CoBank Quarterly District Financial Information June 30, 2015

Quarterly District Financial Information

CoBank, ACB and Affiliated Associations

Introduction and District Overview

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

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

We are chartered by the FCA to serve the Associations that provide credit and financially related services to or for the benefit of eligible borrowers/shareholders for qualified purposes in specific geographic areas in the United States. We collectively refer to these entities as our affiliated Associations. Associations are not authorized by the Farm Credit Act to participate in the issuance of Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities). Therefore, we are the primary funding source for our affiliated Associations. As of June 30, 2015, we have 26 affiliated Associations serving customers in 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

Our affiliated Associations are considered customers and thus operate independently and maintain an arms-length relationship with us, except to the extent that the Farm Credit Act requires us, as the funding bank, to monitor and approve certain activities of these Associations. Accordingly, the financial information of affiliated Associations is not included in the condensed consolidated quarterly financial statements presented in CoBank's June 30, 2015 Quarterly Report to Shareholders. However, because of the interdependent manner in which CoBank and our affiliated Associations operate, we believe that presenting combined Bank and Association quarterly financial information could be meaningful for purposes of additional analysis.

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

Farm Credit Services Southwest, ACA Matter

In 2014, one of our affiliated Associations, Farm Credit Services Southwest, ACA (FCSSW), noted a sudden significant increase in delinquencies in a discrete portion of its retail lending portfolio. An in-depth investigation directed by a special investigative committee of the FCSSW board of directors identified material weaknesses in internal controls relating to credit origination, administration, servicing and cash management procedures. As a result, certain loans were made to ineligible borrowers under the Farm Credit Act and/or were inadequately secured. In October 2014, the board of directors and management of FCSSW announced that FCSSW's financial statements as of and for the year ended December 31, 2013 as well as the three months ended March 31, 2014 and the six months ended June 30, 2014 could no longer be relied upon. In July 2015, FCSSW published restated financial reports for the above-mentioned periods.

In February 2015, the board of directors of FCSSW and the board of directors of Farm Credit West, ACA, another of our affiliated Associations, signed a letter of intent to merge, and in April 2015 the boards approved a formal plan of merger. The anticipated merger date is November 1, 2015. The merger will be subject to the approval of the stockholders of both Associations as well as the FCA.

As a result of the matters described above, the District's unaudited, condensed combined financial statements for the year ended December 31, 2014 include out-of-period adjustments to the provision for loan losses of $47.0 million, charge-offs of $42.0 million and the transfer of $62.0 million in loans to nonaccrual status, $20.0 million of which remained in nonaccrual loans at year-end 2014. The District's unaudited, condensed combined financial statements for the six months ended June 30, 2015 include out-of-period adjustments to the provision for loan losses of $2.4 million and the transfer of $4.7 million in loans to nonaccrual status. Such errors are not material to the current and historical District unaudited, condensed combined financial statements.

Financial Highlights

($ in Thousands)

	June 30, 2015	December 31, 2014
Total Loans	**$ 91,272,753**	$ 89,132,415
Less: Allowance for Loan Losses	**739,795**	749,257
Net Loans	**90,532,958**	88,383,158
Total Assets	**116,937,542**	116,966,016
Total Shareholders' Equity	**15,819,285**	15,139,164

For the Six Months Ended June 30,	2015	2014
Net Interest Income	**$ 1,258,857**	$ 1,219,383
Provision for Loan Losses/(Loan Loss Reversal)	**16,175**	(36,778)
Net Fee Income	**65,238**	63,902
Net Income	**831,217**	844,628
Net Interest Margin	**2.23 %**	2.26 %
Return on Average Assets	**1.43**	1.54
Return on Average Total Shareholders' Equity	**10.64**	11.73
Average Loans	**$ 89,927,617**	$ 84,991,044
Average Earning Assets	**112,980,279**	107,779,979
Average Assets	**116,224,122**	109,844,854

Discussion and Analysis of District Results of Operations and Financial Condition

District net income decreased by $13.4 million for the six months ended June 30, 2015 as compared to the same period of 2014. The decrease in earnings resulted primarily from a provision for loan losses, impairment losses on investment securities and an increase in operating expenses in the 2015 period. These factors were partially offset by higher levels of prepayment income, net of losses on early extinguishments of debt and gains on the sale of investment securities as well as higher net interest income.

