.4 million, after reflecting collected retiree premiums, to our other postretirement benefit plans in 2012. Included in the $21.6 million of expected contributions is approximately $17.3 million of funding made pursuant to the terms of the merger with AgBank, which had been accrued by AgBank at December 31, 2011. We also expect to contribute approximately $4.8 million to our trust funds related to our SERP and ERP in 2012. Our actual 2012 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. These estimates reflect participants as of December 31, 2011 and do not include participants added as a result of the January 1, 2012 merger with AgBank.

Estimated Benefit Payments

Year:	Retirement Benefits	Other Postretirement Benefits
2012	$ 12,093	$ 493
2013	12,516	475
2014	13,067	485
2015	15,683	482
2016	17,323	453
2017 to 2021	85,244	2,205

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 amount 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 9 – Income Taxes

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

Year Ended December 31,	2011	2010	2009
Current:			
Federal	$ **79,914**	$ 117,056	$ 86,256
State	**14,518**	15,134	18,612
Total Current	**94,432**	132,190	104,868
Deferred:			
Federal	**90,246**	24,209	59,425
State	**11,428**	3,028	1,984
Total Deferred	**101,674**	27,237	61,409
Total	$ **196,106**	$ 159,427	$ 166,277
Comprehensive Tax Provision			
Allocable to:			
Pre-Tax Income	$ **196,106**	$ 159,427	$ 166,277
Shareholders' Equity -			
Amounts Allocated to:			
Investment Securities	**21,988**	26,451	64,759
Derivatives	**981**	(2,386)	279
Pension Liability	**(8,271)**	(3,089)	2,705
Total	$ **210,804**	$ 180,403	$ 234,020

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

December 31,	2011	2010	2009
Reserve for Credit Exposure	$ **176,334**	$ 159,930	$ 149,800
Employee Benefits	**41,436**	30,447	26,299
Loan Origination Fees	**19,851**	19,701	21,006
Unrealized Net Losses on Investment Securities and Derivatives	**-**	-	1,184
Other Deferred Tax Assets	**43,539**	51,921	35,067
Gross Deferred Tax Assets	**281,160**	261,999	233,356
Leasing	**480,418**	367,603	312,977
Unrealized Net Gains on Investment Securities and Derivatives	**45,851**	22,881	-
Other Deferred Tax Liabilities	**14,714**	14,966	15,617
Gross Deferred Tax Liabilities	**540,983**	405,450	328,594
Net Deferred Tax Liabilities	$ **(259,823)**	$ (143,451)	$ (95,238)

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. The expected future tax rates are based upon enacted tax laws.

The effective tax rates for the years ended December 31, 2011, 2010 and 2009 of 21.7 percent, 20.6 percent and 22.7 percent, respectively, were significantly less than the statutory income tax rate primarily due to the distribution or planned distribution of $340.7 million, $284.6 million and $268.9 million, respectively, of taxable income as qualified patronage distributions, which are tax deductible as permitted by Subchapter T of the Internal Revenue Code. To a lesser extent, the effective tax rate is lower than the statutory rate as certain of our business activities are tax-exempt.

Year Ended December 31,	2011	2010	2009
Federal Tax at Statutory Rate	$ **315,943**	$ 270,618	$ 256,092
State Tax, Net	**17,196**	11,120	14,145
Patronage Distributions	**(118,434)**	(99,130)	(94,777)
Tax-Exempt Activities	**(20,546)**	(21,348)	(760)
Other	**1,947**	(1,833)	(8,423)
Provision for Income Taxes	$ **196,106**	$ 159,427	$ 166,277

We will distribute 38 percent of income before income taxes to our shareholders as qualified patronage distributions related to 2011, compared to 37 percent for both 2010 and 2009.

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

Year Ended December 31, 2011		
Balance at Beginning of Year	**$**	**4,102**
Additions Based on Tax Positions Related to the Current Year		**1,102**
Additions for Tax Positions of Prior Years		**430**
Reductions for Tax Positions of Prior Years		**(29)**
Settlements		**(115)**
Lapse of Applicable Statute of Limitations		**(246)**
Balance at End of Year	**$**	**5,244**
Year Ended December 31, 2010		
Balance at Beginning of Year	$	5,761
Additions Based on Tax Positions Related to the Current Year		757
Additions for Tax Positions of Prior Years		325
Reductions for Tax Positions of Prior Years		(2,515)
Lapse of Applicable Statute of Limitations		(226)
Balance at End of Year	$	4,102
Year Ended December 31, 2009		
Balance at Beginning of Year	$	4,901
Additions Based on Tax Positions Related to the Current Year		727
Additions for Tax Positions of Prior Years		493
Reductions for Tax Positions of Prior Years		(84)
Lapse of Applicable Statute of Limitations		(276)
Balance at End of Year	$	5,761

The total amount of unrecognized tax benefits that, if recognized, would affect 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.

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, 2011, we recognized an increase of approximately $0.5 million in interest and penalties. We had approximately $2.2 million and $1.7 million of interest and penalties accrued at December 31, 2011 and 2010, respectively.

We file income tax returns in federal and various state jurisdictions. With few exceptions, the Bank is no longer subject to federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2008.

Note 10 – 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, 2011, outstanding commitments to extend credit and commercial letters of credit were $27.3 billion and $383.3 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 2, 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, 2011, the maximum potential amount of future payments that we may be required to make under our outstanding standby letters of credit was $1.3 billion, with a fair value of $9.7 million, which is included in other liabilities in the consolidated balance sheet. The current status of the payment/performance risk of the standby letters of credit guarantee is based on internal customer credit ratings that we use to manage our credit risk. These outstanding standby letters of credit have expiration dates ranging from January 2012 to February 2033.

Note 11 – 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 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, 2011, 2010 and 2009 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, 2010	**$ 28,699**	**$ 2,056**	**$ 199**	**$ 30,954**
Additions /Accretion	**6,226**	**-**	**5,271**	**11,497**
Maturities /Amortization	**(8,937)**	**(38)**	**(5,171)**	**(14,146)**
Terminations	**(2,733)**	**(19)**	**-**	**(2,752)**
December 31, 2011	**$ 23,255**	**$ 1,999**	**$ 299**	**$ 25,553**
December 31, 2009	$ 30,748	$ 1,600	$ 218	$ 32,566
Additions /Accretion	4,700	528	2,699	7,927
Maturities /Amortization	(6,489)	(72)	(2,718)	(9,279)
Terminations	(260)	-	-	(260)
December 31, 2010	$ 28,699	$ 2,056	$ 199	$ 30,954
December 31, 2008	$ 26,452	$ 1,911	$ 354	$ 28,717
Additions /Accretion	10,129	3	3,432	13,564
Maturities /Amortization	(5,434)	(314)	(3,568)	(9,316)
Terminations	(399)	-	-	(399)
December 31, 2009	$ 30,748	$ 1,600	$ 218	$ 32,566

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 income statement 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, 2011, we expect that $1.5 million of expense will be reclassified from other comprehensive income into the income statement 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 five 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 customer related 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, the counterparty owes us, thus creating a performance risk. When the fair value of the derivative contract is negative, we owe the counterparty, and therefore assume no performance risk.

To minimize the risk of credit losses, all derivative transactions are governed by master swap agreements, which 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. The master swap agreements also include bilateral collateral arrangements, requiring the Bank or its counterparties to post collateral on a daily basis with thresholds set at zero for all active dealer 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, 2011, our counterparties had posted $792.3 million in cash and $58.9 million in securities as collateral with us. The maximum amount of losses we could be exposed to in the event of nonperformance by dealer counterparties to our derivative positions, net of collateral held by us, was $18.6 million, $10.6 million and $46.8 million at December 31, 2011, 2010 and 2009, respectively.

Hedge Terminations

During 2011 and 2009, we terminated approximately $2.6 billion and $115.0 million, respectively, in notional value of interest rate swaps for asset-liability management purposes. These swaps were accounted for as fair value hedges. We received proceeds of $31.8 million in 2011 and $7.2 million in 2009 as a result of the hedge contract terminations, which are reflected under operating activities in the consolidated statements of cash flows. The previous fair value adjustments to the fixed rate debt that was hedged by these contracts will be amortized over the remaining life of the debt. There were no interest rate swap terminations in 2010 for asset-liability management purposes.

We terminated interest rate swaps with customers and offsetting dealer counterparties totaling notional value of $190.0 million, $260.0 million and $284.0 million in 2011, 2010 and 2009, 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, 2011, 2010 and 2009 is shown below.

Fair Value of Derivative Financial Instruments

As of December 31, 2011	Fair Value of Derivative Assets(1)	Fair Value of Derivative Liabilities(2)
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 884,219	$ 14
Foreign Exchange Contracts	3,980	180
Total Derivatives Designated as Hedging Instruments	$ 888,199	$ 194
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 157,052	$ 133,602
Foreign Exchange Contracts	3,378	3,149
Total Derivatives Not Designated as Hedging Instruments	$ 160,430	$ 136,751
Total Derivatives	$ 1,048,629	$ 136,945

(1) These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the consolidated balance sheet as of December 31, 2011

(2) These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the consolidated balance sheet as of December 31, 2011

Fair Value of Derivative Financial Instruments

As of December 31, 2010	Fair Value of Derivative Assets(1)	Fair Value of Derivative Liabilities(2)
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 917,346	$ 19,017
Foreign Exchange Contracts	566	1,838
Total Derivatives Designated as Hedging Instruments	$ 917,912	$ 20,855
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 80,433	$ 68,913
Foreign Exchange Contracts	3,020	2,812
Total Derivatives Not Designated as Hedging Instruments	$ 83,453	$ 71,725
Total Derivatives	$ 1,001,365	$ 92,580

(1) These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the consolidated balance sheet as of December 31, 2010

(2) These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the consolidated balance sheet as of December 31, 2010

Fair Value of Derivative Financial Instruments

As of December 31, 2009	Fair Value of Derivative Assets(1)	Fair Value of Derivative Liabilities(2)
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 902,717	$ 55,364
Foreign Exchange Contracts	2,229	108
Total Derivatives Designated as Hedging Instruments	$ 904,946	$ 55,472
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 78,303	$ 67,319
Foreign Exchange Contracts	825	588
Total Derivatives Not Designated as Hedging Instruments	$ 79,128	$ 67,907
Total Derivatives	$ 984,074	$ 123,379

(1) These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the consolidated balance sheet as of December 31, 2009

(2) These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the consolidated balance sheet as of December 31, 2009

A summary of the impact of derivative financial instruments on our consolidated income statements for the years ended December 31, 2011, 2010 and 2009 is shown below.

