



## 2014 Quarterly Report JUNE 30, 2014

Dear CoBank Customer-Owner:

We're pleased to report that CoBank recorded another period of strong financial performance in the second quarter of 2014. Demand for loans strengthened modestly across a number of the industries we serve; profitability increased; and credit quality in our loan portfolio remained very strong. While we continue to face a number of market challenges, we believe the bank remains well-positioned to meet the financial needs of its customers and fulfill its mission in rural America.

Average loan volume for the quarter rose 7 percent to \$76.9 billion, compared to \$71.6 billion in the same quarter last year. For the first six months of 2014, average loan volume rose 6 percent to \$76.7 billion. The increases resulted from higher levels of borrowing in a number of customer segments, including food and agribusiness companies, affiliated Farm Credit associations and rural power providers.

Net interest income for the quarter rose 5 percent to \$311.4 million, compared to \$296.7 million in the same period last year. For the first six months of 2014, net interest income increased 4 percent to \$620.3 million. The increases were driven primarily by higher loan volume as well as improved earnings from our balance sheet positioning.

Net income for the quarter increased 10 percent to \$232.9 million, from \$212.0 million in the second quarter of 2013. For the first six months of 2014, net income also increased 10 percent, to \$464.2 million. The improvement in profitability resulted primarily from increased net interest income as well as a \$25.0 million loan loss reversal, compared to a \$20.0 million provision for loan losses in the first six months of last year. The reversal resulted from a lower level of reserves needed for specific loans as well as general improvement in the credit quality of the bank's loan portfolio.

Overall loan quality measures for CoBank continue to be very strong. At quarter-end, 0.63 percent of the bank's loans were classified as adverse assets, compared to 0.71 percent at December 31, 2013. Nonaccrual loans improved to \$123.2 million, compared to \$147.8 million at December 31, 2013. The bank's allowance for credit losses totaled \$588.2 million at quarter-end, or 1.63 percent of non-guaranteed loans when loans to Farm Credit associations are excluded.

CoBank's capital levels remain well in excess of regulatory minimums. As of June 30, 2014, shareholders' equity totaled \$7.0 billion, and the bank's permanent capital ratio was 15.7 percent, compared with the 7.0 percent minimum established by the Farm Credit Administration (FCA), the bank's independent regulator. At quarter-end, the bank held approximately \$24.1 billion in cash and investments and had 164 days of liquidity, which is in excess of FCA liquidity requirements.

It is gratifying to be able to report such strong results on behalf of our customer-owners, especially in the midst of an overall market environment that remains characterized by volatility and low growth. At the same time, we remain focused on a number of near-term challenges in our business, including intense competition, compressed margins and low interest rates that continue to impact returns on invested capital. Our goal, as always, is to steadily build the financial strength of the bank to enable us to meet the financial needs of our customers, today and long into the future.

We are grateful for the business of our customer-owners and ever mindful of the enormous trust they place in us. Thank you for your ongoing support and the opportunity to serve as your financial partner.

  
Everett Dobrinski  
Chairman of the Board

  
Robert B. Engel  
Chief Executive Officer

August 1, 2014

# Financial Highlights

CoBank, ACB

(\$ in Thousands)

	June 30, 2014 (Unaudited)	December 31, 2013
Total Loans	\$ 75,889,673	\$ 73,603,375
Less: Allowance for Loan Losses	446,901	447,126
Net Loans	75,442,772	73,156,249
Total Assets	100,916,670	97,644,392
Total Shareholders' Equity	6,994,373	6,704,616

## For the Six Months Ended June 30,

(Unaudited)	2014	2013
Net Interest Income	\$ 620,317	\$ 599,077
(Loan Loss Reversal)/Provision for Loan Losses	(25,000)	20,000
Net Fee Income	51,651	53,057
Net Income	464,201	420,837
Net Interest Margin	1.26 %	1.32 %
Return on Average Assets	0.93	0.91
Return on Average Common Shareholders' Equity	15.07	14.22
Return on Average Total Shareholders' Equity	13.77	13.03
Average Total Loans	\$ 76,683,928	\$ 72,483,145
Average Earning Assets	99,236,168	91,772,218
Average Total Assets	100,869,751	93,491,512

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

CoBank, ACB

## Business Overview

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CoBank, ACB (CoBank or the Bank) is one of the four banks of the Farm Credit System (System) and provides loans, leases and other financial services to vital industries across rural America. The System is a federally chartered network of borrower-owned lending institutions and related service organizations. The System was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act).

Our customers consist of agribusiness cooperatives; farmer-owned financial institutions, including Agricultural Credit Associations and Federal Land Credit Associations (together, Associations); rural energy, communications and water companies; and other businesses that serve rural America. We provide a broad range of loans and other financial services through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure.

The following discussion and analysis should be read in conjunction with the accompanying condensed consolidated quarterly financial statements and related notes and with our 2013 Annual Report to Shareholders.

## Consolidated Results of Operations

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Net income increased 10 percent to \$464.2 million for the six months ended June 30, 2014, compared to \$420.8 million during the same period in 2013. The increase in earnings primarily resulted from an increase in net interest income and a loan loss reversal in the 2014 period.

Net interest income increased 4 percent to \$620.3 million for the six months ended June 30, 2014, compared to \$599.1 million for the same period in 2013. The increase in net interest income was primarily driven by higher average loan volume as well as increased earnings from our balance sheet positioning. These increases were partially offset by lower spreads in our lending and investment portfolios, lower returns on invested capital and a reduction in the amount of income from net accretion of merger-related asset and liability fair value adjustments. Net accretion for the six months ended June 30, 2014 was \$27.5 million compared to \$48.7 million in the same period of 2013. These amounts resulted from the application of business combination accounting standards in connection with our 2012 merger with U.S. AgBank, FCB (AgBank).

Average loan volume was \$76.7 billion during the first six months of 2014 compared to \$72.5 billion in the same period of 2013. The 6 percent increase in average loan volume primarily resulted from growth in lending to food and agribusiness companies in our Agribusiness operating segment, Farm Credit Association customers in our Strategic Relationships operating segment and rural energy customers in our Rural Infrastructure operating segment.

Net interest margin declined to 1.26 percent for the six months ended June 30, 2014 from 1.32 percent for the same period in 2013. The reduction in our net interest margin included the impact of lower merger-related accretion, spread compression in our lending and investment portfolios, and the impact of lower interest rates on returns on invested capital. These factors were somewhat offset by increased earnings on our balance sheet positioning.

We recorded a \$25.0 million loan loss reversal in the first six months of 2014. The reversal primarily resulted from a decline in the level of specific reserves needed for certain communications and energy loans as well as general improvement in the credit quality of our loan portfolio. In the first six months of 2013 we recorded

a \$20.0 million provision for loan losses primarily related to modest deterioration in credit quality in our loan portfolio as well as specific reserves related to a small number of communications customers. Our overall credit quality is very strong, with adversely classified assets measuring 0.63 percent of total loans and related accrued interest at June 30, 2014 compared to 0.71 percent at December 31, 2013. Nonaccrual loans decreased to \$123.2 million at June 30, 2014 from \$147.8 million at December 31, 2013 primarily due to the payoff of a small number of communications loans and the sale of a rural energy loan. Loan charge-offs, net of recoveries, totaled \$1.5 million in the first six months of 2014 compared to loan recoveries, net of charge-offs, of \$9.5 million during the same period of 2013.

Noninterest income increased slightly to \$57.0 million for the six months ended June 30, 2014 from \$56.4 million for the same period in 2013. Noninterest income is primarily composed of fee income, loan prepayment income and miscellaneous gains and losses, offset by losses on early extinguishments of debt. Our net fee income decreased slightly to \$51.7 million for the six months ended June 30, 2014 compared to \$53.1 million for the same period in 2013. 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. Losses on early extinguishments of debt, net of prepayment income, increased to \$21.5 million for the first six months of 2014 compared to \$11.4 million in the first six months of 2013, as the 2014 period included a greater level of debt extinguishments incurred to better position our balance sheet and reduce future interest expense. Other noninterest income increased by \$10.2 million in the six months ended June 30, 2014, as compared to the same period in 2013, primarily due to gains resulting from the sale of certain investment securities and an increased level of patronage income received from other System institutions. During the first six months of 2014, we sold three impaired non-agency investment securities with a combined book value of \$23.1 million for gains totaling \$4.9 million. These securities had been excluded from our liquidity reserve due to credit quality deterioration and were sold due to favorable market conditions. There were no sales of investment securities during the 2013 period.

Total operating expenses for the six months ended June 30, 2014 increased to \$144.3 million from \$136.1 million for the same period in 2013. The increase was driven by an increase in Farm Credit Insurance Fund (Insurance Fund) premium expense of \$6.8 million, due to higher Insurance Fund premium rates and growth in our average loan and investment securities volume. Insurance Fund premium rates are set by the Farm Credit System Insurance Corporation (Insurance Corporation) and were 12 basis points of adjusted insured debt obligations in the 2014 period compared to 10 basis points throughout 2013. The increase in Insurance Fund premium rates resulted from growth in overall System assets in 2013 and the Insurance Corporation's projections for growth in 2014. Our employee compensation expense increased to \$73.0 million for the first six months of 2014 from \$71.1 million in the same period of 2013 driven by higher levels of incentive compensation expense. As of June 30, 2014, we had 807 employees.

Our income tax expense increased to \$93.8 million for the six months ended June 30, 2014, compared to \$78.6 million for the same prior-year period primarily due to the increase in pre-tax earnings. Our effective tax rates were 16.8 percent and 15.7 percent for the six months ended June 30, 2014 and 2013, respectively. The increase in our effective tax rate resulted primarily from increased earnings in the taxable portion of our business.

As a result of the higher level of earnings in the first six months of 2014, our annualized return on average common shareholders' equity increased to 15.07 percent for the six months ended June 30, 2014 from 14.22 percent for the same period in 2013, and our annualized return on average assets increased to 0.93 percent for the six months ended June 30, 2014, compared to 0.91 percent for the same period in 2013.

For the three months ended June 30, 2014, net income increased 10 percent to \$232.9 million from \$212.0 million for the same prior-year period. The increase is primarily due to the aforementioned \$25.0 million loan loss reversal, which we recorded in the second quarter of 2014. Additionally, net interest income increased by \$14.7 million driven by the factors noted above. These items were somewhat offset by higher losses on early extinguishments of debt, net of prepayment fees, and the increase in Insurance Fund premiums.

## Operating Segment Financial Review

We provide financial services to farmer-owned cooperatives; farmer-owned financial institutions; providers of rural energy, communications and water services; and other businesses that serve rural America. We conduct lending operations through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure.

Loans outstanding and the allowance for loan losses by operating segment at June 30, 2014 and 2013 are reported in Notes 3 and 10 to the accompanying condensed consolidated financial statements. Net interest income on investment securities, which we hold primarily as a liquidity reserve, and gains and losses on investment securities are allocated to all operating segments, whereas the underlying investment assets are not allocated to the operating segments. Net income by operating segment is summarized in the following table and is more fully detailed in Note 10 to the accompanying condensed consolidated financial statements.

Net Income by Operating Segment (\$ in Thousands)		
For the Six Months Ended June 30,	2014	2013
<b>Operating Segment:</b>		
Agribusiness	\$ 218,151	\$ 194,703
Strategic Relationships	123,270	123,722
Rural Infrastructure	126,774	104,883
Total Operating Segments	468,195	423,308
Corporate/Other	(3,994)	(2,471)
<b>Total</b>	<b>\$ 464,201</b>	<b>\$ 420,837</b>

### *Agribusiness*

The Agribusiness operating segment includes loans and other financial services provided to cooperatives and other businesses in various agricultural sectors such as grain handling and marketing, farm supply, fruits, nuts, vegetables, forest products, dairy, livestock, biofuels and food processing. Agribusiness loans outstanding totaled \$23.2 billion at June 30, 2014, compared to \$21.2 billion at December 31, 2013. The increase in loans outstanding was largely driven by increased lending to food and agribusiness companies. The Agribusiness segment also includes our Agricultural Export Finance Division, which provides trade finance to support U.S. exporters for international trade of agricultural products. As of June 30, 2014, the Agricultural Export Finance Division had \$4.7 billion in loans outstanding, 48 percent of which were guaranteed by the U.S. government. Additionally, our Agribusiness segment includes Farm Credit Leasing Services Corporation (FCL), a wholly-owned subsidiary, which provides lease products and related services to Association partners, agribusinesses, agricultural producers and rural infrastructure companies. As of June 30, 2014, FCL had \$2.4 billion in leases outstanding.

Agribusiness average loan volume increased to \$24.5 billion for the first six months of 2014 from \$22.4 billion for the same period of 2013. The increase in Agribusiness volume primarily reflects growth in lending to food and agribusiness companies as well as growth in our leasing portfolio.

Agribusiness net income increased 12 percent in the first six months of 2014 to \$218.2 million from \$194.7 million for the same period in 2013. The increase in earnings was largely due to a higher level of net interest income and a loan loss reversal in the first six months of 2014. The increase in these factors was partially offset by an increase in operating expenses.

Agribusiness net interest income increased by \$19.9 million to \$312.6 million for the six months ended June 30, 2014 due to the impact of higher average loan volume and an increase in earnings generated from our balance sheet positioning. These factors were somewhat offset by the impact of lower interest rates on returns on invested capital, a decrease in lending and investment spreads, and a lower level of accretion of merger-related fair value adjustments.

As a result of improving credit quality, Agribusiness recorded a \$10.0 million loan loss reversal during the first six months of 2014, as compared to a \$5.0 million provision for loan losses in the same prior-year period. Nonaccrual loans decreased slightly to \$51.0 million at June 30, 2014, as compared to \$53.2 million at December 31, 2013. Loan recoveries, net of charge-offs, totaled \$0.2 million for the six months ended June 30, 2014, compared to \$8.7 million for the six months ended June 30, 2013.

Agribusiness noninterest income increased to \$41.9 million for the first six months of 2014, as compared to \$39.9 million in the same period of 2013 primarily as a result of an increase in fee income, patronage received from other System institutions, and gains on the sale of investment securities. These factors were somewhat offset by the increase in losses on early extinguishments of debt, net of prepayment fees.

Agribusiness operating expenses increased to \$86.3 million for the first six months of 2014 from \$79.2 million in the same period of 2013 primarily due to the increase in Insurance Fund premiums and higher levels of incentive compensation.

### ***Strategic Relationships***

The Strategic Relationships operating segment includes loans from the direct funding relationships we have with our affiliated Association customer-owners and our funding relationships with other System institutions. Our affiliates include 27 Associations serving 23 states in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. As of June 30, 2014, the Strategic Relationships portfolio totaled \$37.5 billion, compared to \$37.9 billion at December 31, 2013. At June 30, 2014, loans outstanding included \$33.6 billion in wholesale loans to our affiliated Associations and \$3.9 billion of participations in wholesale loans made by other System banks to certain of their affiliated Associations, \$3.7 billion of which are participations in wholesale loans made by the Farm Credit Bank of Texas.

Strategic Relationships average loan volume increased 4 percent to \$37.4 billion for the six-month period ended June 30, 2014, compared to \$36.0 billion for the same prior-year period. The increase was primarily the result of growth in lending to certain affiliated Associations driven by their increased lending to agricultural producers.

Strategic Relationships net income decreased slightly to \$123.3 million for the first six months of 2014, as compared to \$123.7 million for the same prior-year period. The decrease resulted from lower net interest income largely offset by increased noninterest income.