Net interest income increased to $1,259 million for the first six months of 2015 from $1,219 million for the same period in 2014. The increase in net interest income was driven by higher average loan volume, which grew 6 percent to $89.9 billion in the first six months of 2015 compared to $85.0 billion for the same period of 2014. The increase in average loan volume primarily reflected growth in agribusiness, energy, real estate mortgage, short and intermediate-term and communications loans. The impact of growth in average loan volume on net interest income was partially offset by lower spreads in lending and investment portfolios as well as a reduction in the Bank's net accretion of its merger-related fair value adjustments. These factors led to a decrease in the District's overall net interest margin to 2.23 percent for the six months ended June 30, 2015 as compared to 2.26 percent for the same period in 2014.

The District recorded a provision for loan losses of $16.2 million in the first half of 2015, compared to a net loan loss reversal of $36.8 million for the same period of 2014. CoBank recorded a provision for loan losses of $10.0 million in the first six months of 2015 resulting from the increase in lending activity as well as a slight deterioration in credit quality impacting a small number of agribusiness customers. In the first six months of 2014 CoBank recorded a $25.0 million loan loss reversal due primarily from a decline in the level of specific reserves needed for certain communications and energy loans as well as general improvement in credit quality. The Associations recorded a net combined provision for loan losses of $6.2 million for the first six months of 2015, compared to a net combined loan loss reversal of $11.8 million in the same period of 2014. The net combined 2015 provision for loan losses at the Associations was primarily due to an increase in lending activity at several Associations as well as a $2.4 million provision at FCSSW, which is discussed beginning on page 1.

Noninterest income increased $33.3 million to $153.3 million for the six months ended June 30, 2015 from $120.0 million for the same period in 2014. Noninterest income is primarily composed of fee income, loan prepayment income and miscellaneous gains and losses, offset by losses on early extinguishments of debt. The increase in noninterest income was driven by a $23.4 million increase in prepayment income, net of losses on early extinguishments of debt, related to customer refinancing activity at CoBank. While it is the Bank's general practice to extinguish debt to offset the current and prospective impact of prepayments in loan and investment portfolios, the availability in the market of similar-tenored debt, coupled with the timing of prepayments, do not always allow for the impacts of prepayments to be fully offset. During the second quarter of 2015, CoBank sold investment securities with a combined book value of $127.8 million for gains totaling $21.8 million. In the 2014 period, sales of investment securities at CoBank resulted in gains totaling $4.2 million. Net fee income increased to $65.2 million in the first half of 2015 compared to $63.9 million in the same prior-year period. These items were partially offset by impairments of $11.1 million recognized at CoBank on two credit impaired investment securities due to lower projected cash flows resulting from loan modification activity in the underlying collateral.

District operating expenses increased 8 percent to $466.8 million in the first six months of 2015 from $432.3 million for the same period of 2014. Employee compensation expense increased $9.7 million to $262.5 million for the six months ended June 30, 2015 from $252.8 million for the same period of 2014. The increase in employee compensation resulted from higher expenses at Associations primarily due to an increase in pension expense related to lower discount rates, the adoption of new mortality assumptions for 2015, and a decrease in the rate of return assumption. Annual salary adjustments and additional staffing also contributed to higher employee compensation at Associations. Farm Credit Insurance Fund (Insurance Fund) premium expense increased by $6.2 million, due to higher premium rates and growth in average loan volume. Insurance Fund premium rates were 13 basis points of adjusted insured debt obligations during the first six months of 2015 compared to 12 basis points throughout 2014. General and administrative expenses also increased $4.0 million to $34.9 million for the first six months of 2015 primarily due to greater levels of corporate sponsorships and charitable contributions at CoBank. Other operating expenses increased $10.7 million to $34.4 million in the six months ended June 30, 2015 from $23.7 million for the same prior-year period as this expense category now includes management fees paid by an affiliated Association to a non-affiliated Association with which it formed a strategic alliance effective in 2015. In the 2014 periods, the operating expenses for this Association were reported in various operating expense categories on the combined statement of income. This change did not result in a material change in the overall level of operating expenses.