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,	2011	2010	2009
Interest Rate Contracts	$ 394	$ 2,151	$ 8,347
Total	$ 394	$ 2,151	$ 8,347

(1) Located in Interest Expense in the consolidated income statements for the years ended December 31, 2011, 2010 and 2009

Derivative Financial Instruments in Cash Flow Hedging Relationships

Year Ended December 31, 2011	Amount of Gain or (Loss) Recognized in OCI on Derivative[1]	Amount of Gain or (Loss) Reclassified from OCI to Income on Derivative[1]	Amount of Gain or (Loss) Recognized in Income on Derivative[2]
Interest Rate Contracts	$ (3,640)	$ (2,401) [3]	$ -
Foreign Exchange Contracts	(5,072)	(4,311) [4] [5]	(2,178) [4]
Total	**$ (8,712)**	**$ (6,712)**	**$ (2,178)**

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment

[3] Located in Interest Expense in the consolidated income statement for the year ended December 31, 2011

[4] Located in Interest Income – Loans in the consolidated income statement for the year ended December 31, 2011

[5] Fully offset by a $4,311 gain on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the consolidated income statement for the year ended December 31, 2011

Derivative Financial Instruments in Cash Flow Hedging Relationships

Year Ended December 31, 2010	Amount of Gain or (Loss) Recognized in OCI on Derivative[1]	Amount of Gain or (Loss) Reclassified from OCI to Income on Derivative[1]	Amount of Gain or (Loss) Recognized in Income on Derivative[2]
Interest Rate Contracts	$ (7,171)	$ (1,311) [3]	$ -
Foreign Exchange Contracts	(3,393)	(2,974) [4] [5]	(459) [4]
Total	$ (10,564)	$ (4,285)	$ (459)

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment

[3] Located in Interest Expense in the consolidated income statement for the year ended December 31, 2010

[4] Located in Interest Income – Loans in the consolidated income statement for the year ended December 31, 2010

[5] Fully offset by an $2,974 gain on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the consolidated income statement for the year ended December 31, 2010

Derivative Financial Instruments in Cash Flow Hedging Relationships

Year Ended December 31, 2009	Amount of Gain or (Loss) Recognized in OCI on Derivative[1]	Amount of Gain or (Loss) Reclassified from OCI to Income on Derivative[1]	Amount of Gain or (Loss) Recognized in Income on Derivative[2]
Interest Rate Contracts	$ 1,680	$ (698) [3]	$ -
Foreign Exchange Contracts	6,384	8,028 [4] [5]	(800) [4]
Total	$ 8,064	$ 7,330	$ (800)

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment

[3] Located in Interest Expense in the consolidated income statement for the year ended December 31, 2009

[4] Located in Interest Income – Loans in the consolidated income statement for the year ended December 31, 2009

[5] Fully offset by an $8,028 loss on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the consolidated income statement for the year ended December 31, 2009

Derivative Financial Instruments not Designated as Hedging Relationships

	Net Amount of Gain or (Loss) Recognized in Income On Derivative[1]		
Year Ended December 31,	**2011**	**2010**	**2009**
Interest Rate Contracts	**$ 11,930**	$ 537	$ 1,997
Foreign Exchange Contracts	**20**	(29)	(33)
Total	**$ 11,950**	$ 508	$ 1,964

[1] Located in Other Noninterest Income / Expense in the consolidated income statements for the years ended December 31, 2011, 2010 and 2009

Note 12 – Disclosure About Estimated Fair Value of Financial Instruments

The fair values of financial instruments 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. The Financial Accounting Standards Board (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 reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. 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, 2011 consist of assets held in a trust fund related to deferred compensation and our SERP 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, 2011 include our derivative contracts, collateral balances related to derivative contracts and investment securities, excluding asset-backed securities.

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 values are determined through 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 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 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 estimated fair values of investment securities also appear in Note 4.

Level 3

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at December 31, 2011 include our asset-backed investment securities which are not issued or guaranteed by the U.S. government or its agencies. Based on the lack of active trading volume and an orderly market for asset-backed securities, we classified this portfolio as Level 3. Market values for such asset-backed securities are calculated by a third-party pricing service. Inputs into these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. We compare these third-party pricing service valuations to internally calculated valuations to substantiate the results.

Level 3 assets at December 31, 2011 also include $38.6 million of loans originally measured at cost, which were written down to fair value as a result of impairment, and $0.5 million of other property owned. 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 following tables because they are not measured on a recurring basis.

Our Level 3 liabilities at December 31, 2011 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.

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, 2011, 2010 and 2009 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

December 31, 2011

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	$ -	$ 1,363	$ -	$ 1,363
U.S. Agency Debt	-	2,275	-	2,275
U.S. Agency		-		
Mortgage-Backed	-	9,061	-	9,061
Non-Agency				
Mortgage-Backed	-	242	-	242
Asset-Backed	-	-	54	54
Interest Rate Swaps and				
Other Financial Instruments	-	1,049	-	1,049
Assets Held in Trust				
(included in Other Assets)	36	-	-	36
Collateral Assets (included				
in Other Assets)	-	15	-	15
Total Assets	$ 36	$ 14,005	$ 54	$ 14,095
Liabilities				
Interest Rate Swaps and				
Other Financial Instruments	$ -	$ 137	$ -	$ 137
Collateral Liabilities				
(included in Bonds and Notes)	-	792	-	792
Standby Letters of Credit				
(included in Other Liabilities)	-	-	10	10
Total Liabilities	$ -	$ 929	$ 10	$ 939

Assets and Liabilities Measured at Fair Value on a Recurring Basis

December 31, 2010

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	$ -	$ 854	$ -	$ 854
U.S. Agency Debt	-	2,504	-	2,504
U.S. Agency				
Mortgage-Backed	-	8,739	-	8,739
Non-Agency				
Mortgage-Backed	-	402	-	402
Asset-Backed	-	-	118	118
Interest Rate Swaps and				
Other Financial Instruments	-	1,001	-	1,001
Assets Held in Trust				
(included in Other Assets)	34	-	-	34
Collateral Assets (included				
in Other Assets)	-	7	-	7
Total Assets	$ 34	$ 13,507	$ 118	$ 13,659
Liabilities				
Interest Rate Swaps and				
Other Financial Instruments	$ -	$ 93	$ -	$ 93
Collateral Liabilities				
(included in Bonds and Notes)	-	891	-	891
Standby Letters of Credit				
(included in Other Liabilities)	-	-	11	11
Total Liabilities	$ -	$ 984	$ 11	$ 995

Assets and Liabilities Measured at Fair Value on a Recurring Basis

December 31, 2009

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	$ -	$ 847	$ -	$ 847
U.S. Agency Debt	-	2,474	-	2,474
U.S. Agency Mortgage-Backed	-	7,740	-	7,740
Non-Agency Mortgage-Backed	-	574	-	574
Asset-Backed	-	-	173	173
Federal Funds Sold, Securities Purchased Under Resale Agreements and Other	-	5	-	5
Interest Rate Swaps and Other Financial Instruments	-	984	-	984
Assets Held in Trust (included in Other Assets)	32	-	-	32
Total Assets	$ 32	$ 12,624	$ 173	$ 12,829
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 123	$ -	$ 123
Collateral Liabilities (included in Bonds and Notes)	-	914	-	914
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	$ -	$ 1,037	$ 10	$ 1,047

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)	Asset-Backed Investment Securities	Standby Letters of Credit
Balance at December 31, 2010	$ 118	$ 11
Total Gains or Losses (Realized/Unrealized):		
Included in Other Noninterest Expense	**(5)**	**-**
Included in Other Comprehensive Income	**1**	**-**
Purchases	**-**	**-**
Sales	**(41)**	**-**
Issuances	**-**	**7**
Settlements	**(19)**	**(8)**
Balance at December 31, 2011	**$ 54**	**$ 10**
Balance at December 31, 2009	$ 173	$ 10
Total Gains or Losses (Realized/Unrealized):		
Included in Other Noninterest Expense	(35)	-
Included in Other Comprehensive Loss	27	-
Purchases	-	-
Sales	-	-
Issuances	-	5
Settlements	(47)	(4)
Balance at December 31, 2010	$ 118	$ 11
Balance at December 31, 2008	$ 316	$ 7
Total Gains or Losses (Realized/Unrealized):		
Included in Other Noninterest Expense	(11)	-
Included in Other Comprehensive Loss	(30)	-
Purchases	-	-
Sales	-	-
Issuances	-	7
Settlements	(92)	(4)
Transfers into Level 2	(10)	-
Balance at December 31, 2009	$ 173	$ 10

Estimated Fair Value of 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, 2011, 2010 and 2009.

Estimated Fair Value of Financial Instruments

December 31,	2011		2010		2009	
($ in Millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:						
Net Loans	**$ 45,897**	**$ 47,647**	$ 49,592	$ 50,613	$ 43,805	$ 44,337
Financial Liabilities:						
Bonds and Notes	**$ 56,104**	**$ 57,678**	$ 59,324	$ 60,094	$ 51,911	$ 52,493
Subordinated Debt	**1,000**	**955**	1,000	953	1,000	877
Off-Balance Sheet Financial Instruments:						
Commitments to Extend Credit	**$ -**	**$ (102)**	$ -	$ (80)	$ -	$ (72)

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 regularly traded in the secondary market and those that are traded may not have readily available quoted market prices. To the extent that quoted market prices are not readily available, the fair value of these instruments is estimated by discounting expected future cash flows based on the quoted market price of similar maturity U.S. Treasury notes, assuming a constant estimated yield spread relationship between Systemwide Debt Securities and comparable U.S. Treasury notes.