Net interest income decreased to \$137.4 million for the first six months of 2014 from \$139.8 million for the same prior-year period due to lower levels of merger-related accretion and lower returns on invested capital. These factors were mostly offset by increased earnings from our balance sheet positioning.

Loan quality in our Strategic Relationships portfolio continues to be excellent. As a wholesale lender to Associations, we benefit from the diversification of the Association loan portfolios and a strong collateral position. In addition, the earnings, capital and loan loss reserves of the Associations provide a buffer from losses in their respective loan portfolios. Lower spreads in the Strategic Relationships operating segment are commensurate with the lower risk profile and lower regulatory capital requirements. No provision for loan losses or allowance for credit losses has been recorded related to any Association loan in our Strategic Relationships portfolio.

Strategic Relationships noninterest income increased to \$2.4 million for the first six months of 2014 from \$0.6 million for the same prior-year period due to gains on the sale of investment securities. Operating expenses were \$16.5 million for the six months ended June 30, 2014, generally consistent with the \$16.6 million recorded in the 2013 period. The impact of increased Insurance Fund premiums on investment securities was offset by lower information services and general and administrative expenses.

## ***Rural Infrastructure***

The Rural Infrastructure operating segment includes loans and other financial services provided to companies in the power and energy, communications and water and waste water industries. Customers include rural electric generation and transmission cooperatives, electric distribution cooperatives, renewable energy providers, independent power producers, investor-owned utilities, rural local exchange carriers, wireless providers, data transport networks, cable television systems, data centers, and rural water and waste water companies. Rural Infrastructure loans outstanding totaled \$15.1 billion at June 30, 2014, compared to \$14.5 billion at December 31, 2013. The increase in loans outstanding was primarily driven by growth in lending to rural energy customers.

Rural Infrastructure average loan volume increased 6 percent to \$14.8 billion for the first six months of 2014, compared to \$14.0 billion for the same prior-year period. Growth in Rural Infrastructure average loan volume resulted primarily from increased lending activity in the electric distribution and power supply industries.

Rural Infrastructure net income increased 21 percent to \$126.8 million for the first six months of 2014 from \$104.9 million for the same period in 2013. The increase in earnings primarily resulted from a loan loss reversal in 2014, as compared to a provision for loan losses in the prior-year period, and, to a lesser extent, an increase in net interest income.

Rural Infrastructure net interest income increased by \$4.1 million as a result of the increase in average loan volume and greater earnings generated from our balance sheet positioning. These factors were somewhat offset by the impact of lower interest rates on returns on invested capital and a decrease in lending and investment spreads.

Rural Infrastructure recorded a \$15.0 million loan loss reversal for the first six months of 2014, as compared to a \$15.0 million provision for loan losses for the same period in 2013. The 2014 reversal primarily resulted from a lower level of specific reserves due to improved performance and favorable resolution of a small number of communications and energy loans. The 2013 provision for loan losses was primarily due to credit concerns surrounding a small number of our communications customers at that time. Nonaccrual loans in the Rural Infrastructure segment decreased to \$72.1 million at June 30, 2014 from \$94.6 million at December 31, 2013 primarily due to the payoff of a small number of communications loans and the sale of a rural energy loan. Rural Infrastructure recorded loan charge-offs, net of recoveries, of \$1.7 million for the six months ended June 30, 2014, compared to net recoveries of \$0.8 million for the same period of 2013.

Rural Infrastructure noninterest income decreased to \$13.5 million for the first six months of 2014 from \$16.0 million for the same period in 2013 as a result of lower arrangement fees associated with new loans and increased losses on early extinguishments of debt, net of prepayment fees. These factors were partially offset by higher patronage income received from other System entities and gains on the sale of investment securities.

Rural Infrastructure operating expenses increased slightly to \$41.7 million for the first six months of 2014 compared to \$40.8 million for the same prior-year period primarily due to the increase in Insurance Fund premiums and higher levels of incentive compensation.

## Credit Quality, Liquidity, Capital Resources and Other

### Loan Quality

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						
	June 30, 2014			December 31, 2013		
	Wholesale Loans <sup>(1)</sup>	Retail Loans <sup>(2)</sup>	Total Bank	Wholesale Loans <sup>(1)</sup>	Retail Loans <sup>(2)</sup>	Total Bank
Acceptable	100.00 %	97.23 %	98.60 %	100.00 %	96.77 %	98.43 %
Special Mention	-	1.51	0.77	-	1.76	0.86
Substandard	-	1.21	0.61	-	1.36	0.66
Doubtful	-	0.05	0.02	-	0.11	0.05
Loss	-	-	-	-	-	-
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	<b>100.00 %</b>	<b>100.00 %</b>	<b>100.00 %</b>	<b>100.00 %</b>

<sup>(1)</sup> Represents loans in our Strategic Relationships operating segment

<sup>(2)</sup> Represents loans in our Agribusiness and Rural Infrastructure operating segments

Our overall loan quality measures continue to be very strong and improved slightly from the levels at year-end 2013. The total amount of adversely classified loans ('Substandard', 'Doubtful' and 'Loss' loans) and related accrued interest as a percent of total loans and related accrued interest was 0.63 percent at June 30, 2014 compared to 0.71 percent December 31, 2013. Total nonaccrual loans decreased to \$123.2 million at June 30, 2014 from \$147.8 million at year-end 2013 primarily due to the payoff of a small number of communications loans and the sale of a rural energy loan.

We recorded a \$25.0 million loan loss reversal in the first six months of 2014. The reversal primarily resulted from a decline in the level of specific reserves needed for certain communications and energy loans as well as general improvement in the credit quality of our loan portfolio. In the first six months of 2013 we recorded a \$20.0 million provision for loan losses primarily related to modest deterioration in credit quality in our loan portfolio as well as specific reserves related to a small number of communications customers. Total loan charge-offs, net of recoveries, were \$1.5 million for the first six months of 2014 compared to loan recoveries, net of charge-offs, of \$9.5 million in the 2013 period. Our total allowance for credit losses (ACL), which includes the allowance for loan losses and the reserve for unfunded commitments, was \$588.2 million at June 30, 2014 compared to \$614.7 million at December 31, 2013. Our ACL as a percent of total loans was 0.78 percent at June 30, 2014 compared to 0.84 percent at December 31, 2013. ACL as a percent of non-guaranteed loans outstanding and excluding loans to Associations was 1.63 percent at June 30, 2014 compared to 1.85 percent at December 31, 2013.

While the overall credit quality of our loan portfolio remains very strong and has been favorable in recent years, concentrations within our loan portfolio can cause the level of our loan quality, nonaccrual loans, charge-offs and provisions for loan losses or loan loss reversals to vary significantly from period to period. Agriculture is often impacted, both positively and negatively, by weather patterns, including the drought conditions currently affecting portions of the United States, domestic and global market cycles and demand for agriculture-related products. In particular, drought conditions in California are widespread and pose challenges for producers to adequately source water supplies, which will likely reduce agricultural production across the state and increase prices of the affected agricultural products. The producers' strong liquidity positions are expected to mitigate the risk of financial impairment to their operations in 2014. Additionally, long-term drought conditions could potentially compress margins in certain agricultural processing sectors due to commodity shortages.

## *Liquidity and Investments*

Our liquidity management objectives are to provide a reliable source of funding to borrowers, meet maturing debt obligations, provide additional liquidity if market conditions deteriorate and fund operations on a cost-effective basis. 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 Federal Farm Credit Banks Funding Corporation, the volatility of our loan volume may cause our liquidity needs to vary significantly from day to day.

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 eligible investments. System banks are required by regulation to maintain a minimum of 90 days of liquidity (cash and readily marketable investments generally discounted by 5 to 10 percent of market value) on a continuous basis and to establish an incremental liquidity reserve. As part of the merger with AgBank, we committed to maintain a minimum of 130 days liquidity. Additionally, if days liquidity were to fall below 150 for any five consecutive day period through December 31, 2014, the Bank must notify the FCA and submit to them a written plan to restore and maintain the 150 days level. At June 30, 2014, our liquidity was 164 days, compared to 181 days at December 31, 2013.

We hold cash and investment securities primarily to maintain a liquidity reserve and to manage short-term surplus funds. Our investment securities totaled \$23.5 billion at June 30, 2014 compared to \$21.7 billion at December 31, 2013. The most significant credit risk in our investment portfolio relates to our FHA/VA non-wrapped reperformer mortgage-backed securities (i.e., investment securities where residential mortgage loans serving as collateral were cured after a default), non-agency mortgage-backed securities (MBS) and asset-backed securities (ABS). These securities collectively total \$721.7 million (fair value) or 3 percent of our total investment securities as of June 30, 2014. Credit risk in our investment portfolio also arises from the inability of guarantors and third-party providers of other credit enhancements to meet their contractual obligations to us.

Pursuant to FCA regulations, non-agency MBS and ABS, which include our FHA/VA non-wrapped reperformer MBS, that are no longer rated triple-A by at least one major rating agency or whose market value is less than 80 percent of book value must be excluded from our liquidity reserve. As a result, as of June 30, 2014, \$691.1 million of non-agency MBS and ABS securities were not included in our liquidity reserve. Another \$378.0 million of investment securities, primarily representing Farmer Mac MBS and unsettled investment security purchases, were not included in our liquidity reserve as of June 30, 2014, pursuant to regulation.

An additional source of liquidity is cash provided by our operating activities (primarily generated from net interest income in excess of operating expenses), which totaled \$425.9 million and \$375.2 million for the first six months of 2014 and 2013, respectively. Further, the Insurance Fund would be called upon to repay maturing Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities), if no other sources existed to repay such debt.

In September 2013, the Insurance Corporation entered into an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation will use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to \$10.0 billion and terminates on September 30, 2014, unless otherwise extended. This agreement is expected to be renewed prior to its expiration. Each funding obligation of the Federal Financing Bank is subject to various terms and conditions, including collateralization, and, as a result, there can be no assurance that funding will be available when needed by the System.

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

Investment Securities (\$ in Millions)	June 30, 2014			December 31, 2013		
	Amortized Cost	Fair Value	Unrealized	Amortized Cost	Fair Value	Unrealized
			Gains (Losses)			Gains (Losses)
U.S. Treasury Debt	\$ 7,080	\$ 7,105	\$ 25	\$ 5,501	\$ 5,504	\$ 3
U.S. Agency Debt	4,987	5,030	43	4,458	4,459	1
Mortgage-Backed:						
U.S. Agency	10,286	10,300	14	10,655	10,618	(37)
Farmer Mac	167	164	(3)	182	179	(3)
FHAVA Non-Wrapped Reperformer	423	414	(9)	443	440	(3)
Non-Agency	164	185	21	201	221	20
Asset-Backed	96	122	26	127	152	25
Corporate Bonds	130	131	1	116	115	(1)
<b>Total</b>	<b>\$ 23,333</b>	<b>\$ 23,451</b>	<b>\$ 118</b>	<b>\$ 21,683</b>	<b>\$ 21,688</b>	<b>\$ 5</b>

We recorded no impairment losses on investment securities during the first six months of 2014 as compared to \$2.0 million in impairment losses related to a limited number of non-agency MBS during the first six months of 2013. Increasing levels of defaults and foreclosures on residential mortgages, a decline in home prices or weak economic conditions may result in downward adjustments to the fair value of certain investment securities and the need to record future impairment losses against earnings.

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 of \$113.1 million for the first six months of 2014, compared to unrealized losses of \$168.8 million for the same prior-year period. The unrealized gains and losses recorded in both periods primarily reflect the impact of market interest rate changes on the fair value of fixed rate securities.

During the first quarter of 2014, we sold one ABS and two non-agency MBS with a combined book value of \$23.1 million for total proceeds of \$28.0 million. The resulting \$4.9 million gain is recorded in Other Noninterest Income in the accompanying condensed consolidated statement of income for the six months ended June 30, 2014. These securities had been previously impaired and were excluded from our liquidity reserve, and were sold due to favorable market conditions.

### ***Capital Resources***

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 retained earnings. Our shareholders’ equity totaled \$7.0 billion at June 30, 2014, as compared to \$6.7 billion at December 31, 2013.

At June 30, 2014, our permanent capital, total surplus, core surplus and net collateral ratios exceeded regulatory minimums, as depicted in the following table. The components of these ratios are described in our 2013 Annual Report.

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**Capital Ratios**

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	Regulatory Minimums		June 30, 2014		December 31, 2013	
Permanent Capital Ratio	7.00	%	15.72	%	16.72	%
Total Surplus Ratio	7.00		14.83		15.74	
Core Surplus Ratio	3.50		10.33		10.82	
Net Collateral Ratio <sup>(1)(2)</sup>	104.00		107.46		107.57	

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<sup>(1)</sup> 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 subordinated debt outstanding.

<sup>(2)</sup> 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.

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Pursuant to FCA guidance, a portion of our common stock is included in core surplus, subject to certain conditions. This inclusion will continue on a temporary basis until December 31, 2014 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 June 30, 2014, our core surplus ratio excluding common stock was 8.72 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 5.59 percent, the Bank must notify the FCA and submit to them a written plan to restore and maintain the ratio to at least that level.

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. We may also issue new debt or equity securities. Such repurchases, exchanges or new issuances, if any, will depend on prevailing market conditions, the Bank's capital position and liquidity requirements, contractual restrictions and other factors.

As described in our 2013 Annual Report, in 2013, the FCA announced its intent to revise sections of its capital regulations to conform more closely to the reform measures developed by the Basel Committee on Banking supervision (the "Basel Committee") in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" ("Basel III"). On May 8, 2014, the FCA Board approved a proposed rule to modify the regulatory capital requirements for System Banks, including CoBank, and Associations. The objectives of the proposed rule are:

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

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

We anticipate the proposed rule will be published in the Federal Register in the third quarter of 2014, followed by a 120-day comment period. CoBank is currently reviewing the proposed rule and assessing its

impact. CoBank expects to submit comments in response to the proposed rule. While uncertainty exists as to the final form of the proposed rule, based on our preliminary assessment, we do not believe the new rule will impose any significant constraints on our business strategies or growth prospects.

### ***Interest Rate Risk Management***

Interest rate risk is primarily 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). We do not use derivatives for speculative or trading purposes. Derivatives are recorded at fair value as assets or liabilities on the 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 consolidated statements of income totaled gains of \$8.0 million and \$0.4 million in the first six months of 2014 and 2013, respectively. Changes in the fair value of derivatives recorded in other comprehensive income (loss) totaled a loss of \$19.4 million and a gain of \$21.9 million in the first six months of 2014 and 2013, respectively.

### ***Other Matters***

As more fully described on page 145 of our 2013 Annual Report, in October 2013 the FCA adopted regulations requiring System institutions to hold advisory votes on the compensation of senior officers, including the CEO, when such compensation increases by 15 percent or more as compared to the prior year. The Agricultural Act of 2014, which was signed into law on February 7, 2014, directed the FCA to review these regulations within 60 days. On March 31, 2014, the FCA published an interim final rule rescinding all requirements for advisory votes on senior officer compensation at System institutions. The final rule became effective on June 18, 2014.

### ***Recent Developments***

As announced on July 24, 2014, CoBank has joined with the U.S. Department of Agriculture (USDA) in the formation of a new public-private partnership focused on infrastructure investment in rural America. The new "U.S. Rural Infrastructure Opportunity Fund" will serve as a source of private sector capital to partner with the USDA on a wide variety of infrastructure projects in rural communities. CoBank will act as anchor investor and has committed \$10.0 billion of balance sheet capacity to co-lend with the fund. Target investments will include rural community facilities, water and waste water systems, rural energy projects and rural broadband. CoBank will have the opportunity to review and approve each loan transaction individually.