Income tax expense decreased $1.2 million for the six months ended June 30, 2015 compared to the same period of 2014. 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.

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, 2015	December 31, 2014
Real Estate Mortgage	**$ 26,057,811**	$ 25,333,109
Non-affiliated Associations	**4,073,397**	3,847,208
Production and Intermediate-term	**13,935,564**	14,696,286
Agribusiness:		
Loans to Cooperatives	**11,865,763**	12,527,572
Processing and Marketing Operations	**6,142,183**	5,642,694
Farm Related Businesses	**1,804,847**	1,692,682
Communications	**3,653,130**	3,388,172
Energy	**13,941,652**	12,397,400
Water/Waste Water	**1,281,744**	1,274,346
Agricultural Export Finance	**4,516,832**	4,378,277
Rural Residential Real Estate	**834,580**	845,797
Lease Receivables	**3,014,340**	2,965,287
Other	**150,910**	143,585
Total	**$ 91,272,753**	$ 89,132,415

District loan volume at June 30, 2015 was $91.3 billion compared to $89.1 billion at December 31, 2014. The increase was primarily due to growth in energy loans which were driven by increased lending to electric distribution and power supply customers. Higher loan volume also included increases in real estate mortgage loans at several Associations as well as processing and marketing operations loans resulting from increased lending to the protein sector. These factors were partially offset by lower production and intermediate-term lending at Associations as well as a decrease in agribusiness cooperative loan volume due to lower levels of seasonal inventory financing.

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, 2015		December 31, 2014	
Acceptable	**96.42**	**%**	96.41	%
Special Mention	**1.95**		1.91	
Substandard	**1.60**		1.63	
Doubtful	**0.03**		0.05	
Loss	**-**		-	
Total	**100.00**	**%**	100.00	%

Loan quality within the District is very favorable, with over 96 percent of all loans and related accrued interest in the highest category of credit quality. Credit risk in the District's loan portfolio is spread broadly among customers, industries and geographic territory. The District serves a diversified spectrum of borrowers up and down the agricultural value chain. Association retail loans in the District loan portfolio are concentrated in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. CoBank's commercial 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 $568.3 million as of June 30, 2015 compared to $558.8 million at December 31, 2014. Nonaccrual loans increased by a net $23.0 million during the first six months of June 30, 2015 primarily due to transfers to nonaccrual of $120.0 million and disbursements of $51.7 million, partially offset by $145.3 million of repayments. The increase included a $6.3 million net increase at CoBank primarily due to the credit quality deterioration impacting a small number of agribusiness customers, somewhat offset by the sale of a nonaccrual rural energy loan. Accruing restructured loans decreased by $13.0 million primarily due to the payoff of loans in the cattle, grain and dairy industries at two Associations. Nonperforming assets represented 0.62 percent of total District loan volume and other property owned at June 30, 2015 compared to 0.63 percent at December 31, 2014. Nonaccrual loan volume, the largest component of nonperforming assets, represented 0.51 percent of total loans at June 30, 2015, relatively unchanged from 0.50 percent of total loans at December 31, 2014.

Agriculture is often impacted, both positively and negatively, by weather patterns, including the drought conditions currently affecting portions of the United States. In particular, California is in its fourth consecutive year of drought with the substantial majority of California's agricultural sector experiencing severe, extreme or exceptional drought conditions. Persistent drought conditions may lead to increased prices and decreased supplies of agricultural products produced in affected areas, including livestock, dairy products, fruits, nuts and vegetables. Prolonged drought conditions could result in reduced income and credit stress for agricultural producers and processors.