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.

Note 13 – 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, 2011, there was $3.6 million outstanding on this loan, which is less than 10 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 $257.2 million at December 31, 2011. During 2011, $3.0 billion of advances on loans were made and repayments totaled $3.3 billion. None of these loans outstanding at December 31, 2011 were delinquent, in nonaccrual or accruing restructured status or, in the opinion of management, involved more than a normal risk of collectibility.

Note 14 – 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. Financial results presented for the prior periods have been reclassified to conform to our current year presentation.

We do not hold significant assets in any foreign country. Substantially all of our agricultural export finance loans are U.S. dollar-denominated and the majority of these loans are guaranteed by a U.S. government-sponsored loan guarantee program. For the year ended December 31, 2011, no customer made up 10 percent or more of our gross or net interest income. For each of the two years ended December 31, 2010 and 2009, interest earned from an affiliated Association, Northwest, represented 10 percent of our gross interest income and less than 10 percent of our net interest income. No other customer made up 10 percent or more of our gross or net interest income for 2010 and 2009.

Segment Financial Information

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
2011 Results of Operations ($ in Thousands):						
Net Interest Income	**$ 681,370**	**$ 95,232**	**$ 300,911**	**$ 1,077,513**	**$ (6,486)**	**$ 1,071,027**
Provision for Loan Losses	**37,000**	**-**	**21,000**	**58,000**	**-**	**58,000**
Noninterest Income	**77,178**	**752**	**42,109**	**120,039**	**(2,103)**	**117,936**
Operating Expenses	**145,752**	**15,178**	**67,174**	**228,104**	**166**	**228,270**
Provision for Income Taxes	**137,714**	**-**	**60,428**	**198,142**	**(2,036)**	**196,106**
Net Income	**$ 438,082**	**$ 80,806**	**$ 194,418**	**$ 713,306**	**$ (6,719)**	**$ 706,587**
Selected Financial Information at December 31, 2011 ($ in Millions):						
Loans	**$ 18,869**	**$ 15,236**	**$ 12,180**	**$ 46,285**	**$ -**	**$ 46,285**
Less: Allowance for Loan Losses	**(269)**	**-**	**(119)**	**(388)**	**-**	**(388)**
Net Loans	**$ 18,600**	**$ 15,236**	**$ 12,061**	**$ 45,897**	**$ -**	**$ 45,897**
Total Assets	**$ 18,690**	**$ 15,281**	**$ 12,121**	**$ 46,092**	**$ 17,198 ***	**$ 63,290**
*Other assets are comprised of:						
Investment Securities						**$ 12,995**
Other Assets						**4,203**
2010 Results of Operations ($ in Thousands):						
Net Interest Income	$ 547,102	$ 93,071	$ 315,645	$ 955,818	$ (4,973)	$ 950,845
Provision for Loan Losses	7,167	-	52,833	60,000	-	60,000
Noninterest Income	57,336	801	41,816	99,953	(1,394)	98,559
Operating Expenses	117,798	13,426	81,877	213,101	3,109	216,210
Provision for Income Taxes	114,226	-	47,155	161,381	(1,954)	159,427
Net Income	$ 365,247	$ 80,446	$ 175,596	$ 621,289	$ (7,522)	$ 613,767
Selected Financial Information at December 31, 2010 ($ in Millions):						
Loans	$ 22,676	$ 15,392	$ 11,924	$ 49,992	$ -	$ 49,992
Less: Allowance for Loan Losses	(284)	-	(116)	(400)	-	(400)
Net Loans	$ 22,392	$ 15,392	$ 11,808	$ 49,592	$ -	$ 49,592
Total Assets	$ 22,513	$ 15,439	$ 11,869	$ 49,821	$ 16,005 *	$ 65,826
*Other assets are comprised of:						
Investment Securities						$ 12,617
Other Assets						3,388
2009 Results of Operations ($ in Thousands):						
Net Interest Income	$ 518,376	$ 113,548	$ 317,064	$ 948,988	$ (3,025)	$ 945,963
Provision for Loan Losses	39,000	-	41,000	80,000	-	80,000
Noninterest Income	61,301	972	25,065	87,338	(2,377)	84,961
Operating Expenses	135,346	17,556	65,777	218,679	552	219,231
Provision for Income Taxes	116,798	-	50,875	167,673	(1,396)	166,277
Net Income	$ 288,533	$ 96,964	$ 184,477	$ 569,974	$ (4,558)	$ 565,416
Selected Financial Information at December 31, 2009 ($ in Millions):						
Loans	$ 17,469	$ 15,271	$ 11,434	$ 44,174	$ -	$ 44,174
Less: Allowance for Loan Losses	(265)	-	(105)	(370)	-	(370)
Net Loans	$ 17,204	$ 15,271	$ 11,329	$ 43,804	$ -	$ 43,804
Total Assets	$ 17,287	$ 15,316	$ 11,383	$ 43,986	$ 14,175 *	$ 58,161
*Other assets are comprised of:						
Investment Securities						$ 11,808
Other Assets						2,367

Note 15 – Commitments and Contingent Liabilities

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 matters where a loss is not probable or the amount of the loss is not estimable, we do not record 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, 2011 and the liabilities arising from our legal proceedings will not have a material adverse effect on our 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 our financial position, results of operations or cash flows.

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 134.

We have various commitments outstanding and contingent liabilities as discussed elsewhere in these notes to consolidated financial statements. Under the Farm Credit Act of 1971, as amended, CoBank is primarily liable for its portion of Systemwide Debt Securities. Additionally, we are contingently liable for the Systemwide Debt Securities of the other System banks. Total Systemwide Debt Securities of the System were $184.8 billion at December 31, 2011.

There are several mechanisms in place affecting exposure to statutory joint and several liabilities. These mechanisms include:

- The statutory requirement for System banks 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;
- The Insurance Fund, a statutorily created fund to assist in 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. At December 31, 2011, the assets of the Insurance Fund aggregated $3.4 billion; and
- Maintenance of certain financial criteria by agreements which, if not met, could limit or ultimately deny a troubled System bank's access to and participation in System debt issuances.

Note 16 – Quarterly Financial Information

Unaudited quarterly results of operations for the years ended December 31, 2011, 2010 and 2009, are shown in the table below.

Quarterly Financial Information (Unaudited)

2011	First	Second	Third	Fourth	Total
Net Interest Income	**$ 301,204**	**$ 276,537**	**$ 251,995**	**$ 241,291**	**$ 1,071,027**
Provision for Loan Losses	**12,500**	**25,000**	**12,500**	**8,000**	**58,000**
Noninterest Income and Expenses, Net	**19,694**	**25,519**	**27,872**	**37,249**	**110,334**
Provision for Income Taxes	**56,949**	**45,290**	**41,706**	**52,161**	**196,106**
Net Income	**$ 212,061**	**$ 180,728**	**$ 169,917**	**$ 143,881**	**$ 706,587**
2010	**First**	**Second**	**Third**	**Fourth**	**Total**
Net Interest Income	$ 230,720	$ 217,903	$ 226,276	$ 275,946	$ 950,845
Provision for Loan Losses	12,500	4,000	21,000	22,500	60,000
Noninterest Income and Expenses, Net	8,018	26,688	39,979	42,966	117,651
Provision for Income Taxes	41,543	36,843	33,339	47,702	159,427
Net Income	$ 168,659	$ 150,372	$ 131,958	$ 162,778	$ 613,767
2009	**First**	**Second**	**Third**	**Fourth**	**Total**
Net Interest Income	$ 253,258	$ 239,679	$ 223,108	$ 229,918	$ 945,963
Provision for Loan Losses	20,000	10,000	25,000	25,000	80,000
Noninterest Income and Expenses, Net	28,237	32,299	45,631	28,103	134,270
Provision for Income Taxes	45,164	41,243	35,704	44,166	166,277
Net Income	$ 159,857	$ 156,137	$ 116,773	$ 132,649	$ 565,416

Note 17 – Affiliated Associations

We are chartered by the FCA to serve the Associations that provide credit and financially related services to or for the benefit of eligible borrowers/shareholders for qualified purposes primarily doing business in the New England states, New York, New Jersey, Alaska, Idaho, Montana, Oregon and Washington. The Associations are statutorily precluded by the Farm Credit Act from participating in the issuance of Systemwide Debt Securities. Therefore, we are the primary funding source for our affiliated Associations. The Associations primarily originate and service short- and intermediate-term loans for agricultural purposes and secured long-term real estate mortgage loans. The Associations may also purchase eligible loan participations from System entities and other lending institutions. Additionally, the Associations serve as an intermediary in offering credit life insurance and multi-peril crop insurance and providing additional financial services to borrowers.

The Farm Credit Act and FCA regulations require us to exercise limited supervision over the operating activities of our affiliated Associations. These Associations and CoBank operate under a debtor-creditor relationship evidenced by a General Financing Agreement (GFA) entered into separately with each Association. The GFA sets forth the business relationship between us and each Association and also references certain requirements contained in the Farm Credit Act and FCA regulations. The Associations' 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.

The FCA's capital adequacy regulations require all System institutions to individually maintain permanent capital of 7 percent of average risk-adjusted assets. At December 31, 2011, the permanent capital ratios of our affiliated Associations exceeded these standards.

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 loans outstanding to our affiliated Associations amounted to $11.2 billion at December 31, 2011. During 2011, $42.7 billion of advances on loans were made to our affiliated Associations and repayments totaled $42.9 billion.

We have only limited access to Association capital. Our bylaws permit our Board of Directors to set the target equity level for Association investment in the Bank within a range of 4 to 6 percent of the one-year historical average of Association borrowings. In 2011, the required investment level was 4 percent. There are no capital sharing agreements between us and our affiliated Associations.

Note 18 – Subsequent Events *(Unaudited)*

We have evaluated subsequent events through March 1, 2012, which is the date the financial statements were issued.