## Business Outlook

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Notwithstanding our strong financial performance in the first half of 2014, we face market conditions that could make the lending and earnings environment less favorable for CoBank in the future. Despite recent improvements in the U.S. economy, growth remains moderate. Long-term interest rates remain low by historical standards and continue to negatively impact the returns on invested capital and investment securities. Federal Reserve actions relative to tapering its quantitative easing policy create further economic uncertainty. Greater liquidity in debt funding markets and a renewed focus by banks on commercial lending has intensified competition across most of the industries we serve. Agricultural commodity prices and supplies remain subject to volatility driven by weather conditions, transportation constraints and other factors. Customers in many of the industries we serve are impacted by unpredictable commodity prices and agricultural yields, weather and ongoing political and regulatory uncertainty. Growth in demand for electricity remains modest while rapidly changing technology creates uncertainty in the communications industry. Emerging regulation of carbon emissions may adversely impact certain energy customers. These challenges could reduce the credit quality and influence the level of loan demand in certain sectors of our loan portfolio.

We continue to focus on maintaining our financial strength, enhancing our enterprise risk management capabilities and on delivering the credit and financial services our customers need to thrive and grow. We believe that our strong capital, liquidity and earnings will continue to provide the capacity to serve customers in volatile market conditions and to effectively lower the net cost of borrowing for our customers through consistent and reliable patronage payments. We will continue our disciplined approach to managing risk and will closely monitor asset quality. We will also continue to enhance our financial performance through strong expense discipline. Nevertheless, we will seek opportunities to invest in people, processes, systems and activities that enhance our value proposition and allow us to better fulfill our mission in rural America.

Under the guidance of our Board of Directors and through the focus of a proven executive management team, our continued success will be achieved by creating mutually beneficial partnerships 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 financial services and other organizations.

## Forward-Looking Statements

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

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

# Condensed Consolidated Statements of Income

## CoBank, ACB

(\$ in Thousands) (Unaudited)

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2014	2013	2014	2013
<b>Interest Income</b>				
Loans	\$ 434,663	\$ 414,386	\$ 867,686	\$ 835,538
Investment Securities	87,397	77,982	174,191	152,613
Total Interest Income	522,060	492,368	1,041,877	988,151
<b>Interest Expense</b>	210,709	195,718	421,560	389,074
Net Interest Income	311,351	296,650	620,317	599,077
(Loan Loss Reversal)/Provision for Loan Losses	(25,000)	5,000	(25,000)	20,000
Net Interest Income After Loan Loss Reversal/Provision for Loan Losses	336,351	291,650	645,317	579,077
<b>Noninterest Income/Expense</b>				
Net Fee Income	27,924	29,019	51,651	53,057
Prepayment Income	2,646	5,467	7,761	31,890
Losses on Early Extinguishments of Debt	(22,427)	(9,666)	(29,270)	(43,266)
Total Other-Than-Temporary Impairment Losses	-	(1,732)	-	(1,732)
Portion Recognized in Other Comprehensive Loss	-	(268)	-	(268)
Net Other-Than-Temporary Impairment Losses				
Included in Earnings	-	(2,000)	-	(2,000)
Other, Net	10,630	7,741	26,899	16,726
Total Noninterest Income	18,773	30,561	57,041	56,407
<b>Operating Expenses</b>				
Employee Compensation	36,812	36,267	73,032	71,067
Insurance Fund Premium	12,986	9,379	25,776	18,996
Information Services	6,673	6,542	10,982	11,755
General and Administrative	5,133	5,481	8,523	10,055
Occupancy and Equipment	2,279	2,172	4,354	4,105
Farm Credit System Related	3,530	3,024	7,396	6,797
Purchased Services	2,224	2,299	4,872	3,911
Other	5,005	4,589	9,403	9,383
Total Operating Expenses	74,642	69,753	144,338	136,069
Income Before Income Taxes	280,482	252,458	558,020	499,415
Provision for Income Taxes	47,552	40,422	93,819	78,578
<b>Net Income</b>	\$ 232,930	\$ 212,036	\$ 464,201	\$ 420,837

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

# Condensed Consolidated Statements of Comprehensive Income

CoBank, ACB

(\$ in Thousands) (Unaudited)

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2014	2013	2014	2013
<b>Net Income</b>	\$ 232,930	\$ 212,036	\$ 464,201	\$ 420,837
<b>Other Comprehensive Income (Loss), Net of Tax:</b>				
Net Change in Unrealized Gains/Losses on Investment				
Securities Not Other-Than-Temporarily Impaired	53,700	(125,958)	44,535	(131,955)
Net Change in Unrealized Gains/Losses on				
Other-Than-Temporarily Impaired Investment Securities	1,448	(3,292)	50,246	(477)
Net Change in Unrealized Losses/Gains on Interest Rate				
Swaps and Other Financial Instruments	(3,521)	18,563	(16,632)	20,606
Net Pension Adjustment	369	836	(169)	1,673
<b>Other Comprehensive Income (Loss)</b>	<b>51,996</b>	<b>(109,851)</b>	<b>77,980</b>	<b>(110,153)</b>
<b>Comprehensive Income</b>	<b>\$ 284,926</b>	<b>\$ 102,185</b>	<b>\$ 542,181</b>	<b>\$ 310,684</b>

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

# Condensed Consolidated Balance Sheets

## CoBank, ACB

(\$ in Thousands)

	June 30, 2014 (Unaudited)	December 31, 2013
<b>Assets</b>		
Total Loans	\$ 75,889,673	\$ 73,603,375
Less: Allowance for Loan Losses	446,901	447,126
Net Loans	75,442,772	73,156,249
Cash	698,604	1,335,024
Investment Securities	23,451,183	21,688,489
Interest Rate Swaps and Other Financial Instruments	558,788	674,022
Accrued Interest Receivable and Other Assets	765,323	790,608
<b>Total Assets</b>	<b>\$ 100,916,670</b>	<b>\$ 97,644,392</b>
<b>Liabilities</b>		
Bonds and Notes	\$ 91,522,546	\$ 88,457,752
Subordinated Debt	904,685	904,685
Interest Rate Swaps and Other Financial Instruments	102,064	121,307
Reserve for Unfunded Commitments	141,330	167,592
Accrued Interest Payable and Other Liabilities	1,251,672	1,288,440
<b>Total Liabilities</b>	<b>\$ 93,922,297</b>	<b>\$ 90,939,776</b>
Commitments and Contingent Liabilities (Note 9)		
<b>Shareholders' Equity</b>		
Preferred Stock	961,750	961,750
Common Stock	2,689,507	2,677,485
Unallocated Retained Earnings	3,303,681	3,103,926
Accumulated Other Comprehensive Income	39,435	(38,545)
<b>Total Shareholders' Equity</b>	<b>\$ 6,994,373</b>	<b>\$ 6,704,616</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 100,916,670</b>	<b>\$ 97,644,392</b>

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

# Condensed Consolidated Statements of Cash Flows

CoBank, ACB

(\$ in Thousands) (Unaudited)

For the Six Months Ended June 30,	2014	2013
<b>Cash Flows Provided by Operating Activities</b>		
Net Income	\$ 464,201	\$ 420,837
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
(Loan Loss Reversal)/Provision for Loan Losses	(25,000)	20,000
Deferred Income Taxes	21,133	11,693
Depreciation and Amortization/Accretion, Net	45,248	18,101
Losses on Impairment of Available-for-Sale Investments	-	2,000
Net Gains on Sales of Investment Securities	(4,199)	-
Decrease (Increase) in Accrued Interest Receivable and Other Assets	30,286	(41,754)
Decrease in Accrued Interest Payable and Other Liabilities	(79,976)	(54,527)
Net (Losses) Gains on Interest Rate Swaps and Other Financial Instruments	(3,147)	403
Purchase of Interest Rate Caps	(21,053)	-
Other	(1,572)	(1,588)
<b>Net Cash Provided by Operating Activities</b>	<b>425,921</b>	<b>375,165</b>
<b>Cash Flows Used in Investing Activities</b>		
Net Increase in Loans	(2,321,697)	734,560
Net Increase in Investment Securities	(1,514,456)	(2,441,990)
<b>Net Cash Used in Investing Activities</b>	<b>(3,836,153)</b>	<b>(1,707,430)</b>
<b>Cash Flows Provided by Financing Activities</b>		
Net Issuances of Bonds and Notes	3,181,088	929,647
Preferred Stock Issued, Net	-	195,583
Funding for Preferred Stock Retirement	-	(200,000)
Net Retirements of Common Stock	(33,382)	(31,563)
Cash Patronage Distribution Paid	(346,143)	(338,953)
Preferred Stock Dividends Paid	(27,764)	(32,548)
Other	13	393
<b>Net Cash Provided by Financing Activities</b>	<b>2,773,812</b>	<b>522,559</b>
Net Decrease in Cash	(636,420)	(809,706)
Cash at Beginning of Period	1,335,024	1,253,509
<b>Cash at End of Period</b>	<b>\$ 698,604</b>	<b>\$ 443,803</b>
<b>Supplemental Disclosures:</b>		
<b>Schedule of Noncash Investing and Financing Activities</b>		
Net Change in Accrued Securities Purchases	\$ (161,226)	\$ -
Net Change in Unrealized Gains/Losses on Investment Securities, Before Taxes	113,121	(168,836)
Net Change in Unrealized Losses/Gains on Interest Rate Swaps, Other Financial Instruments and Hedged Items, Before Taxes	(19,441)	21,918
Patronage in Common Stock	45,404	38,417

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

## Condensed Consolidated Statements of Changes in Shareholders' Equity

### CoBank, ACB

(\$ in Thousands) (Unaudited)

For the Six Months Ended June 30,	2014	2013
Balance at Beginning of Period	\$ 6,704,616	\$ 6,441,144
Comprehensive Income	542,181	310,684
Preferred Stock:		
Dividends	(27,747)	(35,180)
Issuance	-	200,000
Issuance Costs	-	(4,417)
Common Stock:		
Issuances	57	51
Redemptions	(33,439)	(31,614)
Cash Patronage Accrued	(191,308)	(168,604)
Other	13	393
<b>Balance at End of Period</b>	<b>\$ 6,994,373</b>	<b>\$ 6,712,457</b>

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

# Notes to Condensed Consolidated Financial Statements

## CoBank, ACB

*(Unaudited) (\$ in Thousands, Except Share and Per Share Amounts and as Noted)*

### **Note 1 – Organization, Lending Authority and Significant Accounting Policies**

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The accompanying condensed consolidated financial statements include the accounts of CoBank, ACB and its wholly-owned subsidiaries, CoBank, FCB and Farm Credit Leasing Services Corporation (FCL), collectively hereinafter referred to as CoBank or the Bank. All material inter-company accounts and transactions have been eliminated. In our opinion, all adjustments considered necessary for a fair presentation of the interim financial condition, results of operations and cash flows have been made. These adjustments are of a normal recurring nature, unless otherwise disclosed. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted.

CoBank is a member of the Farm Credit System (System). We provide loans and other financial services to agribusiness cooperatives; rural energy, communications and water companies; farmer-owned financial institutions including Agricultural Credit Associations and Federal Land Credit Associations (together, Associations) and other businesses that serve rural America.

These unaudited quarterly condensed consolidated financial statements should be read in conjunction with the 2013 Annual Report, which includes a description of our organization and lending authority. Also included in the 2013 Annual Report is a summary of significant accounting policies. These quarterly condensed consolidated financial statements have been prepared in accordance with these same accounting policies.

CoBank is the funding bank for 27 Farm Credit System Associations, which are collectively referred to as our “affiliated Associations.” The accompanying condensed consolidated financial statements exclude financial information of our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the “District.” The supplemental information beginning on page 48 includes certain combined financial information of our affiliated Associations and the District.

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](http://www.cobank.com). Copies of financial reports of our affiliated Associations and the System are available on their respective websites.

We have evaluated subsequent events through August 1, 2014, which is the date the financial statements were issued.

### **Note 2 – Recently Issued or Adopted Accounting Pronouncements**

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

As described in the 2013 Annual Report and in Note 9 to these condensed consolidated financial statements, all Systemwide debt securities are the joint and several liabilities of the System banks. CoBank adopted the

new standard in 2014. The adoption of this new guidance did not have an effect on our consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued guidance entitled “Revenue from Contracts with Customers.” The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. As such, a majority of our contracts would be excluded from the scope of this new guidance. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. We anticipate that the new guidance will not have an effect on our consolidated financial position, results of operations or cash flows.

### **Note 3 – Loans, Loan Quality and Allowance for Credit Losses**

#### ***Loans Outstanding***

Loans outstanding by operating segment are shown below.

(\$ in Millions)

	June 30, 2014	December 31, 2013
Agribusiness	\$ 23,215	\$ 21,182
Strategic Relationships	37,538	37,897
Rural Infrastructure	15,137	14,524
<b>Total</b>	<b>\$ 75,890</b>	<b>\$ 73,603</b>

#### ***Allowance for Credit Losses***

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

	Strategic		Rural		
	Agribusiness	Relationships <sup>(1)</sup>	Infrastructure		Total
<b>June 30, 2014</b>					
<b>Allowance for Loan Losses</b>					
Beginning Balance at January 1, 2014	\$ 284,967	\$ -	\$ 162,159	\$	447,126
Charge-offs	(792)	-	(2,118)		(2,910)
Recoveries	958	-	465		1,423
(Loan Loss Reversal)/Provision for Loan Losses	(10,000)	-	(15,000)		(25,000)
Transfers (to) from Reserve for Unfunded Commitments <sup>(2)</sup>	22,018	-	4,244		26,262
Ending Balance at June 30, 2014	297,151	-	149,750		446,901
<b>Reserve for Unfunded Commitments</b>					
Beginning Balance at January 1, 2014	111,897	-	55,695		167,592
Transfers from (to) Allowance for Loan Losses <sup>(2)</sup>	(22,018)	-	(4,244)		(26,262)
Ending Balance at June 30, 2014	89,879	-	51,451		141,330
<b>Allowance for Credit Losses</b>	\$ 387,030	\$ -	\$ 201,201	\$	588,231
<b>Allowance for Credit Losses</b>					
Ending Balance, Allowance for Credit Losses Related to Loans:					
Individually Evaluated for Impairment	\$ 11,700	\$ -	\$ 7,800	\$	19,500
Collectively Evaluated for Impairment	375,330	-	193,401		568,731
<b>Total</b>	\$ 387,030	\$ -	\$ 201,201	\$	588,231
<b>Loans</b>					
Ending Balance for Loans and Related Accrued Interest:					
Individually Evaluated for Impairment	\$ 51,032	\$ 37,644,793	\$ 72,140	\$	37,767,965
Collectively Evaluated for Impairment	23,209,662	-	15,126,433		38,336,095
<b>Total</b>	\$ 23,260,694	\$ 37,644,793	\$ 15,198,573	\$	76,104,060

	Strategic		Rural		
	Agribusiness	Relationships <sup>(1)</sup>	Infrastructure		Total
<b>June 30, 2013</b>					
<b>Allowance for Loan Losses</b>					
Beginning Balance at January 1, 2013	\$ 277,595	\$ -	\$ 159,781	\$	437,376
Charge-offs	(1,533)	-	(26)		(1,559)
Recoveries	10,189	-	868		11,057
Provision for Loan Losses	5,000	-	15,000		20,000
Transfers from (to) Reserve for Unfunded Commitments <sup>(2)</sup>	(8,146)	-	2,953		(5,193)
Ending Balance at June 30, 2013	283,105	-	178,576		461,681
<b>Reserve for Unfunded Commitments</b>					
Beginning Balance at January 1, 2013	106,692	-	51,011		157,703
Transfers (to) from Allowance for Loan Losses <sup>(2)</sup>	8,146	-	(2,953)		5,193
Ending Balance at June 30, 2013	114,838	-	48,058		162,896
<b>Allowance for Credit Losses</b>	\$ 397,943	\$ -	\$ 226,634	\$	624,577
<b>Allowance for Credit Losses</b>					
Ending Balance, Allowance for Credit Losses Related to Loans:					
Individually Evaluated for Impairment	\$ 10,900	\$ -	\$ 41,700	\$	52,600
Collectively Evaluated for Impairment	387,043	-	184,934		571,977
<b>Total</b>	\$ 397,943	\$ -	\$ 226,634	\$	624,577
<b>Loans</b>					
Ending Balance for Loans and Related Accrued Interest:					
Individually Evaluated for Impairment	\$ 71,827	\$ 36,820,652	\$ 140,841	\$	37,033,320
Collectively Evaluated for Impairment	20,058,908	-	14,330,594		34,389,502
<b>Total</b>	\$ 20,130,735	\$ 36,820,652	\$ 14,471,435	\$	71,422,822

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

<sup>(2)</sup> 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.