Merger with AgBank

In December 2010, the Boards of Directors of CoBank and AgBank unanimously approved a Letter of Intent to pursue a merger. In March 2011, following unanimous votes by the Boards, a merger application was submitted to the FCA, and in June 2011, the FCA granted preliminary approval of the merger, subject to certain conditions. CoBank and AgBank stockholders approved the merger transaction in September 2011. The FCA issued its final approval of the merger in December 2011, and the merger became effective January 1, 2012. The merged bank operates under the CoBank name and is headquartered outside Denver, Colorado. Robert B. Engel is the president and chief executive officer of the merged bank.

As a result of the merger with AgBank, on January 1, 2012 the number of our affiliated Associations increased by 25 and now includes Associations headquartered in Arizona, California, Colorado, Connecticut, Hawaii, Idaho, Kansas, Maine, New Mexico, Oklahoma, Utah, Vermont and Washington. We believe the merger will create a stronger bank, both financially and operationally, with an enhanced ability to fulfill our mission.

On January 1, 2012, in connection with the merger, each share of outstanding common stock of AgBank ($5 par value, 177,162,554 shares outstanding) was converted into one-twentieth of a share of common stock of CoBank ($100 par value, 8,858,128 shares outstanding). In addition, AgBank's $225.0 million (par value) of preferred stock was converted into $225.0 million (par value) of a new series of CoBank preferred stock with substantially the same terms and conditions.

The fair values of the identifiable assets acquired and liabilities assumed were substantially equal to the fair value of the equity interests converted in the merger. As a result, no goodwill was recorded. The fair value of the assets acquired totaled $25.6 billion, including $20.2 billion of loans and $4.8 billion of investment securities. The fair value of the liabilities assumed totaled $24.6 billion, including $24.3 billion of bonds and notes. These fair values, along with other information, are preliminary. Fair values related to business combinations are subject to refinement for up to one year following the close of the merger as additional information relative to closing date fair values becomes available.

The merger was accounted for under the acquisition method of accounting. Under this method of accounting, CoBank is treated as acquiring the assets and assuming the liabilities of AgBank at their acquisition-date fair values. The accompanying unaudited pro forma condensed combined balance sheet reflects the estimated fair value of the assets and liabilities of AgBank as of December 31, 2011.

The unaudited pro forma condensed combined balance sheet as of December 31, 2011 combines the December 31, 2011 consolidated balance sheets of CoBank and AgBank (together, the Banks) and gives effect to the merger as if it had been completed on such date. The unaudited pro forma condensed combined statement of income for the year ended December 31, 2011 combines the consolidated statements of income of CoBank and AgBank for their respective years ended December 31, 2011 and gives effect to the merger as if it had been completed as of the beginning of 2011.

The unaudited pro forma condensed combined financial information was prepared in accordance with FCA requirements, and all merger adjustments included are in conformity with accounting principles generally accepted in the United States of America. They are presented for illustrative purposes only and are not necessarily indicative of the financial condition or results of operations of future periods or the financial condition or results of operations that actually would have been realized had the entities been a single company during the periods presented.

($ in Millions)

Pro Forma Balance Sheet		
As of December 31, 2011		
Assets		
Total Loans	$	66,486
Less: Allowance for Loan Losses		388
Net Loans		66,098
Investment Securities		17,827
All Other		4,990
Total Assets	$	88,915
Liabilities		
Bonds and Notes	$	80,428
Subordinated Debt		1,000
All Other		1,575
Total Liabilities		83,003
Total Shareholders' Equity		5,912
Total Liabilities and Shareholders' Equity	$	88,915

Pro Forma Statement of Income		
Year Ended December 31, 2011		
Net Interest Income	$	1,266
Provision for Loan Losses		57
Noninterest Income and Expenses, Net		133
Provision for Income Taxes		200
Net Income	$	876

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Our affiliated Associations operate independently and maintain an arms-length relationship with us, except to the limited 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 audited consolidated financial statements. However, because of the interdependent manner in which CoBank and its affiliated Associations operate, we believe that presenting combined Bank and Association financial information is meaningful for purposes of additional analysis.

The Combining Balance Sheets and Income Statements, ratios and other financial information on pages 108 to 110, present condensed combined financial information of CoBank and its affiliated Associations, which are collectively referred to as the District. As part of the combining process, all significant transactions between CoBank and the Associations, including loans made by the Bank to the affiliated Associations and the interest income/interest expense related thereto, and investments of the Associations in the Bank and the earnings related thereto, have been eliminated.

District Financial Condition and Results of Operations

Total District period-end assets decreased by 3 percent in 2011, compared to an increase of 13 percent in 2010, largely due to a decline in period-end loan volume at the Bank. Period-end assets for the Associations grew 1 percent in 2011 compared to 2 percent in 2010. The modest rate of growth at the Associations reflected weak loan demand at the producer level of the U.S. farm economy in part due to the strong liquidity positions of many farmers and ranchers.

At the end of 2011, combined District shareholders' equity was $6.8 billion and capital levels at all District entities were well in excess of minimum regulatory capital requirements.

District net income increased to $923 million in 2011 from $818 million for 2010. The combined net income of the Associations increased 7 percent to $281 million in 2011. This increase was primarily the result of an improvement in net interest income and a lower combined provision for loan losses, offset in part by lower noninterest income and higher operating expenses.

District net interest income increased by $142 million in 2011. Net interest income for the Associations increased by $22 million in 2011, due to higher average loan volume and improved lending spreads.

The District's provision for loan losses decreased to $122 million in 2011 from $146 million in 2010. The Associations' provision for loan losses decreased to $64 million for 2011 compared to $86 million in 2010. Notwithstanding the lower level of provisions in 2011, ongoing credit challenges in the dairy, timber and nursery industries could lead to a decline in the credit quality of the Associations' retail loan portfolios and an increase in their provision for loan losses.

District noninterest income totaled $165 million in 2011, and remained relatively unchanged from 2010. Noninterest income at the Associations decreased by $15 million as the 2010 period included refunds of a portion of Farm Credit Insurance Fund premiums paid in prior years.

District operating expenses increased to $413 million, or 5 percent, in 2011 from $393 million for 2010. Operating expenses at the Associations increased by $8 million, primarily due to increases in employee compensation expenses and Insurance Fund premiums.

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

Combining Balance Sheets (Condensed)

($ in Millions) (Unaudited)

As of December 31, 2011		CoBank		Combined Affiliated Associations		Eliminations		Combined District
Investment Securities	$	12,995	$	-	$	-	$	12,995
Loans		46,285		13,243		(11,192)		48,336
Less: Allowance for Loan Losses		(388)		(201)		-		(589)
Net Loans		45,897		13,042		(11,192)		47,747
Other Assets		4,398		824		(587)		4,635
Total Assets	$	63,290	$	13,866	$	(11,779)	$	65,377
Bonds and Notes	$	57,104	$	11,289	$	(11,225)	$	57,168
Reserve for Unfunded Commitments		154		13		-		167
Other Liabilities		1,136		183		(68)		1,251
Total Liabilities		58,394		11,485		(11,293)		58,586
Total Shareholders' Equity		4,896		2,381		(486)		6,791
Total Liabilities and Shareholders' Equity	$	63,290	$	13,866	$	(11,779)	$	65,377

As of December 31, 2010		CoBank		Combined Affiliated Associations		Eliminations		Combined District
Investment Securities	$	12,617	$	-	$	-	$	12,617
Loans		49,992		13,149		(11,327)		51,814
Less: Allowance for Loan Losses		(400)		(176)		-		(576)
Net Loans		49,592		12,973		(11,327)		51,238
Other Assets		3,617		810		(582)		3,845
Total Assets	$	65,826	$	13,783	$	(11,909)	$	67,700
Bonds and Notes	$	60,324	$	11,403	$	(11,364)	$	60,363
Reserve for Unfunded Commitments		100		7		-		107
Other Liabilities		996		148		(68)		1,076
Total Liabilities		61,420		11,558		(11,432)		61,546
Total Shareholders' Equity		4,406		2,225		(477)		6,154
Total Liabilities and Shareholders' Equity	$	65,826	$	13,783	$	(11,909)	$	67,700

As of December 31, 2009		CoBank		Combined Affiliated Associations		Eliminations		Combined District
Investment Securities	$	11,808	$	-	$	-	$	11,813
Loans		44,174		12,805		(11,196)		45,783
Less: Allowance for Loan Losses		(370)		(151)		-		(521)
Net Loans		43,804		12,654		(11,196)		45,262
Other Assets		2,549		819		(595)		2,768
Total Assets	$	58,161	$	13,473	$	(11,791)	$	59,843
Bonds and Notes	$	52,911	$	11,277	$	(11,239)	$	52,949
Reserve for Unfunded Commitments		128		7		-		135
Other Liabilities		1,064		140		(80)		1,124
Total Liabilities		54,103		11,424		(11,319)		54,208
Total Shareholders' Equity		4,058		2,049		(472)		5,635
Total Liabilities and Shareholders' Equity	$	58,161	$	13,473	$	(11,791)	$	59,843

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Combining Income Statements (Condensed)

($ in Millions) (Unaudited)

	CoBank	Combined Affiliated Associations	Eliminations	Combined District
2011				
Net Interest Income	$ **1,071**	$ **425**	$ **-**	$ **1,496**
Provision for Loan Losses	**58**	**64**	**-**	**122**
Noninterest Income	**118**	**112**	**(65)**	**165**
Operating Expenses	**228**	**185**	**-**	**413**
Provision for Income Taxes	**196**	**7**	**-**	**203**
Net Income	$ **707**	$ **281**	$ **(65)**	$ **923**
2010				
Net Interest Income	$ 951	$ 403	$ -	$ 1,354
Provision for Loan Losses	60	86	-	146
Noninterest Income	98	127	(59)	166
Operating Expenses	216	177	-	393
Provision for Income Taxes	159	4	-	163
Net Income	$ 614	$ 263	$ (59)	$ 818
2009				
Net Interest Income	$ 946	$ 378	$ -	$ 1,324
Provision for Loan Losses	80	103	-	183
Noninterest Income	85	113	(63)	135
Operating Expenses	220	188	(1)	407
Provision for Income Taxes	166	(1)	-	165
Net Income	$ 565	$ 201	$ (62)	$ 704