	Agribusiness		Agribusiness		Strategic		Rural		
June 30, 2014	Non-Guaranteed		Guaranteed		Relationships		Infrastructure		Total
Acceptable	\$	20,187,991	\$	2,288,467	\$	37,644,793	\$	14,915,377	\$ 75,036,628
Special Mention		444,185		-		-		138,359	582,544
Substandard		340,051		-		-		126,781	466,832
Doubtful		-		-		-		18,056	18,056
Loss		-		-		-		-	-
<b>Total</b>	<b>\$</b>	<b>20,972,227</b>	<b>\$</b>	<b>2,288,467</b>	<b>\$</b>	<b>37,644,793</b>	<b>\$</b>	<b>15,198,573</b>	<b>\$ 76,104,060</b>
<b>December 31, 2013</b>									
Acceptable	\$	17,789,946	\$	2,604,643	\$	38,015,890	\$	14,267,187	\$ 72,677,666
Special Mention		508,526		-		-		121,695	630,221
Substandard		318,719		-		-		169,286	488,005
Doubtful		10,312		-		-		29,092	39,404
Loss		-		-		-		-	-
<b>Total</b>	<b>\$</b>	<b>18,627,503</b>	<b>\$</b>	<b>2,604,643</b>	<b>\$</b>	<b>38,015,890</b>	<b>\$</b>	<b>14,587,260</b>	<b>\$ 73,835,296</b>

### ***Aging Analysis***

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

	Agribusiness		Agribusiness		Strategic		Rural		
June 30, 2014	Non-Guaranteed		Guaranteed		Relationships		Infrastructure		Total
30-89 Days Past Due	\$	15,961	\$	-	\$	-	\$	10,171	\$ 26,132
90 Days Past Due		17,247		-		-		9,653	26,900
<b>Total Past Due</b>	<b>\$</b>	<b>33,208</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>19,824</b>	<b>\$ 53,032</b>
Current		20,939,019		2,288,467		37,644,793		15,178,749	76,051,028
<b>Total</b>	<b>\$</b>	<b>20,972,227</b>	<b>\$</b>	<b>2,288,467</b>	<b>\$</b>	<b>37,644,793</b>	<b>\$</b>	<b>15,198,573</b>	<b>\$ 76,104,060</b>
<b>Accruing Loans 90 Days or More Past Due</b>									
	\$	218	\$	-	\$	-	\$	-	\$ 218
<b>December 31, 2013</b>									
30-89 Days Past Due	\$	12,276	\$	-	\$	-	\$	-	\$ 12,276
90 Days Past Due		22,757		-		-		53,425	76,182
<b>Total Past Due</b>	<b>\$</b>	<b>35,033</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>53,425</b>	<b>\$ 88,458</b>
Current		18,592,470		2,604,643		38,015,890		14,533,835	73,746,838
<b>Total</b>	<b>\$</b>	<b>18,627,503</b>	<b>\$</b>	<b>2,604,643</b>	<b>\$</b>	<b>38,015,890</b>	<b>\$</b>	<b>14,587,260</b>	<b>\$ 73,835,296</b>
<b>Accruing Loans 90 Days or More Past Due</b>									
	\$	972	\$	-	\$	-	\$	-	\$ 972

## 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.

	Agribusiness		Strategic		Rural	
June 30, 2014	Non-Guaranteed	Guaranteed <sup>(1)</sup>	Relationships <sup>(1)</sup>	Infrastructure	Total	
Nonaccrual Loans <sup>(2)</sup>	\$ 51,032	\$ -	\$ -	\$ 72,140	\$ 123,172	
Accruing Loans 90 Days or More Past Due	218	-	-	-	218	
Restructured Loans	-	-	-	-	-	
<b>Total Impaired Loans</b>	<b>\$ 51,250</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 72,140</b>	<b>\$ 123,390</b>	
<b>December 31, 2013</b>						
Nonaccrual Loans <sup>(2)</sup>	\$ 53,249	\$ -	\$ -	\$ 94,600	\$ 147,849	
Accruing Loans 90 Days or More Past Due	972	-	-	-	972	
Restructured Loans	-	-	-	-	-	
<b>Total Impaired Loans</b>	<b>\$ 54,221</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 94,600</b>	<b>\$ 148,821</b>	

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

<sup>(2)</sup> Included in nonaccrual loans at June 30, 2014 and December 31, 2013 are \$62.7 million and \$66.3 million, respectively, of loans that qualify as troubled debt restructurings.

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

	Agribusiness		Strategic		Rural	
June 30, 2014	Non-Guaranteed	Guaranteed <sup>(1)</sup>	Relationships <sup>(1)</sup>	Infrastructure	Total	
<b>Impaired Loans With No Related Allowance for Loan Losses</b>						
Carrying Amount	\$ 23,386	\$ -	\$ -	\$ 48,466	\$ 71,852	
Unpaid Principal	29,750	-	-	54,402	84,152	
Average Balance	26,838	-	-	847	27,685	
Interest Income Recognized	2,294	-	-	2,318	4,612	
<b>Impaired Loans With Related Allowance for Loan Losses</b>						
Carrying Amount	27,864	-	-	23,674	51,538	
Unpaid Principal	35,410	-	-	26,714	62,124	
Allowance for Loan Losses	11,700	-	-	7,800	19,500	
Average Balance	24,470	-	-	73,441	97,911	
Interest Income Recognized	597	-	-	-	597	
<b>Total Impaired Loans</b>						
Carrying Amount	51,250	-	-	72,140	123,390	
Unpaid Principal	65,160	-	-	81,116	146,276	
Allowance for Loan Losses	11,700	-	-	7,800	19,500	
Average Balance	51,308	-	-	74,288	125,596	
Interest Income Recognized	2,891	-	-	2,318	5,209	

December 31, 2013	Agribusiness Non-Guaranteed	Agribusiness Guaranteed <sup>(1)</sup>	Strategic Relationships <sup>(1)</sup>	Rural Infrastructure	Total
<b>Impaired Loans With No Related Allowance for Loan Losses</b>					
Carrying Amount	\$ 33,173	\$ -	\$ -	\$ 9,427	\$ 42,600
Unpaid Principal	44,670	-	-	10,889	55,559
Average Balance	50,530	-	-	10,832	61,362
Interest Income Recognized	2,236	-	-	2,477	4,713
<b>Impaired Loans With Related Allowance for Loan Losses</b>					
Carrying Amount	21,048	-	-	85,173	106,221
Unpaid Principal	24,891	-	-	90,858	115,749
Allowance for Loan Losses	8,550	-	-	28,700	37,250
Average Balance	20,143	-	-	77,457	97,600
Interest Income Recognized	-	-	-	-	-
<b>Total Impaired Loans</b>					
Carrying Amount	54,221	-	-	94,600	148,821
Unpaid Principal	69,561	-	-	101,747	171,308
Allowance for Loan Losses	8,550	-	-	28,700	37,250
Average Balance	70,673	-	-	88,289	158,962
Interest Income Recognized	2,236	-	-	2,477	4,713

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

### ***Commitments on Impaired Loans***

There were \$19.1 million in commitments available to be drawn by borrowers whose loans were classified as impaired at June 30, 2014.

### ***Troubled Debt Restructurings***

Troubled debt restructurings (TDRs) are loans in which we have granted a concession because the borrower is experiencing financial difficulty. Concessions may include payment deferrals, term extensions and/or interest rate reductions. As of June 30, 2014, all TDRs are classified as nonaccrual loans. TDRs classified as nonaccrual loans, along with other impaired loans, may be returned to accruing status upon meeting specific criteria, as more fully described in our 2013 Annual Report. During the six months ended June 30, 2014 and 2013, respectively, there were no modifications that qualified as TDRs. Included in nonaccrual loans at June 30, 2014 and December 31, 2013 are \$62.7 million and \$66.3 million, respectively, of existing loans that qualify as troubled debt restructurings.

## Note 4 – Investment Securities

A summary of the amortized cost and fair value of investment securities available-for-sale is as follows:

(\$ in Millions)

June 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Debt	\$ 7,080	\$ 26	\$ (1)	\$ 7,105
U.S. Agency Debt	4,987	69	(26)	5,030
Mortgage-Backed:				
U.S. Agency	10,286	95	(81)	10,300
Farmer Mac	167	-	(3)	164
FHA/VA Non-Wrapped Reperformer	423	4	(13)	414
Non-Agency	164	22	(1)	185
Asset-Backed	96	27	(1)	122
Corporate Bonds	130	1	-	131
<b>Total</b>	<b>\$ 23,333</b>	<b>\$ 244</b>	<b>\$ (126)</b>	<b>\$ 23,451</b>

(\$ in Millions)

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Debt	\$ 5,501	\$ 3	\$ -	\$ 5,504
U.S. Agency Debt	4,458	55	(54)	4,459
Mortgage-Backed:				
U.S. Agency	10,655	94	(131)	10,618
Farmer Mac	182	-	(3)	179
FHA/VA Non-Wrapped Reperformer	443	6	(9)	440
Non-Agency	201	21	(1)	221
Asset-Backed	127	27	(2)	152
Corporate Bonds	116	-	(1)	115
<b>Total</b>	<b>\$ 21,683</b>	<b>\$ 206</b>	<b>\$ (201)</b>	<b>\$ 21,688</b>

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at June 30, 2014 is as follows:

(\$ in Millions)

June 30, 2014	Contractual Maturity					Total
	In One Year or Less	One to Five Years	Five to Ten Years	After Ten Years		
<b>U.S. Treasury Debt Securities</b>						
Amortized Cost	\$ 3,272	\$ 2,009	\$ 1,799	\$ -	\$ 7,080	
Fair Value	3,274	2,014	1,817	-	7,105	
Weighted Average Yield	0.22 %	0.47 %	2.10 %	- %	0.77 %	
<b>U.S. Agency Debt Securities</b>						
Amortized Cost	\$ -	\$ 3,553	\$ 768	\$ 666	\$ 4,987	
Fair Value	-	3,609	769	652	5,030	
Weighted Average Yield	- %	1.58 %	1.58 %	1.26 %	1.54 %	
<b>U.S. Agency Mortgage-Backed Securities</b>						
Amortized Cost	\$ -	\$ 93	\$ 503	\$ 9,690	\$ 10,286	
Fair Value	-	94	505	9,701	10,300	
Weighted Average Yield	- %	1.30 %	0.77 %	1.69 %	1.65 %	
<b>Farmer Mac Mortgage-Backed Securities</b>						
Amortized Cost	\$ -	\$ -	\$ -	\$ 167	\$ 167	
Fair Value	-	-	-	164	164	
Weighted Average Yield	- %	- %	- %	2.60 %	2.60 %	
<b>FHA/VA Non-Wrapped Reperformer Mortgage-Backed Securities</b>						
Amortized Cost	\$ -	\$ -	\$ -	\$ 423	\$ 423	
Fair Value	-	-	-	414	414	
Weighted Average Yield	- %	- %	- %	5.22 %	5.22 %	
<b>Non-Agency Mortgage-Backed Securities</b>						
Amortized Cost	\$ -	\$ 6	\$ -	\$ 158	\$ 164	
Fair Value	-	6	-	179	185	
Weighted Average Yield	- %	0.61 %	- %	5.32 %	5.14 %	
<b>Asset-Backed Securities</b>						
Amortized Cost	\$ -	\$ 24	\$ -	\$ 72	\$ 96	
Fair Value	-	24	-	98	122	
Weighted Average Yield	- %	0.45 %	- %	11.17 %	8.51 %	
<b>Corporate Bonds</b>						
Amortized Cost	\$ -	\$ 130	\$ -	\$ -	\$ 130	
Fair Value	-	131	-	-	131	
Weighted Average Yield	- %	1.36 %	- %	- %	1.36 %	
<b>Total</b>						
Amortized Cost	\$ 3,272	\$ 5,815	\$ 3,070	\$ 11,176	\$ 23,333	
Fair Value	3,274	5,878	3,091	11,208	23,451	

While the substantial majority of our mortgage-backed securities (MBS) and asset-backed securities (ABS) 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 tables show 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 June 30, 2014 and December 31, 2013. The continuous loss position is based on the date the impairment first occurred.

	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(\$ in Millions)				
<b>June 30, 2014</b>				
U.S. Treasury Debt	\$ 99	\$ (1)	\$ -	\$ -
U.S. Agency Debt	896	(6)	1,443	(20)
Mortgage-Backed:				
U.S. Agency	1,890	(6)	2,766	(75)
Farmer Mac	-	-	164	(3)
FHA/VA Non-Wrapped Reperformer	100	(5)	135	(8)
Non-Agency	5	-	21	(1)
Asset-Backed	24	-	9	(1)
Corporate Bonds	-	-	20	-
<b>Total</b>	<b>\$ 3,014</b>	<b>\$ (18)</b>	<b>\$ 4,558</b>	<b>\$ (108)</b>
<b>December 31, 2013</b>				
U.S. Treasury Debt	\$ 516	\$ -	\$ -	\$ -
U.S. Agency Debt	3,236	(54)	-	-
Mortgage-Backed:				
U.S. Agency	3,492	(93)	679	(38)
Farmer Mac	55	(1)	124	(2)
FHA/VA Non-Wrapped Reperformer	106	(2)	144	(7)
Non-Agency	32	(1)	18	-
Asset-Backed	50	(1)	5	(1)
Corporate Bonds	70	(1)	-	-
<b>Total</b>	<b>\$ 7,557</b>	<b>\$ (153)</b>	<b>\$ 970</b>	<b>\$ (48)</b>

We do not intend to sell the securities in unrealized loss positions, nor is it 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.

### ***Credit Losses on Impaired Investment Securities***

The following table details the activity related to the credit loss component of investment securities that have been written down for other-than-temporary impairment.