Key Financial Ratios

(Unaudited)

	2011	2010	2009
Return on Average Assets	**1.35** %	1.33 %	1.12 %
Return on Average Capital	**14.06**	13.68	12.98
Net Interest Margin	**2.29**	2.30	2.26
Net Charge-offs as a Percent of Average Loans	**(0.09)**	(0.24)	(0.23)
Reserve for Credit Exposure as a Percent of Loans	**1.56**	1.32	1.43
Capital as a Percent of Total Assets	**10.39**	9.09	9.42
Risk Funds as a Percent of Loans	**15.61**	13.19	13.74
Debt to Capital (:1)	**8.63**	10.00	9.62
Operating Expenses as a Percent of Net Interest Income and Noninterest Income	**24.81** %	25.53 %	27.83 %

Loan Quality Ratios

(Unaudited)

	2011	2010	2009
Acceptable	**93.82** %	91.48 %	92.29 %
Special Mention	**3.23**	5.13	3.71
Substandard	**2.81**	3.24	3.77
Doubtful	**0.14**	0.15	0.23
Loss	**-**	-	-
Total	**100.00** %	100.00 %	100.00 %

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

Portfolio Diversification

(Unaudited)

Distribution by Primary Business / Commodity	2011	2010	2009
Farm Supply and Grain Marketing	**18 %**	24 %	16 %
Electric Distribution	**11**	10	9
Fruits, Nuts and Vegetables	**9**	8	9
Other Farm Credit Entities	**8**	8	9
International Lending	**8**	8	9
Dairy	**8**	7	8
Livestock, Fish and Poultry	**6**	5	6
Forest Products	**5**	4	5
Generation and Transmission	**5**	5	6
Local Telephone Exchange Carriers	**3**	3	4
Leasing	**4**	3	4
Farm Related Business Services	**3**	3	3
Other	**12**	12	12
Total	**100 %**	100 %	100 %

(Unaudited)

Geographic Distribution	2011	2010	2009
Texas	**10 %**	10 %	11 %
Washington	**7**	6	6
California	**6**	6	7
New York	**6**	6	7
Oregon	**5**	5	5
Idaho	**4**	4	5
Iowa	**4**	6	4
Illinois	**3**	4	2
Minnesota	**3**	4	3
Kansas	**2**	3	2
Montana	**2**	2	2
Nebraska	**2**	3	2
New Jersey	**2**	2	2
Ohio	**2**	2	2
Other (less than 2 percent each for the current year)	**34**	29	31
Total States	**92 %**	92 %	91 %
Latin America	**3**	3	3
Europe, Mideast and Africa	**3**	3	3
Other International	**2**	2	3
Total International	**8 %**	8 %	9 %
Total	**100 %**	100 %	100 %

Report of Management

CoBank, ACB

March 1, 2012

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 2011, 2010 and 2009 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, 2011, 2010 and 2009. CoBank is also examined by the Farm Credit Administration.

The president and 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 president and 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 Dobrinski Chairman of the Board	Robert B. Engel President and Chief Executive Officer	David P. Burlage Chief Financial Officer

Report of Independent Auditors
CoBank, ACB

To the Board of Directors and Shareholders of CoBank, ACB:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders' equity and of cash flows appearing on pages 64 through 68 of the CoBank 2011 Annual Report to Shareholders present fairly, in all material respects, the financial position of CoBank, ACB and its subsidiaries (CoBank) at December 31, 2011, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, CoBank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CoBank's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing on page 114 of the CoBank 2011 Annual Report to Shareholders. Our responsibility is to express opinions on these consolidated financial statements and on CoBank's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with generally accepted auditing standards established by the Auditing Standards Board (United States) and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included 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 our audits provide a reasonable basis for our opinions.

Report of Independent Auditors
CoBank, ACB

A company's internal control over financial reporting is a process designed 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. 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 directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection 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 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.

Denver, Colorado
March 1, 2012

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 president and 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 2011 fiscal year, management conducted an assessment of the effectiveness of the Bank's internal control over financial reporting based on the framework established in Internal Control – Integrated Framework 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, 2011.

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, 2011 has been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report appearing on pages 112 and 113, which expresses an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting as of December 31, 2011. 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 2011) 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 principal executive officer and our principal financial officer, as appropriate, to allow timely decisions to be made regarding disclosure. The president and 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 Section 319, means a process - effected by the board of directors, management and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in reliability of financial reporting, the effectiveness and efficiency of operations and of 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, 2011, 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 17 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 2 Note 3 Note 4 Note 5 Note 7 Note 13 Note 14 Note 15 Note 16 Note 17 Note 18
	Management's Discussion and Analysis	Pages 31 to 63
Description of Property		
Location of Property CoBank leases its national office building which is located in Greenwood Village, Colorado. 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; St. Louis, MO; and Wichita, KS. CoBank leases office space in Washington D.C. and Singapore. 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; Omaha, NE; Sacramento, CA; St. Louis, MO; Statesville, NC; Stockton, CA; 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 15
Description of Capital Structure	Notes to Financial Statements......................	Note 7
Description of Liabilities		
Debt Outstanding	Notes to Financial Statements......................	Notes 5 and 6
Contingent Liabilities	Notes to Financial Statements......................	Note 15
Selected Financial Data for the Five Years Ended December 31, 2011	Five-Year Summary of Selected Consolidated Financial Data	Page 33
Management's Discussion and Analysis of Financial Condition and Results of Operations	Management's Discussion and Analysis	Pages 31 to 63
Directors and Senior Officers		
Directors' Information	Board of Directors Disclosure	Pages 118 to 125, 139
Senior Officers' Information	Senior Officers	Pages 126 to 138
Transactions with Directors and Senior Officers	Notes to Financial Statements......................	Note 13

Annual Report to Shareholders Disclosure Information Required by Farm Credit Administration Regulations
CoBank, ACB

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.

	Section	Location
Financial Statements Financial Statements and Footnotes	Financial Information..................................	Pages 64 to 106
Report of Management	Report of Management	Page 111
Report of Independent Auditors	Report of Independent Auditors	Pages 112 to 113
Aggregate Fees Incurred for Services Rendered by Independent Auditors	Board of Directors Disclosure	Page 120
Credit and Services to Young, Beginning and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products	Young, Beginning and Small Farmers.........	Page 141

Board of Directors Disclosure as of December 31, 2011
CoBank, ACB

Directors

CoBank's bylaws authorize a Board of Directors consisting of 15 to 17 members. As of December 31, 2011, the Board consisted of 16 directors, as follows: (i) four directors elected from each of our three regions (east, central and west); (ii) two Board-selected outside directors (independent of any customer or Farm Credit System affiliation); and (iii) two Board-appointed (customer affiliation permitted) director positions. 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.

During 2012 and as a result of the merger with U.S. AgBank, FCB, CoBank will be governed initially by a 32-member board of directors, the majority of which were elected by our customers. On January 1, 2013, the board will transition to an ongoing board of directors consisting of 24 directors elected from six different geographic regions. The board will also elect 2-5 outside and appointed directors to complement the expertise of the customer-elected board members resulting in a board of 26-29 members.

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 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 20 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, 2011, 15 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 Board 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 2011, the Board of Directors held six regular meetings and standing committees of the Board of Directors held a total of 32 meetings. The primary responsibilities of each committee are described on the following pages.

Committee Responsibilities

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 2011, the Audit Committee met during four of the regular meetings of the Board of Directors, 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 Chairman of the Audit Committee. The Board of Directors has determined that Mr. Sabloff has the qualifications and experience necessary to serve as an "audit committee financial expert," as defined by the rules of the Securities and Exchange Commission, 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 outside 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 chairman 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 chairman or any subcommittee to grant preapprovals is 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, 2011, 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 2011 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, 2011 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, 2011 and 2010 were as follows:

Year Ended December 31,	2011	2010
Audit	**$ 563,497**	$ 547,084
Audit-related	**73,000**	15,000
All Other	**1,500**	1,500
Total	**$ 637,997**	$ 563,584

Audit fees were for the annual audit of the consolidated financial statements.

Audit-related fees were for assurance and related services primarily in connection with the merger with AgBank.

All other fees were for accounting research software costs.

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 President and Chief Executive Officer. The committee also reviews the results of the Bank's affirmative action program and encourages programs to support diversity and inclusion.

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 the Nominating Committee (see page 121), 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, interest rate, 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 2011 consisted of eight 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. This committee was 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 industry and geographic 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 cannot be associated with a party to an adversely classified CoBank or Farm Credit System loan unless he or she resigns or disaffiliates from such loan party by the date the term of office is to begin. 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.

Special Review Committee

The Special Review Committee (SRC) was appointed in January 2010 by the chairman of the Board, in consultation with the Board officers, to provide independent oversight and review of an internal investigation being conducted by the Bank in connection with a business dispute. The SRC was also responsible for the Bank's responses to the regulatory requirements related to the dispute. The SRC consisted of three members of the Board, including the chairmen of the Audit and Risk Committees. The SRC completed its work in June 2011.

Board of Directors Disclosure as of December 31, 2011
CoBank, ACB

The following represents certain information regarding the directors as of December 31, 2011, including business experience during the past five years. The terms of directors were scheduled to expire as of December 31 of the years indicated.