<b>Credit Losses on Impaired Investments</b>	<b>(\$ in Millions)</b>
Balance at December 31, 2013	\$ 65
Additional Credit Impairments Related to Securities Previously Impaired	-
Initial Credit Impairments Related to Securities Not Previously Impaired	-
Sales of Investments with Credit Impairments	(7)
Maturity of Investments with Credit Impairments	-
Subsequent Amortization (Accretion) for Increases in Cash Flows Expected to be Collected	(1)
<b>Balance at June 30, 2014</b>	<b>\$ 57</b>

For these 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 0 to 22 percent (CPR) for impaired investment securities at June 30, 2014. We apply historical performance information to estimate future defaults using a default timing curve. Lifetime default rates ranged from 8 percent to 47 percent for impaired investment securities at June 30, 2014. Loss severity assumptions are based on 12-month historical severities. Loss severity ranged from 16 percent to 100 percent for impaired investment securities at June 30, 2014.

### *Acquired Investment Securities*

In connection with our January 1, 2012 merger with U.S. AgBank, we acquired investment securities with a contractual outstanding principal and interest balance of \$5.2 billion. We recorded these investments on our consolidated balance sheet at an estimated fair value of \$4.8 billion. Certain of these investment securities were determined to have deteriorated credit quality and it was evident that we would not be able to collect all of the contractually required payments. The carrying amount of these investment securities was \$545.4 million at June 30, 2014 and included FHA/VA non-wrapped reperformer MBS (i.e., investment securities where residential mortgage loans serving as collateral were cured after a default), non-agency MBS, and ABS. These investments, which we refer to as acquired credit-impaired investment securities, are subject to the provisions of Accounting Standards Codification (ASC) 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, pursuant to which the difference between contractually required payments and the cash flows expected to be collected at acquisition is considered a non-accretable amount. This difference is neither accreted into income nor recorded on our consolidated balance sheets.

Quarterly, we evaluate estimated cash flows expected to be collected from acquired credit-impaired investment securities. Increases in expected cash flows will generally result in an increase in interest income over the remaining life of the investment. Decreases in expected cash flows due to credit deterioration will generally result in other-than-temporary impairment charges recognized against earnings. During the first six months of 2014, we recorded no impairment losses related to our acquired credit-impaired investment securities.

The excess of cash flows expected to be collected over fair value is referred to as “accretable amounts” and is recognized in interest income over the remaining life of the investment using the effective yield method, with the majority being recognized in diminishing amounts in the first five years following the merger.

Changes in Accretable Amounts of Acquired Credit-Impaired Investment Securities	(\$ in Millions)	
	2014	2013
Balance at January 1	\$ (165)	\$ (210)
Interest Recognized in Earnings	17	25
Reclassifications from Nonaccretable Amount for Investments with Improvements in Expected Cash Flows	-	-
Total Other-Than-Temporary Impairment Losses Included in Earnings	-	1
<b>Balance at June 30</b>	<b>\$ (148)</b>	<b>\$ (184)</b>

## Note 5 – Changes in Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the six months ended June 30, 2014 and 2013 are presented in the following tables.

### Changes in Accumulated Other Comprehensive Income (Loss) by Component <sup>(1)</sup>

	Unrealized Gains/(Losses) On Investment Securities		Unrealized Gains/(Losses) on Interest Rate Swaps and Other Financial Instruments	Net Pension Adjustment	Total
	Non-OTTI	OTTI			
<b>Balance at January 1, 2014</b>	\$ 27,884	\$ (31,646)	\$ (2,246)	\$ (32,537)	\$ (38,545)
Other comprehensive income (loss) before reclassifications	43,935	54,451	(17,810)	(907)	79,669
Amounts reclassified from accumulated other comprehensive income (loss)	600	(4,205)	1,178	738	(1,689)
Net current-period other comprehensive income (loss)	44,535	50,246	(16,632)	(169)	77,980
<b>Balance at June 30, 2014</b>	\$ 72,419	\$ 18,600	\$ (18,878)	\$ (32,706)	\$ 39,435

<sup>(1)</sup> Amounts are presented net of tax. Amounts reclassified shown in parentheses indicate a decrease in accumulated other comprehensive income or an increase in accumulated other comprehensive loss.

### Changes in Accumulated Other Comprehensive Income (Loss) by Component <sup>(1)</sup>

	Unrealized Gains/(Losses) On Investment Securities		Unrealized Gains/(Losses) on Interest Rate Swaps and Other Financial Instruments	Net Pension Adjustment	Total
	Non-OTTI	OTTI			
<b>Balance at January 1, 2013</b>	\$ 188,624	\$ 19,215	\$ (11,261)	\$ (52,148)	\$ 144,430
Other comprehensive income (loss) before reclassifications	(131,955)	(477)	22,961	-	(109,471)
Amounts reclassified from accumulated other comprehensive income (loss)	-	-	(2,355)	1,673	(682)
Net current-period other comprehensive income (loss)	(131,955)	(477)	20,606	1,673	(110,153)
<b>Balance at June 30, 2013</b>	\$ 56,669	\$ 18,738	\$ 9,345	\$ (50,475)	\$ 34,277

<sup>(1)</sup> Amounts are presented net of tax. Amounts reclassified shown in parentheses indicate a decrease in accumulated other comprehensive income or an increase in accumulated other comprehensive loss.

The following tables present the effect of reclassifications from accumulated other comprehensive income (loss) to net income for the six-month periods ended June 30, 2014 and 2013.

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**Reclassifications from Accumulated Other Comprehensive Income (Loss)**


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For the Six Months Ended June 30, 2014	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Gain/Loss Recognized in Income Statement
<b>Unrealized gains (losses) on available-for-sale investment securities:</b>		
Sales gains and losses	\$ (707)	Noninterest Income - Other, Net
Holding gains and losses		- Noninterest Income - Other, Net
Tax effect	107	Provision for Income Taxes
<b>Unrealized gains (losses) on OTTI investment securities:</b>		
Sales gains and losses	4,906	Noninterest Income - Other, Net
Holding gains and losses		- Noninterest Income - Net OTTI Losses Included in Earnings
Tax effect	(701)	Provision for Income Taxes
<b>Unrealized gains (losses) on interest rate swaps and other financial instruments:</b>		
Interest rate contracts	(476)	Interest Expense
Foreign exchange contracts	(1,296)	Interest Income
Tax effect	594	Provision for Income Taxes
<b>Pension and other benefit plans:</b>		
Net actuarial gain/loss	(899)	Operating Expenses - Employee Compensation
Prior service cost/credit	(291)	Operating Expenses - Employee Compensation
Tax effect	452	Provision for Income Taxes
<b>Total reclassifications</b>	<b>\$ 1,689</b>	

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**Reclassifications from Accumulated Other Comprehensive Income (Loss)**


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For the Six Months Ended June 30, 2013	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Gain/Loss Recognized in Income Statement
<b>Unrealized gains (losses) on interest rate swaps and other financial instruments:</b>		
Interest rate contracts	\$ (771)	Interest Expense
Foreign exchange contracts	4,762	Interest Income
Tax effect	(1,635)	Provision for Income Taxes
<b>Pension and other benefit plans:</b>		
Net actuarial gain/loss	(2,635)	Operating Expenses - Employee Compensation
Prior service cost/credit	(65)	Operating Expenses - Employee Compensation
Tax effect	1,026	Provision for Income Taxes
<b>Total reclassifications</b>	<b>\$ 682</b>	

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**Note 6 – Derivative Financial Instruments and Hedging Activities**


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***Risk Management Objectives and Strategies***

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

derivative instruments that are linked to these assets and liabilities. Interest rate and foreign exchange fluctuations also cause interest income and interest expense of variable-rate assets and liabilities to increase or decrease. The effect of this variability in earnings is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these assets and liabilities.

### *Uses of Derivatives*

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

The notional amounts of derivatives at June 30, 2014 and related activity for the first six months of 2014 are shown in the following table.

<b>Activity in the Notional Amounts of Derivative Financial Instruments</b>						
(\$ in Millions)	Swaps		Caps		Spots and Forwards	Total
December 31, 2013	\$	21,982	\$	2,684	\$	24,945
Additions /Accretion		1,353		278	1,948	3,579
Maturities /Amortization		(3,302)		(70)	(1,987)	(5,359)
Terminations		(104)		-	-	(104)
<b>June 30, 2014</b>	<b>\$</b>	<b>19,929</b>	<b>\$</b>	<b>2,892</b>	<b>\$</b>	<b>23,061</b>

The notional amounts of derivatives at June 30, 2013 and related activity for the first six months of 2013 are shown in the following table.

<b>Activity in the Notional Amounts of Derivative Financial Instruments</b>						
(\$ in Millions)	Swaps		Caps		Spots and Forwards	Total
December 31, 2012	\$	23,020	\$	3,049	\$	26,361
Additions /Accretion		1,850		-	1,777	3,627
Maturities /Amortization		(2,610)		(500)	(1,825)	(4,935)
Terminations		(158)		-	-	(158)
<b>June 30, 2013</b>	<b>\$</b>	<b>22,102</b>	<b>\$</b>	<b>2,549</b>	<b>\$</b>	<b>24,895</b>

### *Accounting for Derivative Instruments and Hedging Activities*

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

derivative are reported in accumulated other comprehensive income (loss). The gains and losses on the derivatives that we report in accumulated other comprehensive income (loss) will be reclassified as earnings in the period 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 primarily 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 June 30, 2014, we expect that \$1.8 million of expense will be reclassified from other comprehensive income into earnings in the next 12 months, based on the anticipated cash flows of existing financial instruments. The maximum term over which we are hedging our exposure to the variability of future cash flows for all forecasted transactions is approximately 20 years.

### ***Derivatives Not Designated as Hedges***

Derivative agreements with our customers and the related offsetting derivative agreements with counterparties are not designated as hedging instruments and do not receive hedge accounting treatment. Accordingly, any changes in the fair value of these 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, we are exposed to counterparty credit risk.

To minimize the risk of credit losses, all derivative transactions with swap dealers are governed by master swap agreements, which include bilateral collateral arrangements, requiring the Bank or our counterparties to post collateral on a daily basis with thresholds set at zero for all active counterparties. The master swap agreements also include netting agreements requiring the net settlement of covered contracts with the same counterparty in the event of default by the other party. The “net” mark-to-market exposure represents the

netting of the positive and negative exposures with that counterparty. Notwithstanding these protections, we are exposed to intra-day credit risk with these counterparties. Derivative transactions with our customers are typically secured through our loan agreements.

We record derivative exposures and related cash collateral balances at gross amounts in our consolidated balance sheets. Pursuant to our master swap agreements, as of June 30, 2014, our counterparties had posted \$339.7 million in cash and \$96.4 million in securities as collateral with us. We estimate that the amount of losses related to derivatives we could be exposed to in the event of nonperformance by dealer counterparties to our derivative positions, net of collateral held by us, was \$5.5 million at June 30, 2014.

### ***Hedge Terminations***

During the six months ended June 30, 2014, we terminated interest rate swaps with customers and offsetting dealer counterparties totaling notional value of \$104.7 million. 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 June 30, 2014 and December 31, 2013 is shown below.

<b>Fair Value of Derivative Financial Instruments</b>		
	Fair Value of Derivative Assets <sup>(1)</sup>	Fair Value of Derivative Liabilities <sup>(2)</sup>
<b>As of June 30, 2014</b>		
<b>Derivatives Designated as Hedging Instruments</b>		
Interest Rate Contracts	\$ 422,964	\$ 3,768
Foreign Exchange Contracts	42	1,449
Total Derivatives Designated as Hedging Instruments	\$ 423,006	\$ 5,217
<b>Derivatives Not Designated as Hedging Instruments</b>		
Interest Rate Contracts	\$ 134,842	\$ 96,032
Foreign Exchange Contracts	940	815
Total Derivatives Not Designated as Hedging Instruments	\$ 135,782	\$ 96,847
<b>Total Derivatives</b>	<b>\$ 558,788</b>	<b>\$ 102,064</b>

<sup>(1)</sup> These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the condensed consolidated balance sheet at June 30, 2014.

<sup>(2)</sup> These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet at June 30, 2014.

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

<sup>(1)</sup> These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the condensed consolidated balance sheet at December 31, 2013.

<sup>(2)</sup> These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet at December 31, 2013.

A summary of the impact of derivative financial instruments on our condensed consolidated statements of income and comprehensive income for the six months ended June 30, 2014 and 2013 is shown below.

#### Derivative Financial Instruments in Fair Value Hedging Relationships

Six Months Ended June 30,	Net Amount of Gain or (Loss) Recognized in Income on Derivatives and Hedged Items <sup>(1)</sup>	
	2014	2013
Interest Rate Contracts	\$ 3,379	\$ 2,869
<b>Total</b>	<b>\$ 3,379</b>	<b>\$ 2,869</b>

<sup>(1)</sup> Located in Interest Expense in the condensed consolidated statements of income for the six months ended June 30, 2014 and 2013

#### Derivative Financial Instruments in Cash Flow Hedging Relationships

Six Months Ended June 30, 2014	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivatives <sup>(1)</sup>	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivatives <sup>(1)</sup>	Amount of Gain or (Loss) Recognized in Income on Derivatives <sup>(2)</sup>
Interest Rate Contracts	\$ (21,039)	\$ (476) <sup>(3)</sup>	\$ -
Foreign Exchange Contracts	(174)	(1,296) <sup>(4) (5)</sup>	(370) <sup>(4)</sup>
<b>Total</b>	<b>\$ (21,213)</b>	<b>\$ (1,772)</b>	<b>\$ (370)</b>

<sup>(1)</sup> Effective portion

<sup>(2)</sup> Ineffective portion and amount excluded from effectiveness assessment

<sup>(3)</sup> Located in Interest Expense in the condensed consolidated statement of income for the six months ended June 30, 2014

<sup>(4)</sup> Located in Interest Income – Loans in the condensed consolidated statement of income for the six months ended June 30, 2014

<sup>(5)</sup> Fully offset by a \$1,296 gain on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the condensed consolidated statement of income for the six months ended June 30, 2014

#### Derivative Financial Instruments in Cash Flow Hedging Relationships

Six Months Ended June 30, 2013	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivatives <sup>(1)</sup>	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivatives <sup>(1)</sup>	Amount of Gain or (Loss) Recognized in Income on Derivatives <sup>(2)</sup>
Interest Rate Contracts	\$ 22,415	\$ (771) <sup>(3)</sup>	\$ -
Foreign Exchange Contracts	3,494	4,762 <sup>(4) (5)</sup>	(132) <sup>(4)</sup>
<b>Total</b>	<b>\$ 25,909</b>	<b>\$ 3,991</b>	<b>\$ (132)</b>

<sup>(1)</sup> Effective portion

<sup>(2)</sup> Ineffective portion and amount excluded from effectiveness assessment

<sup>(3)</sup> Located in Interest Expense in the condensed consolidated statement of income for the six months ended June 30, 2013

<sup>(4)</sup> Located in Interest Income – Loans in the condensed consolidated statement of income for the six months ended June 30, 2013

<sup>(5)</sup> Fully offset by a \$4,762 loss on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the condensed consolidated statement of income for the six months ended June 30, 2013

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**Derivative Financial Instruments Not Designated as Hedging Relationships**

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<b>Six Months Ended June 30,</b>	<b>Net Amount of Gain or (Loss) Recognized in Income On Derivatives<sup>(1)</sup></b>	
	<b>2014</b>	<b>2013</b>
Interest Rate Contracts	\$ 4,554	\$ (2,552)
Foreign Exchange Contracts	48	50
<b>Total</b>	<b>\$ 4,602</b>	<b>\$ (2,502)</b>

<sup>(1)</sup> Located in Other Noninterest Income/Expense in the condensed consolidated statements of income for the six months ended June 30, 2014 and 2013

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***Asset/Liability Offsetting***

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

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

### Offsetting of Financial and Derivative Instruments

	Gross Amounts of Assets/Liabilities Presented in the Condensed Consolidated Balance Sheets	Amounts Not Offset In the Condensed Consolidated Balance Sheets		Net Amount
		Cash Collateral Received/ Pledged <sup>(1)</sup>	Investment Securities Received/Pledged as Collateral <sup>(1)</sup>	
<b>As of June 30, 2014</b>				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	\$ 448,760	\$ 339,710	\$ 96,391	\$ 12,659
Customer	110,028	-	-	110,028
Accrued Interest Receivable on Derivative Contracts	73,456	-	-	73,456
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	87,205	15,680	-	71,525
Customer	14,859	-	-	14,859
Accrued Interest Payable on Derivative Contracts	4,238	-	-	4,238
<b>As of December 31, 2013</b>				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	\$ 585,687	\$ 424,570	\$ 132,510	\$ 28,607
Customer	88,335	-	-	88,335
Accrued Interest Receivable on Derivative Contracts	83,452	-	-	83,452
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	83,921	10,130	-	73,791
Customer	37,386	-	-	37,386
Accrued Interest Payable on Derivative Contracts	3,952	-	-	3,952

<sup>(1)</sup> Cash collateral received is recognized in the condensed consolidated balance sheets whereas investment securities received are not recognized in the condensed consolidated balance sheets as of June 30, 2014 and December 31, 2013, respectively.