1 - Audit Committee
2 - Compensation Committee
3 - Executive Committee
4 - Governance Committee
5 - Risk Committee
6 - Audit Committee Chair
7 - Compensation Committee Chair
8 - Executive Committee Chair
9 - Governance Committee Chair
10 - Risk Committee Chair
11 - Special Review Committee

Name	Term Expires	Principal Occupation and Other Affiliations
Gene J. Batali [4, 5] Age: 70 Year Service Began: 2007 Also Served: 2003-2005	2013	**Principal Occupation:** Retired President: Batali Ranch, Inc., Yakima, WA.
Everett Dobrinski [2, 3, 7, 8] Chairman Age: 65 Year Service Began: 1999	2015	**Principal Occupation:** Owner/Operator: Dobrinski Farm, a cereal grain and oilseed farm, Makoti, ND. **Other Affiliations:** Board Chairman: Verendrye Electric Cooperative, an electric distribution cooperative, Velva, ND; Director: North Dakota Coordinating Council for Cooperatives, a trade association, Jamestown, ND; Director: The Farm Credit Council, a trade organization, Washington, DC; Advisory Board: Quentin Burdick Center for Cooperatives at North Dakota State University, an advisory board to promote education and research on cooperatives, Fargo, ND.
William M. Farrow III [4, 5, 11] Age: 56 Year Service Began: 2007	2014	**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; Former Chief Executive Officer and Managing Partner: F.C. Partners Group, LLC, business advisor, Chicago, IL; Former Executive Vice President and Chief Information Officer: Chicago Board of Trade, Chicago, IL.
Mary E. Fritz [2, 3] Second Vice Chairman Age: 62 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:** Vice Chair: The Farm Credit Council, a trade organization, Washington, DC.

Board of Directors Disclosure as of December 31, 2011
CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
William H. Harris [2, 3, 4] Age: 62 Year Service Began: 2001	2015	**Principal Occupation:** Owner/Operator: Harris Farms, a cash crop farming operation, LeRoy, NY; Partner: HR&W Harvesting, a processing vegetable farm, 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, 3] First Vice Chairman Age: 63 Year Service Began: 2004	2013	**Principal Occupation:** Owner/Operator: Kelley Farms, a diversified corn and soybean operation, Normal, IL. **Other Affiliations:** Chairman and President: GROWMARK, Inc., farm supply and grain marketing, Bloomington, IL; Chairman: Illinois Agricultural Leadership Foundation, agricultural leadership development, Macomb, IL; Director: Evergreen FS, Inc., a farm supply and grain marketing operation, Bloomington, IL; Director: Nationwide Mutual Insurance Company, an insurance company, Columbus, OH; Director: Nationwide Bank, a federal savings bank, Columbus, OH; Director: Midwest Grain, LLC, grain merchandising, Bloomington, IL.
James A. Kinsey [2, 3] Age: 62 Year Service Began: 2001	2012	**Principal Occupation:** Owner/Operator: Kinsey's Oak Front Farms, a purebred angus seed-stock producer, Flemington, WV. **Other Affiliations:** Director: Farm Credit of the Virginias, ACA, agriculture finance, Staunton, VA; Director: Federal Farm Credit Banks Funding Corporation, Jersey City, NJ.
David J. Kragnes [1, 4] Age: 59 Year Service Began: 2009	2012	**Principal Occupation:** Owner/Operator of a wheat, sugar beet, soybean and corn farm in Felton, MN.
J. Scott Markham [1] Age: 61 Year Service Began: 2010	2013	**Principal Occupation:** Owner/Operator: Markham Farms, Inc., a dairy, diversified corn, dairy heifer and beef operation, Constableville, NY.
Gary A. Miller [1] Age: 51 Year Service Began: 2006	2013	**Principal Occupation:** President and Chief Executive Officer: GreyStone Power Corporation, an electric membership corporation, Douglasville, GA. **Other Affiliations:** Director: Wellstar Health System, health care, 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: 36 Year Service Began: 2010	2014	**Principal Occupation:** CEO and General Manager: Pioneer Communications, a rural telephone and communications company, Ulysses, KS (as of January 1, 2012). Former Director of Legal and Regulatory Affairs: Pioneer Communications, a rural telephone and communications company, Ulysses, KS. **Other Affiliations:** Director: Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), a trade organization, Washington, D.C.; Director: Leadership Kansas, leadership program for Kansas civic and business leaders, Topeka, KS; Advisory Committee Member: Kan-ed, an educational interactive network, Topeka, KS. Commissioner: Kansas Lottery Commission, Topeka, KS.

Board of Directors Disclosure as of December 31, 2011
CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
Robert D. Nattier [2, 3, 4, 9] Age: 68 Year Service Began: 2003	2012	**Principal Occupation:** Co-Operator: 4-N, Inc., a grain and livestock operation, Newton, KS; Owner: Foxridge Golf Club, Newton, KS. **Other Affiliations:** Director: North Newton Housing Authority, HUD development, North Newton, KS; Director: Wheatland Homes, HUD development, Newton, KS.
David L. Reinders [5] Age: 55 Year Service Began: 2011	2014	**Principal Occupation:** Chief Executive Officer: Sunray Coop, a diversified farmer owned grain cooperative, Sunray, TX. **Other Affiliations:** Director: Texas Agricultural Cooperative Council, a statewide industry association for cooperatives, Austin, TX. Chairman: Premier Ag, a crop service and supply company, Dalhart, TX. Associate Director: Happy State Bank, a commercial bank, Amarillo, TX.
Barry M. Sabloff [1, 6, 11] Age: 65 Year Service Began: 2005	2012	**Principal Occupation:** Vice Chairman/Director: Marquette National Corporation, a bank holding company, Chicago, IL; Vice Chairman/Director: Marquette Bank, a community bank, Chicago, IL. Retired Executive Vice President, Bank One, N.A. (now merged with JP Morgan Chase & Co.) **Other Affiliations:** Director: Calypso Technology, Inc., a provider of trading systems to financial institutions, San Francisco, CA; Trustee: Columbia College Chicago, a private arts and media college, Chicago, IL; Director: The American School in London Foundation, an educational foundation, Princeton, NJ.
Richard W. Sitman [1, 4] Age: 58 Year Service Began: 1999 Also Served: 1995-1996	2014	**Principal Occupation:** 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: First Guaranty Bank, a commercial bank, Greensburg, LA; Director: The Farm Credit Council, a trade organization, Washington, DC.
Kevin A. Still [5, 10, 11] Age: 54 Year Service Began: 2002	2014	**Principal Occupation:** Chief Executive Officer and Treasurer: 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., Frontier Co-op, Inc., LaPorte County Co-op, Inc., and Excel Co-op, Inc., agricultural retail cooperatives, Avon, IN. **Other Affiliations:** President and Owner: Still Farms LLC, a grain farm, Galesburg, IL. Vice President Board of Directors: Connexities, LLC, a technology provider, Danville, IN.

Board of Directors Disclosure as of December 31, 2011
CoBank, ACB

Compensation of Directors

For 2011, directors were compensated in cash at an annual rate of $52,800, 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 2011, the Board approved additional compensation in excess of $52,800 to the Board and Audit Committee chairmen, and to other directors in recognition of greater than normal involvement in connection with special assignments, including matters related to the merger with AgBank. Additional information for each director who served during 2011 is provided below. 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 $402,028, $366,263 and $323,928 for the years ended December 31, 2011, 2010 and 2009, respectively.

Name of Director	Number of Days Served at Board Meetings	Number of Days Served in Other Official CoBank Activities	Total Compensation Paid During 2011
Gene J. Batali	18	42	$ 60,400
Everett Dobrinski*	18	80	68,640
William M. Farrow III	18	30	64,500
Mary E. Fritz*	18	44	65,000
William H. Harris	18	37	59,700
Daniel T. Kelley	18	36	62,000
James A. Kinsey*	14	19	54,900
David J. Kragnes	18	39	60,400
J. Scott Markham	17	32	59,200
Gary A. Miller	17	21	57,700
Catherine Moyer	18	30	59,200
Robert D. Nattier	18	55	67,800
David L. Reinders	18	42	60,700
Barry M. Sabloff	18	32	68,640
Richard W. Sitman*	17	47	64,600
Kevin A. Still	18	25	62,400
Total	281	611	$ 995,780

* In 2011, 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.

Senior Officers

CoBank, ACB

Robert B. Engel,
President and Chief Executive Officer

Mr. Engel was appointed president and chief executive officer effective July 1, 2006. Mr. Engel is responsible for implementing the Bank's strategic and business direction as set by the Board of Directors. He serves as chairman of the Board of Directors of Farm Credit Leasing Services Corporation (FCL). Mr. Engel also serves as the vice chairman of the Board of Directors of the Federal Farm Credit Banks Funding Corporation. 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 and credit positions. Mr. Engel has 27 years of banking experience, and eight years of accounting experience with KPMG and Deloitte & Touche. He serves on the Boards of Trustees of Regis University, New Ventures in Higher Education, Inc., the Graduate Institute of Cooperative Leadership, Buffalo Sabres Alumni Association, and as trustee emeritus at Niagara University. He also serves as vice chairman of the National Council of Farmer Cooperatives.

Mary E. McBride,
Chief Banking Officer

Ms. McBride was appointed chief banking officer effective September 7, 2010. Ms. McBride manages all of CoBank's banking groups that are included in the Agribusiness, Strategic Relationships and Rural Infrastructure operating segments. Prior to her current position, Ms. McBride was CoBank's chief operating officer. Previous to that, she was 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 Directors of Farm Credit Financial Partners, Inc. Ms. McBride is a member of the USDA and DOE Biomass Research and Development Technical Advisory Committee. She also serves on the Board of Directors for the Denver Metropolitan Affiliate of Susan G. Komen for the Cure.

Ann E. Trakimas,
Chief Operating Officer

Ms. Trakimas was appointed chief operating officer effective January 3, 2011. Ms. Trakimas oversees the Finance, Business Support Services, Legal, Human Resources, Regulatory, Legislative and Compliance areas. Before joining CoBank, Ms. Trakimas served as a director on the board of the Federal Farm Credit Banks Funding Corporation for five years. She also served as chairman of the Funding Corporation's Audit Committee and as a member of the Systemwide Audit Committee. Prior to that, she worked for Goldman Sachs, where she held numerous executive positions including head of the firm's Financial Institutions Credit Risk Management and Advisory team. Ms. Trakimas has more than 30 years of experience in the financial services industry.

Douglas E. Wilhelm,
Chief Risk Officer

Mr. Wilhelm was appointed chief risk officer effective August 9, 2010. Mr. Wilhelm oversees all key risk areas of the business, including credit risk, operational risk, asset/liability and market risk, and reputation risk. Prior to his current position, Mr. Wilhelm was chief credit and risk officer from July 2006 to August 2010. Mr. Wilhelm has managed several areas within CoBank, including risk management, financial planning and credit support functions. From 1972 to 1988, he held various financial and accounting management functions for several other Farm Credit entities. He serves on the Board of Directors of Food Bank of the Rockies.