## Note 7 – Fair Value Measurements

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The fair value of financial instruments represents the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability (an exit price) in active markets among willing participants at the reporting date. The FASB has established a three-level fair value hierarchy aimed at maximizing the use of observable inputs – that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability.

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 June 30, 2014 consist of assets held in a trust fund related to deferred compensation and nonqualified retirement plans. 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 June 30, 2014 include our derivative contracts, collateral balances related to derivative contracts, U.S. Treasury and agency debt investment securities, non-agency MBS, the substantial majority of agency MBS, corporate bonds and a limited number of ABS.

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

The fair value of our investment securities classified as Level 2 is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs and assumptions related to these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding non-binding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. 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 value of investment securities also appears in Note 4.

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

<b>Information About Valuation Techniques and Inputs to Level 2 Fair Value Measurements</b>		
	<b>Valuation Technique</b>	<b>Inputs</b>
Investment Securities	Third-Party Pricing Service	Prepayment Rate Lifetime Default Rate Loss Severity Benchmark Yield Curve Quoted Prices
Interest Rate Swaps and Other Financial Instruments	Discounted Cash Flow	Benchmark Yield Curve Counterparty Credit Risk Volatility
Collateral Assets and Collateral Liabilities	Carrying Value	Par/Principal Plus Accrued Interest

### **Level 3**

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at June 30, 2014 include our Farmer Mac MBS, FHA/VA non-wrapped reperformer MBS, the majority of ABS and a small portion of agency MBS. Based on the lack of active trading volume and an orderly market for these securities, we classified these securities as Level 3. Market value for all Farmer Mac MBS is calculated internally using third-party models. Market value for FHA/VA non-wrapped reperformer MBS is determined by taking the lower of the value calculated internally using third-party models and the value determined by a third-party pricing service. Market value for Level 3 ABS and Level 3 agency MBS is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs into all of these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management assumptions, with some corroboration to market inputs where information is available.

Level 3 assets at June 30, 2014 also include \$17.9 million of loans originally measured at cost, which were written down to fair value as a result of impairment. The valuation of these assets requires a determination of the fair value of the underlying collateral, which may include the use of independent appraisals or other market-based information to develop a management estimate of fair value. As a result, these fair value measurements fall under Level 3 in the fair value hierarchy; however, they are excluded from the 'Assets and Liabilities Measured at Fair Value on a Recurring Basis' tables on pages 41 and 42 because they are not measured on a recurring basis.

Our Level 3 liabilities at June 30, 2014 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

No transfers into or out of the three levels of assets occurred during the six months ended June 30, 2014 and 2013.

The following table presents quantitative information about Level 3 fair value measurements as of June 30, 2014.

<b>Quantitative Information About Valuation Techniques and Unobservable Inputs to Level 3 Fair Value Measurements</b>				
(\$ in Millions)	Fair Value	Valuation Technique	Unobservable Inputs	Range
<b>Assets</b>				
Investment Securities:				
U.S. Agency Mortgage-Backed	\$ 60	Third-Party Pricing Service	Prepayment Rate	*
Farmer Mac Mortgage-Backed	164	Discounted Cash Flow	Prepayment Rate	8-12 percent
			Mark-to-Market Spread	1 percent
FHAVA Non-Wrapped Reperformer Mortgage-Backed	414	Lower of Discounted Cash Flow or Third-Party Pricing Service	Prepayment Rate	6-10 percent *
			Lifetime Default Rate	1-21 percent *
			Loss Severity	11-13 percent *
Asset-Backed	98	Third-Party Pricing Service	Prepayment Rate	*
			Lifetime Default Rate	*
			Loss Severity	*
Impaired Loans	18	Appraisal	Income/Expense Data	**
			Comparable Sales	**
			Replacement Cost	**
<b>Liabilities</b>				
Standby Letters of Credit	\$ 10	Discounted Cash Flow	Mark-to-Market Spread	0.2-2 percent

\* Excludes ranges which are determined by a third-party pricing service  
\*\* Range of inputs are unique to each collateral property

### ***Assets and Liabilities Measured at Fair Value on a Recurring Basis***

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at June 30, 2014 and December 31, 2013 for each of the fair value hierarchy levels.

<b>Assets and Liabilities Measured at Fair Value on a Recurring Basis</b>					
<b>June 30, 2014</b>					
(\$ in Millions)	Level 1	Level 2	Level 3	Total	
<b>Assets</b>					
Investment Securities:					
U.S. Treasury Debt	\$ -	\$ 7,105	\$ -	\$ 7,105	
U.S. Agency Debt	-	5,030	-	5,030	
Mortgage-Backed:					
U.S. Agency	-	10,240	60	10,300	
Farmer Mac	-	-	164	164	
FHAVA Non-Wrapped Reperformer	-	-	414	414	
Non-Agency	-	185	-	185	
Asset-Backed	-	24	98	122	
Corporate Bonds	-	131	-	131	
Interest Rate Swaps and Other Financial Instruments	-	559	-	559	
Assets Held in Trust (included in Other Assets)	59	-	-	59	
Collateral Assets (included in Other Assets)	-	16	-	16	
<b>Total Assets</b>	<b>\$ 59</b>	<b>\$ 23,290</b>	<b>\$ 736</b>	<b>\$ 24,085</b>	
<b>Liabilities</b>					
Interest Rate Swaps and Other Financial Instruments	\$ -	\$ 102	\$ -	\$ 102	
Collateral Liabilities (included in Bonds and Notes)	-	340	-	340	
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10	
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 442</b>	<b>\$ 10</b>	<b>\$ 452</b>	

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

December 31, 2013

(\$ in Millions)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investment Securities:				
U.S. Treasury Debt	\$ -	\$ 5,504	\$ -	\$ 5,504
U.S. Agency Debt	-	4,459	-	4,459
Mortgage-Backed:				
U.S. Agency	-	10,563	55	10,618
Farmer Mac	-	-	179	179
FHA/VA Non-Wrapped Reperformer	-	-	440	440
Non-Agency	-	221	-	221
Asset-Backed	-	46	106	152
Corporate Bonds	-	115	-	115
Interest Rate Swaps and Other Financial Instruments	-	674	-	674
Assets Held in Trust (included in Other Assets)	58	-	-	58
Collateral Assets (included in Other Assets)	-	10	-	10
<b>Total Assets</b>	<b>\$ 58</b>	<b>\$ 21,592</b>	<b>\$ 780</b>	<b>\$ 22,430</b>
<b>Liabilities</b>				
Interest Rate Swaps and Other Financial Instruments	\$ -	\$ 121	\$ -	\$ 121
Collateral Liabilities (included in Bonds and Notes)	-	425	-	425
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 546</b>	<b>\$ 10</b>	<b>\$ 556</b>

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)	Agency Mortgage-Backed Securities	Farmer Mac Mortgage-Backed Securities	FHA/VA Non-Wrapped Reperformer Mortgage-Backed Securities	Asset-Backed Securities	Standby Letters of Credit
<b>Balance at December 31, 2013</b>	\$ 55	\$ 179	\$ 440	\$ 106	\$ 10
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	-	2	-
Included in Other Comprehensive Income	10	-	(5)	1	-
Sales	-	-	-	(7)	-
Issuances	-	-	-	-	3
Settlements	(6)	(14)	(31)	(6)	(3)
Accretion	1	(1)	10	2	-
<b>Balance at June 30, 2014</b>	<b>\$ 60</b>	<b>\$ 164</b>	<b>\$ 414</b>	<b>\$ 98</b>	<b>\$ 10</b>
<b>Balance at December 31, 2012</b>	<b>\$ 78</b>	<b>\$ 215</b>	<b>\$ 506</b>	<b>\$ 121</b>	<b>\$ 10</b>
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	-	-	-
Included in Other Comprehensive Income	(1)	-	8	3	-
Issuances	-	-	-	-	3
Settlements	(7)	(26)	(46)	(12)	(3)
Accretion	1	(1)	10	3	-
<b>Balance at June 30, 2013</b>	<b>\$ 71</b>	<b>\$ 188</b>	<b>\$ 478</b>	<b>\$ 115</b>	<b>\$ 10</b>

### ***Estimated Fair Value of Certain Other Financial Instruments***

The following table presents the estimated fair value of financial instruments that are recorded in the condensed consolidated balance sheets at cost, as well as certain off-balance sheet financial instruments, as of June 30, 2014 and December 31, 2013.

(\$ in Millions)

	June 30, 2014			December 31, 2013		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
<b>Financial Assets:</b>						
Net Loans	\$ 75,443	\$ 76,884	Level 3	\$ 73,156	\$ 73,941	Level 3
<b>Financial Liabilities:</b>						
Bonds and Notes	\$ 91,523	\$ 92,198	Level 3	\$ 88,458	\$ 88,297	Level 3
Subordinated Debt	905	954	Level 3	905	909	Level 3
<b>Off-Balance Sheet Financial Instruments:</b>						
Commitments to Extend Credit	\$ -	\$ (104)	Level 3	\$ -	\$ (105)	Level 3

### ***Net Loans***

Our loan portfolio includes fixed- and floating-rate loans. Since no active trading market exists for most of our loans, fair value is estimated by discounting the expected future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit risk.

### ***Bonds and Notes***

Bonds and notes are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the U.S. Treasury yield curve and an estimated yield-spread relationship between Farm Credit debt securities and U.S. Treasury securities. We estimate an appropriate yield-spread taking into consideration bank and security dealer yield indications, observed new government sponsored enterprise debt security pricing, and pricing levels in the related USD interest rate swap market.

### ***Subordinated Debt***

The fair value of subordinated debt is estimated based upon quotes obtained from a broker/dealer.

### ***Commitments to Extend Credit***

The fair value of commitments to extend credit is estimated by applying a risk-adjusted spread percentage to these obligations.

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

<b>Information About Valuation Techniques and Inputs to Other Fair Value Measurements</b>		
	<b>Valuation Technique</b>	<b>Input</b>
Net Loans	Discounted Cash Flow	Prepayment Rate Mark-to-Market Spread Benchmark Yield Curve Probability of Default Loss Given Default
Bonds and Notes	Discounted Cash Flow	Benchmark Yield Curve Farm Credit Spread
Subordinated Debt	Non-binding Broker/Dealer Quote	Price for Similar Security
Commitments to Extend Credit	Discounted Cash Flow	Mark-to-Market Spread

## **Note 8 – Employee Benefit Plans**

We have employer-funded, qualified defined benefit pension plans, which are noncontributory and cover employees hired prior to January 1, 2007. We also have noncontributory, unfunded nonqualified supplemental executive retirement plans covering certain senior officers and specified other senior managers, as well as a noncontributory, unfunded nonqualified executive retirement plan designed to provide enhanced retirement benefits to two senior officers employed pursuant to employment agreements. 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.

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.

We contributed \$1.9 million to our funded qualified defined benefit pension plans during the six months ended June 30, 2014, and anticipate that we will contribute approximately \$2.2 million more to such plans during the remainder of 2014. We expect to contribute a total of \$0.5 million, net of collected retiree premiums, to our other postretirement benefit plans in 2014. Our actual contributions could differ from the estimates noted above.

## **Note 9 – Commitments and Contingent Liabilities**

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Due to the often volatile seasonal borrowing requirements of our Agribusiness customers, which are impacted by changing commodity prices, farmer delivery patterns and other factors, we provide a significant amount of revolving loan commitments. At June 30, 2014, commitments to extend credit and commercial letters of credit were \$25.9 billion and \$341.0 million, respectively.

Under the Farm Credit Act of 1971, as amended, we are primarily liable for the portion of outstanding Systemwide debt securities issued by CoBank. Additionally, we are contingently liable for the outstanding Systemwide debt securities issued by the other System banks. Total Systemwide debt securities of the System were \$212.4 billion at June 30, 2014.

There are several mechanisms in place affecting exposure to statutory joint and several liabilities. System banks are statutorily required to maintain eligible assets at a level at least equal in value to the total amount of debt for which such System bank is primarily liable. In addition, in the event of a default by a System bank, the Insurance Fund would be required to make timely payment of principal and interest on Systemwide debt securities, to the extent that net assets are available in the Insurance Fund, before the joint and several liability of the System banks would be triggered. At June 30, 2014, the aggregated assets of the Insurance Fund totaled \$3.6 billion. Finally, System banks must maintain certain financial criteria in order to participate in Systemwide debt issuances. If these criteria are not met, a troubled System bank's access to and participation in Systemwide debt issuances could be limited or denied.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For those matters where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. For other matters, where a loss is not probable or the amount of the loss is not estimable, we will not accrue legal reserves. 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 June 30, 2014 and the liabilities arising from our legal proceedings will not have a material adverse effect on the consolidated financial position, consolidated results of operations or consolidated cash flows of the Bank. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Bank's consolidated financial position, consolidated results of operations or consolidated cash flows.

## **Note 10 – Segment Financial Information**

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

The accompanying tables present 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 to our segments net interest income on investment securities as well as gains and losses on investment securities. Information to reconcile the total reportable segments to the total CoBank financial statements is shown as "other." Inter-segment transactions are insignificant.

We do not hold significant assets in any foreign country. Substantially all of our agricultural export finance loans are U.S. dollar-denominated and 48 percent of these loans are guaranteed by the U.S. government.

For the six-month periods ended June 30, 2014 and 2013, no customer made up 10 percent or more of our gross or net interest income.