David P. Burlage,
Chief Financial Officer

Mr. Burlage 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. Before joining CoBank in 2002, Mr. Burlage was the chief financial officer at Interlink Group, Inc., an IT professional services company. Earlier, Mr. Burlage was with Titanium Metals Corporation and Arthur Andersen & Co. Mr. Burlage has over 26 years of financial experience. He serves on the Board of Governors of the Farm Credit System Association Captive Insurance Company. He is a CPA and member of the American Institute of Certified Public Accountants.

Senior Officers (Continued)
CoBank, ACB

Lori L. O'Flaherty,
Chief Credit Officer

Ms. O'Flaherty was appointed chief credit officer effective August 9, 2010. Ms. O'Flaherty is responsible for credit approval functions, as well as credit support and analysis, credit guidelines and training, loan compliance and monitoring and special assets. Prior to her current position, Ms. O'Flaherty was executive vice president of credit approval and administration, and, prior to that, she managed CoBank's Corporate Finance Division. Before joining CoBank in 1997, Ms. O'Flaherty was vice president of Wells Fargo/First Interstate Bank, N.A. Ms. O'Flaherty has 30 years of experience in commercial banking. She serves as treasurer on the Board of Directors of Big Brothers Big Sisters of Colorado, Inc.

John Svisco,
Chief Administrative Officer

Mr. Svisco was appointed chief administrative officer effective September 7, 2010. Mr. Svisco is responsible for directing the Bank's information technology, operations, and corporate communications areas. Prior to his current position, Mr. Svisco was senior vice president of human resources and administrative services divisions. Mr. Svisco joined CoBank in August 2002 and managed lease and loan operations during his first seven years at the Bank. Prior to joining CoBank, Mr. Svisco spent 20 years with HSBC Bank USA, where his last position was senior vice president of operations services. He serves on the Board of Directors of AgVantis, Inc.

Gregory J. Buehne,
General Counsel

Mr. Buehne was appointed general counsel effective June 16, 2011. Mr. Buehne is responsible for providing legal counsel to all areas of the Bank's business operations. Prior to joining CoBank, Mr. Buehne served as senior vice president for legal and legislative services at U.S. AgBank, with responsibility for the bank's legal, government affairs and strategic planning functions. With more than 27 years of experience in the Farm Credit System, Mr. Buehne has served in executive legal roles at AgAmerica, FCB, Western Farm Credit Bank and the Farm Credit Bank of Spokane. He serves on the Board of Governors of the Farm Credit System Association Captive Insurance Company.

Senior Officers Compensation Discussion and Analysis
CoBank, ACB

Overview

This section describes the compensation program for CoBank's President and Chief Executive Officer (President and CEO) and other senior officers, as defined by FCA regulations (collectively, senior officers), and presents the compensation earned by our President and CEO, as well as aggregate compensation earned by our other senior officers, for the years ended December 31, 2011, 2010 and 2009. We did not make any changes to the design of our compensation programs in 2011, which we believe were structured to be aligned with our shareholders' long-term interests and best practices in governance of executive compensation. For 2012, CoBank is changing the mix of fixed and variable compensation, including a reduction in the maximum opportunity award payable under the short-term incentive plan. CoBank has monitored trends in compensation and is making these changes to ensure CoBank incentive programs have the appropriate balance of risk management and performance orientation while providing competitive total compensation.

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.

As described in the 'Overview' section of Management's Discussion and Analysis on page 32 of this Annual Report, in 2011 CoBank reported record financial performance. As a result of our performance, our short-term incentive plan for 2011 was funded between the target and maximum award levels. In addition, based on strong performance in the 2009 to 2011 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 associates 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; and
- Be integrated with the Bank's business processes, including business planning, performance management and succession planning.

The total compensation philosophy seeks to achieve the appropriate balance among market-based salaries, variable incentive compensation and benefits designed to incent and reward both the current and long-term achievement of our strategic business objectives and business and financial plans. It also seeks to incent prudent risk taking within Board-established parameters with the proper balance and accountabilities between short- and long-term business performance. 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 on the basis of results achieved and 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 President and CEO semi-annually, and the Board of Directors annually approves the compensation level of the President and CEO, including salary and short- and long-term incentive compensation. The President and CEO is responsible for setting the compensation levels of the senior officers directly reporting to him, with the Committee reviewing the compensation of the most senior of those officers who, in turn, are responsible for the compensation of all other employees.

The Committee generally makes a final decision regarding the President and CEO's salary and incentive compensation in its February meeting to fully take into consideration the prior year's Bank and individual performance. Decisions may also occur at other meetings in the year, as considered appropriate. The Committee utilizes an independent executive compensation consultant, Pay Governance LLC (Consultant), to annually compare the President and CEO's compensation level to a select peer group of financial institutions. This evaluation helps ensure that such compensation 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. Substantially all work performed by the Consultant in 2011 was completed under the direction of the Committee. Certain limited work was performed by the Consultant on behalf of the Bank with the prior approval of 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 managers 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 on page 134.

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	
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	• Multiple corporate financial and non-financial goals • Minimum performance for each goal required • Minimum return on active patron stock investment of 11% required in year of payout • Individual and corporate performance weighted equally
Long-Term Incentive Plan	• Provides opportunity for wealth accumulation tied to CoBank's sustained performance • Reinforces accountability and balance for the annual outcomes embodied in the short-term incentive plan • Balances short-term results and long-term value creation • 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	• Multiple corporate financial and non-financial goals • 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

Overview of Senior Officers' Compensation (continued)		
Component	**CoBank Philosophy**	**Design Characteristics**
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

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 budget

Salaries represent a foundational component of CoBank's total compensation program as the amounts of other components are 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 generally adjusted annually within the parameters established in the Board-approved business and financial plan.

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 associates are eligible to participate
- For 2011, CoBank performed at or above maximum award levels on four corporate performance goals and between the target and maximum award level on the other corporate performance goal

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 President and 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, 2011, 2010 and 2009.

The actual short-term incentive award is determined as follows:

Salary × Annual Short-Term Incentive Target × Corporate Performance Factor × Individual Performance Factor

Based on corporate and individual performance factors, participants can earn from zero to 400 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.

- *Annual Short-Term Incentive Target* — Annual short-term incentive targets are set for all employees at the beginning of the year. For the 2011 performance period, the target short-term incentive level for the President and CEO was 65 percent of salary. For the other senior officers, the targets ranged from 35 to 55 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 President and 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 strategic business objectives, as determined 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 a maximum of 200 percent, depending on performance against the targets. The 2011 Short-Term Corporate Scorecard is as follows:

2011 Short-Term Corporate Scorecard

Performance Measure	Weight
Net Income	30 %
Return on Common Equity	20 %
Strategic Business Objectives	20 %
Loan Quality (Adverse Loans to Risk Funds)	20 %
Operating Expense Ratio	10 %

- *Individual Performance Factor* — At the beginning of each year, all CoBank employees, including the President and 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 President and 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 President and 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 200 percent.

The actual short-term incentive awards for 2011, 2010 and 2009 for the President and CEO and other senior officers are presented in the Summary Compensation Table on page 137.

Long-Term Incentives

Overview
Long-Term Incentive Plan (LTIP) o Awards based upon corporate performance for overlapping three-year periods o Corporate financial performance measures are balanced: profitability, loan quality and capital adequacy o Board of Directors also provides subjective evaluation related to the achievement of corporate strategic business objectives o For the 2009 to 2011 performance period, CoBank performed at or above maximum award levels on two corporate performance goals and between target and maximum award levels on three corporate performance goals

CoBank utilizes a long-term incentive compensation plan that provides senior officers and specified other senior managers with the opportunity for wealth accumulation 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 are directly impacted by the longer-term outcomes of actions and risks taken during each annual employment 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 2009 through 2011, 2010 through 2012, and 2011 through 2013 performance periods.

The actual long-term incentive award is determined as follows:

Salary × Long-Term Incentive Target × Corporate Performance Factor

Based on the corporate performance factor, participants can earn from zero to 200 percent of their individual long-term incentive target. 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.

- *Long-Term Incentive Target* — For the 2009 through 2011 performance period, the long-term incentive target for the President and CEO was 125 percent of salary. For the remaining senior officers, the targets ranged from 40 to 80 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 strategic business objectives, as determined 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 200 percent, depending on performance against the targets. The Long-Term Corporate Scorecards for the three-year performance periods 2009 through 2011, 2010 through 2012 and 2011 through 2013 are as follows:

Long-Term Corporate Scorecards:
2009 – 2011, 2010 – 2012 and 2011 – 2013 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 2011, 2010 and 2009 for the President and CEO and other senior officers are presented in the Summary Compensation Table on page 137.

Terms of Senior Officers' Employment Agreements

As of December 31, 2011, two of our senior officers, including the President and CEO, 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 the event of termination 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 two to three times the sum of 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) the continued participation in the Bank's health and welfare benefits over a two or three year period, and (e) certain other benefits over a two or three 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. To receive payments and other benefits under the 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. 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.

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 a noncontributory, unfunded, nonqualified supplemental executive retirement plan (SERP) covering all but two senior officers employed at December 31, 2011, 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 two senior officers employed pursuant to employment agreements, including the President and CEO. 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 these other postretirement health care benefits.

Defined Benefit Pension Plans

Senior officers hired prior to January 1, 2007 are participants in the defined benefit pension plan. Pursuant to this plan, the benefits, including those of the President and CEO, are determined based on years of service and final average pay. Eligible compensation, 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, but 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 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 payments are based on participant elections. The plan requires five years of service to become vested. All senior officers participating in the defined benefit pension plan have been employed for more than five years and, as such, are fully vested in the plan. 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 a SERP that pays 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 President and CEO and one of the other senior officers subject to their respective employment agreements. The President and CEO's agreement provides for a minimum retirement benefit of 41 percent of eligible compensation as of December 31, 2011, increasing to a maximum of 55 percent of eligible compensation as of December 31, 2015, with no reduction for early retirement. 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 $850,000, 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 exceed this maximum, no benefits are payable from the ERP. In the event of the death of the President and CEO during the term of his employment with the Bank, the plan provides a death benefit to a surviving spouse equal to the minimum retirement benefit described above. The benefits provided to the other senior officer under the ERP are the same as those provided to the President and 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) plan are limited due to federal tax laws. Contributions are made at the same percentages as available under the 401(k) plan. The compensation that is deferred is invested in any number of investment alternatives selected by the participants. These alternatives are either identical or substantially similar to those available to all participants in the Bank's 401(k) 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.

Risk Review

The Committee considers potential risks when reviewing and approving compensation programs. The Board of Directors approves the total compensation program 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 total compensation program, 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 use both bankwide metrics and individual performance, which encourage focus on the achievement of objectives for the overall benefit of the Bank, in addition to a Board-determined evaluation of our 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 a three-year performance and vesting period 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 prior to the beginning of the performance period

- *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.

- *Approval of Plan Funding* – The Committee 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.

- *Shareholder Return* – A minimum return on active patron stock investment must be achieved for incentive compensation payments to be approved.

Additionally, in 2011, the Committee completed an assessment of compensation-related risks for all of our employees. Based on this assessment, the Committee concluded that our compensation programs do not create risks that are reasonably likely to have a material adverse effect. In making this evaluation, the 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 means by which any potential risks may be mitigated, such as through our internal controls and oversight by management and the Board of Directors. In addition, in 2011, management completed an analysis of incentive programs and reviewed the design of these incentives both internally and with the Consultant to conclude that such incentive programs do not encourage excessive risk-taking.

The President and CEO has elected to receive retirement benefits payable pursuant to 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.

Summary Compensation Table

Compensation earned by our chief executive officer and aggregate compensation of other senior officers for the years ended December 31, 2011, 2010 and 2009 is disclosed in the accompanying table. Disclosure of the total compensation paid during 2011 to any designated senior officer is available to shareholders upon request. 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 upon request.

Summary Compensation Table [1] ($ in Thousands)

			Annual					
Name of Individual or Number in Group[2]	Year	Salary	Short-Term Incentive Compensation[3,4]	Long-Term Incentive Compensation[3]	Change in Pension Value	Deferred/ Perquisites[5]	Other[6]	Total
President & CEO:								
Robert B. Engel	2011	$ 662	$ 1,676	$ 1,301	$ 1,636	$ 113	$ -	$ 5,388
Robert B. Engel	2010	596	1,148	1,409	1,008	93	-	4,254
Robert B. Engel	2009	575	982	1,188	1,432	124	-	4,301
Aggregate Number of Senior Officers (excluding the CEO):								
7	2011	$ 2,078	$ 3,208	$ 1,428	$ 2,212	$ 407	$ -	$ 9,333
8	2010	2,271	1,934	1,587	1,473	276	1,417	8,958
9	2009	2,342	2,326	2,388	1,320	444	2,630	11,450

[1] Compensation amounts do not include earnings on nonqualified deferred compensation, as such earnings are not considered above-market or preferential.

[2] The senior officers included in the summary compensation disclosure are those officers defined by FCA regulation §619.9310.

[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] As reported in our 2010 annual report, short-term incentive payments in 2009 were reduced to reflect the costs related to the settlement of a business dispute in early 2010. Individual performance factors were also reduced for certain senior officers, including the President and CEO, in 2009 and 2010.

[5] Represents company contributions to a 401(k) retirement savings plan and nonqualified deferred compensation plan, as well as payment of tax return preparation and financial planning expenses, relocation, certain travel-related expenses, wellness benefits and associated income tax impact.

[6] For 2010, represents amounts paid or payable to two senior officers (who left the Bank in 2010) for employment transition and separation pay, salary continuance and certain other benefits. For 2009, includes $2,270 payable to a senior officer (who left the Bank in 2009) for salary continuance, incentive compensation and certain other benefits, all pursuant to the terms of an employment agreement, and $360 for a one-time sign-on payment to a senior officer for accepting employment with the Bank in that period.

Pension Benefits

The table below shows the present value of accumulated benefits payable to the President and CEO by plan, including the number of years of credited service.

Pension Benefits Table ($ in Thousands)

Plan Name	Number of Years of Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During Last Fiscal Year
CoBank, ACB Retirement Plan	11.58	$ 347	$ -
Supplemental Executive Retirement Plan	11.58	2,233	-
Executive Retirement Plan	11.58	5,644	-
Total		$ 8,224	$ -

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) establishes the total compensation philosophy at the Bank utilizing an independent, Committee-appointed, executive compensation consultant, which includes establishing compensation policies, 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 President and Chief Executive Officer and the compensation structure for other Bank associates. The Committee reviews and recommends for full Board approval all aspects of compensation (base salary, short- and long-term incentives, benefits, and perquisites) for the President and Chief Executive Officer, consistent with the business and financial objectives of the Bank, the results achieved by the executive, and competitive compensation practices. 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, 2011.

Members of the 2011 Compensation Committee:

Everett Dobrinski, Chair
Mary E. Fritz
William H. Harris
Daniel T. Kelley
James A. Kinsey
Robert D. Nattier

March 1, 2012

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 president and chief executive officer, 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, 2011:				
Young	9,120	16.10 %	$ 1,971,302	8.34 %
Beginning	13,516	23.86	2,773,586	11.74
Small	15,961	28.17	1,877,090	7.94
Gross New Loans and Commitments Made During 2011:				
Young	2,569	13.76 %	$ 503,414	6.95 %
Beginning	3,846	20.60	665,974	9.20
Small	3,981	21.32	285,514	3.94

Small Farmers and Ranchers

Number / Volume of Loans Outstanding by Loan Size at December 31, 2011

Number / Volume	$0 – $50,000	$50,001 – $100,000	$100,001 – $250,000	$250,001 and greater
Total Number of Loans to Small Farmers and Ranchers	7,340	3,369	3,533	1,719
Total Loan Volume to Small Farmers and Ranchers ($ in Thousands)	$ 153,965	$ 248,369	$ 559,399	$ 915,357

Key definitions are as follows:

Young Farmer and 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 and Rancher – A farmer, rancher or producer or harvester of aquatic products who has 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 and Rancher – A farmer, rancher or producer or harvester of aquatic products who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products 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 within the legal constraints of CoBank lending authorities.

CERTIFICATION

I, Robert B. Engel, President and 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 subsidiary, 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.

/s/ ROBERT B. ENGEL

Robert B. Engel
President and Chief Executive Officer

Dated: March 1, 2012

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 subsidiary, 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.

/s/ DAVID P. BURLAGE

David P. Burlage
Chief Financial Officer

Dated: March 1, 2012

Leadership
CoBank, ACB

Robert B. Engel, President and Chief Executive Officer

Mary E. McBride, Chief Banking Officer
Agribusiness
Amy H. Gales, Regional Agribusiness Banking Group*
Robert E. Egerton, Agribusiness Division – East
Michael W. Hechtner, Agribusiness Division – Central
Mark C. Nonnenmacher, Agribusiness Division – West
Lynn M. Scherler, Agribusiness Division – South
Jonathan B. Logan, Corporate Agribusiness Banking Group
Leili Ghazi, Agricultural Export Finance Division

Rural Infrastructure
Paul A. Narduzzo, Rural Infrastructure Banking Group
Brett A. Challenger, Energy and Water Services Banking Division
Candace A. Roper, Electric Distribution Banking Division
Todd E. Telesz, Power Supply Banking Division
Robert F. West, Communications Banking Division

Banking Services
Antony M. Bahr, Banking Services Group
Brian J. Klatt, Capital Markets Division
Russell D. Nelson, Farm Credit Leasing Services Corporation**
Leonard G. Sahling, Knowledge Exchange Division
Richard A. Scholz, Non-Credit Services Division

Ann E. Trakimas, Chief Operating Officer
Finance
David P. Burlage, Chief Financial Officer
Timothy D. Steidle, Treasury Division
Michael R. Vestal, Controller Division

Business Support Services
John Svisco, Chief Administrative Officer
James R. Bernsten, Chief Information Officer
Arthur C. Hodges, Jr., Corporate Communications Division
Stephen B. Secor, Operations Division
Todd E. Wilson, Enterprise Solutions and Services Division

Regulatory, Legislative and Compliance
Andrew D. Jacob, Regulatory, Legislative and Compliance
L. Todd VanHoose, Government Affairs

Legal
Gregory J. Buehne, General Counsel
Andrew J. Romanow, Deputy General Counsel

Human Resources
Robert L. O'Toole, Senior Vice President

Douglas E. Wilhelm, Chief Risk Officer
Rodney A. Brown, Asset Review Division
Gary M. Fitzgerald, Internal Audit Division
Katia V. Hoffer, Enterprise Risk Management

Lori L. O'Flaherty, Chief Credit Officer
Daniel L. Key, Credit Approval Division
Ronald P. Seigley, Special Assets Division

* The Strategic Relationships operating segment is included in the Regional Agribusiness Banking Group.
** Farm Credit Leasing Services Corporation is included in our Agribusiness 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 2012 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 10, 2012, August 9, 2012, November 9, 2012, and March 1, 2013 (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

CALIFORNIA FARM CREDIT LEASING OFFICE *
2345 East Earhart Avenue
Stockton, CA 95206
(209) 944-7478

ENFIELD BANKING CENTER **
240B South Road
Enfield, CT 06082-4451
(860) 814-4043
(800) 876-3227
FCL: (860) 814-4049

FARGO BANKING CENTER
Goldmark Office Park
1711 Gold Drive South, Suite 230
Fargo, ND 58103
(701) 277-5007
(866) 280-2892

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

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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 230
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 Singapore Representative Office
10 Hoe Chiang Road
#05-01 Keppel Towers
Singapore 089315
(65) 6534-5261

COOPERATIVE. CONNECTED. COMMITTED.

5500 SOUTH QUEBEC STREET, GREENWOOD VILLAGE, CO 80111 | 800-542-8072