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**Segment Financial Information**

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**For the Three Months Ended June 30, 2014**

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	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
<b>Results of Operations</b> (\$ in Thousands):						
Net Interest Income	\$ 159,512	\$ 65,473	\$ 88,445	\$ 313,430	\$ (2,079)	\$ 311,351
(Loan Loss Reversal)/Provision for Loan Losses	(10,000)	-	(15,000)	(25,000)	-	(25,000)
Noninterest Income	16,035	701	3,165	19,901	(1,128)	18,773
Operating Expenses	45,364	8,435	21,832	75,631	(989)	74,642
Provision for Income Taxes	28,519	-	19,290	47,809	(257)	47,552
<b>Net Income</b>	<b>\$ 111,664</b>	<b>\$ 57,739</b>	<b>\$ 65,488</b>	<b>\$ 234,891</b>	<b>\$ (1,961)</b>	<b>\$ 232,930</b>

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**For the Three Months Ended June 30, 2013**

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<b>Results of Operations</b> (\$ in Thousands):						
Net Interest Income	\$ 136,973	\$ 74,133	\$ 87,527	\$ 298,633	\$ (1,983)	\$ 296,650
Provision for Loan Losses	-	-	5,000	5,000	-	5,000
Noninterest Income	21,880	340	8,951	31,171	(610)	30,561
Operating Expenses	41,919	8,421	21,394	71,734	(1,981)	69,753
Provision for Income Taxes	25,905	-	15,329	41,234	(812)	40,422
<b>Net Income</b>	<b>\$ 91,029</b>	<b>\$ 66,052</b>	<b>\$ 54,755</b>	<b>\$ 211,836</b>	<b>\$ 200</b>	<b>\$ 212,036</b>

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**Segment Financial Information**

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**For the Six Months Ended June 30, 2014**

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	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
<b>Results of Operations</b> (\$ in Thousands):						
Net Interest Income	\$ 312,604	\$ 137,359	\$ 174,552	\$ 624,515	\$ (4,198)	\$ 620,317
(Loan Loss Reversal)/Provision for Loan Losses	(10,000)	-	(15,000)	(25,000)	-	(25,000)
Noninterest Income	41,949	2,420	13,539	57,908	(867)	57,041
Operating Expenses	86,313	16,509	41,691	144,513	(175)	144,338
Provision for Income Taxes	60,089	-	34,626	94,715	(896)	93,819
<b>Net Income</b>	<b>\$ 218,151</b>	<b>\$ 123,270</b>	<b>\$ 126,774</b>	<b>\$ 468,195</b>	<b>\$ (3,994)</b>	<b>\$ 464,201</b>

**Selected Financial Information at****June 30, 2014** (\$ in Millions):

Loans	\$ 23,215	\$ 37,538	\$ 15,137	\$ 75,890	\$ -	\$ 75,890
Less: Allowance for Loan Losses	(297)	-	(150)	(447)	-	(447)
<b>Net Loans</b>	<b>\$ 22,918</b>	<b>\$ 37,538</b>	<b>\$ 14,987</b>	<b>\$ 75,443</b>	<b>\$ -</b>	<b>\$ 75,443</b>
<b>Total Assets</b>	<b>\$ 23,216</b>	<b>\$ 37,657</b>	<b>\$ 15,047</b>	<b>\$ 75,920</b>	<b>\$ 24,997 *</b>	<b>\$ 100,917</b>

\*Other assets are comprised of:

Investment Securities						\$ 23,451
Other Assets						1,546

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**For the Six Months Ended June 30, 2013**

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**Results of Operations** (\$ in Thousands):

Net Interest Income	\$ 292,750	\$ 139,794	\$ 170,463	\$ 603,007	\$ (3,930)	\$ 599,077
Provision for Loan Losses	5,000	-	15,000	20,000	-	20,000
Noninterest Income	39,921	573	16,025	56,519	(112)	56,407
Operating Expenses	79,227	16,645	40,758	136,630	(561)	136,069
Provision for Income Taxes	53,741	-	25,847	79,588	(1,010)	78,578
<b>Net Income</b>	<b>\$ 194,703</b>	<b>\$ 123,722</b>	<b>\$ 104,883</b>	<b>\$ 423,308</b>	<b>\$ (2,471)</b>	<b>\$ 420,837</b>

**Selected Financial Information at****June 30, 2013** (\$ in Millions):

Loans	\$ 20,081	\$ 36,717	\$ 14,401	\$ 71,199	\$ -	\$ 71,199
Less: Allowance for Loan Losses	(283)	-	(179)	(462)	-	(462)
<b>Net Loans</b>	<b>\$ 19,798</b>	<b>\$ 36,717</b>	<b>\$ 14,222</b>	<b>\$ 70,737</b>	<b>\$ -</b>	<b>\$ 70,737</b>
<b>Total Assets</b>	<b>\$ 20,147</b>	<b>\$ 36,834</b>	<b>\$ 14,290</b>	<b>\$ 71,271</b>	<b>\$ 21,853 *</b>	<b>\$ 93,124</b>

\*Other assets are comprised of:

Investment Securities						\$ 20,239
Other Assets						1,614

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# Supplemental District Information

## CoBank, ACB and Affiliated Associations

### District Overview

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CoBank is chartered by the FCA to serve the Associations that provide credit and financially related services to or for the benefit of eligible borrowers/shareholders for qualified purposes in specific geographic areas in the United States. The Associations are not authorized by the Farm Credit Act to participate in the issuance of Systemwide debt securities. Therefore, we are the primary funding source for our affiliated Associations. We have 27 affiliated Associations serving 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

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

The Farm Credit Act as well as 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' respective boards of directors are expected to establish and monitor the necessary policies and procedures to comply with all FCA regulations. In all other respects, the lending relationship with the Associations is substantially similar to that with our other borrowers.

Our affiliated Associations are considered customers and thus 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 condensed consolidated financial statements. However, because of the interdependent manner in which CoBank and our affiliated Associations operate, we believe that presenting combined Bank and Association financial information is meaningful for purposes of additional analysis.

The Financial Highlights, Management's Discussion and Analysis and the Condensed Combined Income Statements and Balance Sheets on pages 58 and 59 present unaudited combined financial information and related analysis of CoBank and its affiliated Associations, which are collectively referred to as the "District." As part of the combining process, all significant transactions between CoBank and the Associations, including loans made by the Bank to the affiliated Associations and the interest income/interest expense related thereto, and investments of the affiliated Associations in the Bank and the earnings related thereto, have been eliminated.

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

### Financial Highlights

(\$ in Thousands)

	June 30, 2014	December 31, 2013
Total Loans	\$ 84,348,964	\$ 81,602,878
Less: Allowance for Loan Losses	698,278	739,745
Net Loans	83,650,686	80,863,133
Total Assets	110,155,809	106,354,560
Total Shareholders' Equity	14,688,753	13,973,480

For the Six Months Ended June 30,	2014	2013
Net Interest Income	\$ 1,219,383	\$ 1,171,809
(Loan Loss Reversal)/Provision for Loan Losses	(36,778)	27,149
Net Fee Income	63,902	66,557
Net Income	844,628	762,634
Net Interest Margin	2.26 %	2.35 %
Return on Average Assets	1.54	1.50
Return on Average Total Shareholders' Equity	11.73	11.45
Average Loans	\$ 84,991,044	\$ 80,013,669
Average Earning Assets	107,779,979	99,576,082
Average Assets	109,844,854	101,612,595

# Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

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

The following discussion summarizes the combined results of operations and financial position of the CoBank District (District) as of and for the six months ended June 30, 2014. Comparisons with prior-year periods are included. Affiliated Agricultural Credit Associations and Federal Land Credit Associations are together referred to as "affiliated Associations."

### **Combined Results of Operations**

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District net income increased by \$82.0 million for the six months ended June 30, 2014 as compared to the same period of 2013. The increase in earnings resulted primarily from an increase in net interest income of \$47.6 million, a net change in the provision for loan losses/loan loss reversal of \$63.9 million and a \$10.9 million increase in noninterest income. These increases were partially offset by an increase in operating expenses of \$24.5 million and \$15.9 million in higher income tax expense.

Net interest income increased to \$1,219 million for the six months ended June 30, 2014 from \$1,172 million for the same period in 2013. Average loan volume in the District grew 6 percent to \$85.0 billion in the first six months of 2014 compared to \$80.0 billion for the same period of 2013. The increase in average loan volume primarily reflected growth in agribusiness, real estate mortgage loans and short and intermediate-term loans. The impact of growth in average loan volume on net interest income was partially offset by lower returns on invested capital throughout the District, a reduction in CoBank's income from net accretion of merger-related asset and liability fair value adjustments, and lower spreads on the District's lending portfolios due to increased competition for the business of our customers. These factors led to a decrease in the District's overall net interest margin to 2.26 percent for the first six months of 2014 as compared to 2.35 percent for the same period in 2013.

The District recorded a net loan loss reversal of \$36.8 million for the six months ended June 30, 2014, compared to a provision for loan losses of \$27.1 million for the same period of 2013. CoBank recorded a \$25.0 million loan loss reversal in the first six months of 2014 compared to a \$20.0 million provision for loan losses in the same period of 2013, which is discussed further beginning on page 4. The Associations recorded a net combined loan loss reversal of \$11.8 million for the first six months of 2014, compared to a net combined provision for loan losses of \$7.1 million in the prior-year period. The current period net loan loss reversal at the Associations resulted from improvement in general credit quality as well as improved economic conditions in the dairy and livestock industries.

Noninterest income increased to \$120.0 million for the six months ended June 30, 2014 from \$109.0 million for the same period in 2013. Other noninterest income increased by \$20.2 million in the first six months of 2014, as compared to the same period in 2013, due to gains resulting from the sale of three investment securities at CoBank, an increased level of patronage income received from other System institutions at CoBank and gains on the disposition of acquired property at certain Associations. Losses on early extinguishments of debt, net of prepayment income, increased to \$20.2 million for the first six months of 2014 compared to \$11.5 million in the 2013 period. These losses primarily relate to CoBank and are explained on page 5.

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

Total District operating expenses increased 6 percent to \$432.3 million for the first six months of 2014 from \$407.8 million for the same period of 2013. The change included an increase in Insurance Fund premium expense of \$10.5 million, driven by an increase in premium rates and, to a lesser extent, growth in average loan volume. Insurance Fund premium rates were 12 basis points of adjusted insured debt obligations during the first six months of 2014 compared to 10 basis points throughout 2013. Employee compensation expense increased to \$252.8 million for the first six months of 2014 from \$243.6 million for the same period of 2013. The increase was primarily due to the Associations' increased staffing, as well as annual salary adjustments and increased incentive compensation across the District.

Income tax expense increased to \$99.2 million for the six months ended June 30, 2014 from \$83.2 million for the same period of 2013. The income tax expense at the District predominantly relates to CoBank, as a substantial majority of the business activities at Associations are exempt from federal income tax. The change in income tax expense at CoBank is explained on page 5.

## Loan Portfolio

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

(\$ in Thousands)

District Loans by Loan Type				
	June 30, 2014		December 31, 2013	
Real Estate Mortgage	\$	24,643,529	\$	24,459,913
Non-affiliated Associations		3,852,681		3,838,682
Production and Intermediate-term		12,968,237		13,936,988
Agribusiness:				
Loans to Cooperatives		11,883,732		10,002,849
Processing and Marketing Operations		4,939,586		4,369,018
Farm Related Businesses		1,538,081		1,436,470
Communications		2,959,746		2,754,218
Energy		11,907,937		11,586,577
Water/Waste Water		1,216,590		1,131,043
Agricultural Export Finance		4,769,683		4,518,185
Rural Residential Real Estate		847,134		871,202
Lease Receivables		2,711,964		2,594,696
Other		110,064		103,037
<b>Total</b>	<b>\$</b>	<b>84,348,964</b>	<b>\$</b>	<b>81,602,878</b>

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

District loan volume at June 30, 2014 was \$84.3 billion compared to \$81.6 billion at December 31, 2013. The increase was driven largely by an increase in CoBank's agribusiness and energy lending as well as an increase in Association processing and marketing lending. The increase in CoBank's lending is explained further on page 4.

### *Loan Quality*

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

District Loan Quality		
	June 30, 2014	December 31, 2013
Acceptable	96.30 %	95.80 %
Special Mention	1.90	2.08
Substandard	1.77	2.05
Doubtful	0.03	0.07
Loss	-	-
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>

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

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) totaled \$583.3 million as of June 30, 2014 compared to \$649.8 million at December 31, 2013. Nonperforming assets represented 0.69 percent of total District loan volume and other property owned at June 30, 2014 compared to 0.80 percent at December 31, 2013. Nonaccrual loan volume, the largest component of nonperforming assets, was 0.57 percent of total loans at June 30, 2014 compared to 0.66 percent at December 31, 2013. Accruing loans 90 days or more past due increased to \$9.4 million at June 30, 2014 from \$8.5 million at December 31, 2013 primarily due to increases at the Associations in the cattle and turkey industries.

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

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

(\$ in Thousands)

Nonperforming Assets	June 30, 2014	December 31, 2013
<b>Nonaccrual Loans:</b>		
Real Estate Mortgage	\$ 223,501	\$ 226,103
Production and Intermediate-term	139,855	168,634
Agribusiness	23,224	26,625
Communications	61,314	78,395
Energy	14,307	19,700
Rural Residential Real Estate	8,922	10,705
Lease Receivables	6,616	5,421
<b>Total Nonaccrual Loans</b>	<b>477,739</b>	<b>535,583</b>
<b>Accruing Restructured Loans:</b>		
Real Estate Mortgage	31,224	24,533
Production and Intermediate-term	23,853	25,832
Agribusiness	68	3,213
Energy	-	2,707
Rural Residential Real Estate	1,314	1,200
<b>Total Accruing Restructured Loans</b>	<b>56,459</b>	<b>57,485</b>
<b>Accruing Loans 90 Days or More Past Due:</b>		
Real Estate Mortgage	4,622	4,560
Production and Intermediate-term	4,596	3,038
Agribusiness	-	512
Rural Residential Real Estate	-	190
Lease Receivables	218	193
<b>Total Accruing Loans 90 Days or More Past Due</b>	<b>9,436</b>	<b>8,493</b>
<b>Total Nonperforming Loans</b>	<b>543,634</b>	<b>601,561</b>
Other Property Owned	39,679	48,275
<b>Total Nonperforming Assets</b>	<b>\$ 583,313</b>	<b>\$ 649,836</b>
Nonaccrual Loans as a Percentage of Total Loans	0.57 %	0.66 %
Nonperforming Assets as a Percentage of Total Loans and Other Property Owned	0.69	0.80
Nonperforming Assets as a Percentage of Capital	3.97	4.65

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

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

(\$ in Thousands)

### Aging of Past Due Loans

June 30, 2014							
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing	
Real Estate Mortgage	\$ 50,833	\$ 67,049	\$ 117,882	\$ 24,796,589	\$ 24,914,471	\$ 4,622	
Production and Intermediate-term	71,581	54,414	125,995	12,930,129	13,056,124	4,596	
Agribusiness	9,029	3,881	12,910	18,406,627	18,419,537	-	
Communications	-	3,798	3,798	2,962,925	2,966,723	-	
Energy	10,171	5,855	16,026	11,937,870	11,953,896	-	
Water/Waste Water	-	-	-	1,223,202	1,223,202	-	
Agricultural Export Finance	-	-	-	4,779,521	4,779,521	-	
Rural Residential Real Estate	5,065	2,220	7,285	842,889	850,174	-	
Lease Receivables	3,614	2,963	6,577	2,705,941	2,712,518	218	
Non-affiliated Associations	-	-	-	3,854,889	3,854,889	-	
Other	704	-	704	109,585	110,289	-	
<b>Total</b>	<b>\$ 150,997</b>	<b>\$ 140,180</b>	<b>\$ 291,177</b>	<b>\$ 84,550,167</b>	<b>\$ 84,841,344</b>	<b>\$ 9,436</b>	

(\$ in Thousands)

### Aging of Past Due Loans

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

## Supplemental District Financial Information

### CoBank, ACB and Affiliated Associations

District entities maintain an allowance for loan losses at a level consistent with the probable losses identified by management of each institution, considering such factors as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition and concentrations. CoBank and certain Associations also maintain a reserve for unfunded commitments, which totaled \$178.9 million at June 30, 2014.

Although aggregated in the District's combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities. The allowance for loan losses at June 30, 2014 totaled \$698.3 million compared to \$739.7 million at December 31, 2013.

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

(\$ in Thousands)

#### Changes in Allowance for Loan Losses

	Balance at December 31, 2013	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Association Merger Impact	Balance at June 30, 2014
Real Estate Mortgage	\$ 103,685	\$ (1,044)	\$ 754	\$ 13,312	\$ (21,716)	\$ (1,716)	\$ 93,275
Production and Intermediate-term	182,301	(4,829)	3,587	(30,093)	3,691	(3,496)	151,161
Agribusiness	233,062	(179)	1,933	(8,727)	17,623	(885)	242,827
Communications	64,930	(1,588)	460	(8,319)	1,178	-	56,661
Energy	97,354	(530)	5	(7,707)	2,777	-	91,899
Water/Waste Water	9,425	-	-	(414)	288	-	9,299
Agricultural Export Finance	7,439	-	8	2	(10)	-	7,439
Rural Residential Real Estate	6,671	(371)	13	736	-	(11)	7,038
Lease Receivables	34,748	(791)	161	4,268	-	(1)	38,385
Other	130	-	-	164	-	-	294
<b>Total</b>	<b>\$ 739,745</b>	<b>\$ (9,332)</b>	<b>\$ 6,921</b>	<b>\$ (36,778)</b>	<b>\$ 3,831</b>	<b>\$ (6,109)</b>	<b>\$ 698,278</b>

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

(\$ in Thousands)

### Changes in Allowance for Loan Losses

	Balance at December 31, 2012	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Balance at June 30, 2013
Real Estate Mortgage	\$ 89,743	\$ (11,742)	\$ 316	\$ 42,210	\$ (326)	\$ 120,201
Production and Intermediate-term	201,398	(13,159)	4,876	(19,591)	(1,305)	172,219
Agribusiness	255,027	(1,815)	9,083	(17,012)	(6,429)	238,854
Communications	66,265	(26)	857	10,558	(447)	77,207
Energy	93,403	(537)	12	7,154	3,097	103,129
Water/Waste Water	9,853	-	-	(432)	302	9,723
Agricultural Export Finance	6,238	-	671	(11)	(41)	6,857
Rural Residential Real Estate	5,519	(470)	6	3,445	-	8,500
Lease Receivables	32,158	(339)	1,228	754	-	33,801
Other	22	(1)	-	74	-	95
<b>Total</b>	<b>\$ 759,626</b>	<b>\$ (28,089)</b>	<b>\$ 17,049</b>	<b>\$ 27,149</b>	<b>\$ (5,149)</b>	<b>\$ 770,586</b>

### District Capital Resources

Combined District shareholders' equity at June 30, 2014 totaled \$14.7 billion, a net increase of \$715.3 million as compared to \$14.0 billion at December 31, 2013. The increase primarily resulted from District net income of \$844.6 million and a decrease in accumulated other comprehensive loss of \$84.3 million, somewhat offset by accrued patronage of \$204.9 million and preferred stock dividends of \$31.0 million. The components of the District's accumulated other comprehensive income (loss) are detailed in the following table:

(\$ in Thousands)

### Accumulated Other Comprehensive Income (Loss)

	June 30, 2014	December 31, 2013
Unrealized Gains on Investment Securities	\$ 95,907	\$ 1,305
Net Pension Adjustment	(189,086)	(195,430)
Unrealized Losses on Interest Rate Swaps and Other Financial Instruments	(18,879)	(2,246)
<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>\$ (112,058)</b>	<b>\$ (196,371)</b>

The decrease in the District's total accumulated other comprehensive loss during the first six months of 2014 primarily relates to changes in unrealized gains and losses on CoBank's investment securities, as described on page 11.

## Supplemental District Financial Information

### CoBank, ACB and Affiliated Associations

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

District Capital Ratios						
	June 30, 2014			December 31, 2013		
	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio
CoBank	15.72%	14.83%	10.33%	16.72%	15.74%	10.82%
Associations	13.32% - 35.81%	13.13% - 35.37%	13.13% - 30.07%	13.59% - 35.69%	13.41% - 35.25%	13.41% - 30.02%
Regulatory Minimum	7.00%	7.00%	3.50%	7.00%	7.00%	3.50%

As depicted in the table above, at June 30, 2014, CoBank and all affiliated Associations significantly exceed the FCA's regulatory minimum capital ratios.

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

#### *Association Mergers and Other Matters*

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

The FCA has granted preliminary approval for the proposed merger of Farm Credit of Central Oklahoma, ACA, into Farm Credit of Western Oklahoma, ACA, two Associations within the District, with a proposed date of October 1, 2014. Stockholder approval and final FCA approval will be required for this merger to take effect.

In May 2014 the boards of directors of Frontier Farm Credit (Frontier), one of CoBank's affiliated Associations, and Farm Credit Services of America (FCSAmerica), an Association affiliated with AgriBank, FCB, signed a letter of intent to form a strategic alliance. As part of the new alliance, Frontier and FCSAmerica will continue to exist as separate Associations while integrating their day-to-day business operations, technology systems and leadership teams. Each Association will continue to have its own board, with representatives participating in a coordinating committee to facilitate board governance between the two organizations. The target date for implementation of the alliance is January 1, 2015, subject to a vote of approval by Frontier's stockholders.

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

### Condensed Combined Statements of Income

(\$ in Thousands)

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2014	2013	2014	2013
<b>Interest Income</b>				
Loans	\$ 736,964	\$ 698,477	\$ 1,464,313	\$ 1,399,460
Investment Securities	89,852	80,938	179,288	158,833
Total Interest Income	826,816	779,415	1,643,601	1,558,293
<b>Interest Expense</b>	211,836	194,690	424,218	386,484
Net Interest Income	614,980	584,725	1,219,383	1,171,809
(Loan Loss Reversal)/Provision for Loan Losses	(34,490)	12,680	(36,778)	27,149
Net Interest Income After Loan Loss Reversal/Provision for Loan Losses	649,470	572,045	1,256,161	1,144,660
<b>Noninterest Income/ Expense</b>				
Net Fee Income	34,606	36,925	63,902	66,557
Prepayment Income	3,885	5,164	9,078	31,725
Losses on Early Extinguishments of Debt	(22,427)	(9,666)	(29,270)	(43,266)
Total Other-Than-Temporary Impairment Losses	-	(1,732)	-	(1,732)
Portion Recognized in Other Comprehensive Loss	-	(268)	-	(268)
Net Other-Than-Temporary Impairment Losses Included in Earnings	-	(2,000)	-	(2,000)
Other, Net	40,203	27,001	76,247	56,000
Total Noninterest Income	56,267	57,424	119,957	109,016
<b>Operating Expenses</b>				
Employee Compensation	127,340	121,716	252,766	243,614
Insurance Fund Premium	22,306	16,814	44,520	34,015
Information Services	14,289	13,855	26,324	26,240
General and Administrative	15,695	14,684	30,891	29,276
Occupancy and Equipment	10,598	10,458	21,454	20,114
Farm Credit System Related	6,540	5,974	13,449	12,727
Purchased Services	9,390	9,883	19,251	18,398
Other	12,575	12,208	23,681	23,410
Total Operating Expenses	218,733	205,592	432,336	407,794
Income Before Income Taxes	487,004	423,877	943,782	845,882
Provision for Income Taxes	51,824	42,268	99,154	83,248
<b>Net Income</b>	\$ 435,180	\$ 381,609	\$ 844,628	\$ 762,634

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

### Condensed Combined Balance Sheets

(\$ in Thousands)

	June 30, 2014	December 31, 2013
<b>Assets</b>		
Total Loans	\$ 84,348,964	\$ 81,602,878
Less: Allowance for Loan Losses	698,278	739,745
Net Loans	83,650,686	80,863,133
Cash	833,926	1,500,552
Investment Securities	23,680,010	21,937,745
Interest Rate Swaps and Other Financial Instruments	558,350	672,955
Accrued Interest Receivable and Other Assets	1,432,837	1,380,175
<b>Total Assets</b>	<b>\$ 110,155,809</b>	<b>\$ 106,354,560</b>
<b>Liabilities</b>		
Bonds and Notes	\$ 92,753,212	\$ 89,469,626
Subordinated Debt	904,685	904,685
Interest Rate Swaps and Other Financial Instruments	101,440	120,271
Reserve for Unfunded Commitments	178,948	184,137
Accrued Interest Payable and Other Liabilities	1,528,771	1,702,361
<b>Total Liabilities</b>	<b>95,467,056</b>	<b>92,381,080</b>
<b>Shareholders' Equity</b>		
Preferred Stock Issued by Bank	961,750	961,750
Preferred Stock Issued by Associations	433,608	432,022
Common Stock	1,286,631	1,278,417
Paid In Capital	861,204	654,933
Unallocated Retained Earnings	11,257,618	10,842,729
Accumulated Other Comprehensive Loss	(112,058)	(196,371)
<b>Total Shareholders' Equity</b>	<b>14,688,753</b>	<b>13,973,480</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 110,155,809</b>	<b>\$ 106,354,560</b>

## 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 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 quarterly report and have concluded that our disclosure controls and procedures are effective as of that date.

We also maintain a system of internal controls. The term “internal controls,” as defined by the American Institute of Certified Public Accountants’ Codification of Statement on Auditing Standards, AU-C Section 315, means a process - effected by 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 compliance with applicable laws and regulations. We continually assess the adequacy of our internal control 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.

## Certification Required by Farm Credit Administration Regulations

The undersigned have reviewed this quarterly report which has been prepared in accordance with all applicable statutory or regulatory requirements and certify that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Signed this 1<sup>st</sup> day of August, 2014.

/s/ EVERETT DOBRINSKI

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Everett Dobrinski  
*Chairman of the Board*

/s/ ROBERT B. ENGEL

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Robert B. Engel  
*Chief Executive Officer*

/s/ DAVID P. BURLAGE

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David P. Burlage  
*Chief Financial Officer*

## CERTIFICATION

I, Robert B. Engel, Chief Executive Officer of CoBank, ACB (CoBank or the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

- (1) I have reviewed this quarterly 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 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

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Robert B. Engel  
*Chief Executive Officer*

Dated: August 1, 2014

## 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 quarterly 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 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

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David P. Burlage  
*Chief Financial Officer*

Dated: August 1, 2014

# Senior Management

CoBank, ACB

**Robert B. Engel**, Chief Executive Officer

**Mary E. McBride**, President

**Thomas E. Halverson**, Chief Banking Officer

*Agribusiness*

**Amy H. Gales**, Regional Agribusiness Banking Group\*

**Leli Ghazi**, Agribusiness Division – West

**Michael W. Hechtner**, Agribusiness Division – Central

**Lynn M. Scherler**, Agribusiness Division – South

**G. David Sparks**, Agribusiness Division – East

**Jonathan B. Logan**, Corporate Agribusiness Banking Group

**Karen S. Lowe**, Agricultural Export Finance Division

*Rural Infrastructure*

**Paul A. Narduzzo**, Electric Distribution and Rural Water Banking Division

**Todd E. Telesz**, Power, Energy and Utilities Banking Division

**Robert F. West**, Communications Banking Division

*Regulatory and Legislative Affairs*

**L. Todd VanHoose**, Senior Vice President

*Banking Services*

**Antony M. Bahr**, Banking Services Group\*\*

**Michael A. Romanowski**, Farm Credit Leasing Services Corporation\*\*\*

**Leonard G. Sahling**, Knowledge Exchange Division

**Daniel L. Key**, Chief Credit Officer

**Michael L. Short**, Special Assets Division

**Arthur C. Hodges, Jr.**, Corporate Communications Division

**Ann E. Trakimas**, Chief Operating Officer

*Finance*

**David P. Burlage**, Chief Financial Officer

**Timothy D. Steidle**, Treasury Division

**Michael R. Vestal**, Controller Division

*Information Technology*

**James R. Bernsten**, Chief Information Officer

*Legal*

**M. Mashenka Lundberg**, General Counsel

**Christian J. Clayton**, Legal and Loan Processing

*Human Resources*

**Robert L. O'Toole**, Senior Vice President

*Operations*

**Stephen B. Secor**, Senior Vice President

**Lori L. O'Flaherty**, Chief Risk Officer

**Timothy A. Green**, Asset Review Division

**Katia V. Hoffer**, Enterprise Risk Management Division

**Andrew D. Jacob**, Compliance

**Steven W. Wittbecker**, Internal Audit Division

**John Svisco**, Chief Business Process and Accountability Officer

**Joseph M. Rogers**, Non-Credit Services Division

**Todd E. Wilson**, Enterprise Solutions and Services Division

\* The Strategic Relationships operating segment is included in the Regional Agribusiness Banking Group.

\*\* The Banking Services Group includes the Bank's Capital Market Division.

\*\*\* Farm Credit Leasing Services Corporation is included in our Agribusiness operating segment.

## Office Locations

### CoBank, ACB

#### *CoBank National Office*

5500 S. Quebec Street  
Greenwood Village, CO 80111  
P. O. Box 5110  
Denver, CO 80217  
(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, DC 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  
P.O. Box 31990  
Stockton, CA 95213  
(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

#### *Florida Farm Credit Leasing Office \**

11903 Southern Blvd, Suite 200  
West Palm Beach, FL 33411  
(678) 592-5394

#### *Louisville Banking Center \*\**

1601 UPS Drive, Suite 102  
Louisville, KY 40223  
(502) 423-5650  
(800) 262-6599  
FCL: (800) 942-3309

#### *Lubbock Banking Center \*\**

5715 West 50th  
Lubbock, TX 79414  
P.O. Box 6770  
Lubbock, TX 79493  
(806) 788-3700  
FCL: (806) 788-3705

#### *Minneapolis Banking Center \*\**

600 Highway 169 South, Suite 300  
Minneapolis, MN 55426  
(952) 417-7900  
(800) 282-4150  
FCL: (800) 444-2929

#### *Ohio Farm Credit Leasing Office \**

1220 Irmscher Boulevard  
Celina, OH 45822  
(855) 838-9961 Ext. 23969

#### *Omaha Banking Center \*\**

11422 Miracle Hills Drive, Suite 300  
Omaha, NE 68154-4404  
(402) 492-2000  
(800) 346-5717

#### *Sacramento Banking Center \*\**

1478 Stone Point Drive, Suite 450  
Roseville, CA 95661  
(916) 380-3524  
(800) 457-0942  
FCL: (800) 289-7080

#### *Spokane Banking Center*

1700 South Assembly Street,  
Suite 103  
Spokane, WA 99224-2121  
P.O. Box 2720  
Spokane, WA 99220-2720  
(509) 363-8700  
(800) 378-5577

#### *Sterling Banking Center*

229 South 3rd Street  
Sterling, CO 80751  
(970) 521-2774

#### *St. Louis Banking Center \*\**

1650 Des Peres Road, Suite 120  
St. Louis, MO 63131  
(314) 835-4200  
(800) 806-4144  
FCL: (800) 853-5480

#### *Wichita Banking Center \*\**

245 North Waco, Suite 130  
Wichita, KS 67202  
P.O. Box 2940  
Wichita, KS 67201-2940  
(316) 290-2000  
(800) 322-3654  
FCL: (800) 322-6558

### International

#### *Singapore Representative Office*

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

\* *Farm Credit Leasing office only*

\*\* *Farm Credit Leasing office within this CoBank location*

*CoBank's 2014 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](http://www.cobank.com) on approximately May 9, 2014, August 1, 2014, November 7, 2014, and March 2, 2015 (Annual Report).*