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

($ in Thousands)

Nonperforming Assets				
		June 30, 2015		December 31, 2014
Nonaccrual Loans:				
Real Estate Mortgage	$	**207,158**	$	186,160
Production and Intermediate-term		**118,101**		107,837
Agribusiness		**68,649**		49,703
Communications		**49,882**		56,685
Energy		**5,665**		28,092
Rural Residential Real Estate		**5,838**		7,130
Lease Receivables		**9,680**		6,332
Total Nonaccrual Loans		**464,973**		441,939
Accruing Restructured Loans:				
Real Estate Mortgage		**39,944**		45,985
Production and Intermediate-term		**20,916**		28,019
Rural Residential Real Estate		**2,230**		2,008
Mission Related		**24**		71
Total Accruing Restructured Loans		**63,114**		76,083
Accruing Loans 90 Days or More Past Due:				
Real Estate Mortgage		**3,785**		4,537
Production and Intermediate-term		**7,649**		5,209
Agribusiness		**25**		-
Rural Residential Real Estate		**-**		98
Lease Receivables		**346**		239
Total Accruing Loans 90 Days or More Past Due		**11,805**		10,083
Total Nonperforming Loans		**539,892**		528,105
Other Property Owned		**28,418**		30,741
Total Nonperforming Assets	$	**568,310**	$	558,846
Nonaccrual Loans as a Percentage of Total Loans		**0.51 %**		0.50 %
Nonperforming Assets as a Percentage of Total Loans and Other Property Owned		**0.62**		0.63
Nonperforming Assets as a Percentage of Capital		**3.59**		3.69

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, 2015	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	$ 45,200	$ 73,519	$ 118,719	$ 26,225,799	$ 26,344,518	$ 3,785
Production and Intermediate-term	43,829	59,038	102,867	13,930,076	14,032,943	7,649
Agribusiness	8,240	16,001	24,241	19,848,077	19,872,318	25
Communications	-	997	997	3,659,937	3,660,934	-
Energy	-	-	-	13,991,567	13,991,567	-
Water/Waste Water	-	-	-	1,289,552	1,289,552	-
Agricultural Export Finance	-	-	-	4,526,238	4,526,238	-
Rural Residential Real Estate	4,328	2,748	7,076	830,500	837,576	-
Lease Receivables	13,425	3,081	16,506	2,998,371	3,014,877	346
Non-affiliated Associations	-	-	-	4,075,890	4,075,890	-
Other	-	-	-	151,220	151,220	-
Total	$ 115,022	$ 155,384	$ 270,406	$ 91,527,227	$ 91,797,633	$ 11,805

($ in Thousands)

Aging of Past Due Loans

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

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 $181.1 million at June 30, 2015.

Although aggregated in the District's condensed 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, 2015 totaled $739.8 million compared to $749.3 million at December 31, 2014. Changes in the allowance included an overall net provision for loan losses of $16.2 million, which is described on page 3, a $27.1 million net transfer to the reserve for unfunded commitments, recoveries of $8.9 million primarily driven by collections from several Association customers, and charge-offs of $7.4 million.

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, 2014	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Balance at June 30, 2015
Real Estate Mortgage	$ 90,351	$ (344)	$ 682	$ 2,741	$ (9,722)	$ 83,708
Production and Intermediate-term	170,064	(624)	5,583	1,478	(2,830)	173,671
Agribusiness	278,732	(3)	1,604	13,465	(11,751)	282,047
Communications	54,432	-	606	2,036	(1,166)	55,908
Energy	98,149	(5,597)	6	(3,825)	(1,434)	87,299
Water/Waste Water	9,813	-	-	(2,039)	(135)	7,639
Agricultural Export Finance	8,924	-	160	(497)	(28)	8,559
Rural Residential Real Estate	6,216	(342)	26	264	-	6,164
Lease Receivables	32,456	(520)	192	2,598	-	34,726
Other	120	-	-	(46)	-	74
Total	$ 749,257	$ (7,430)	$ 8,859	$ 16,175	$ (27,066)	$ 739,795

($ 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
Total	$ 739,745	$ (9,332)	$ 6,921	$ (36,778)	$ 3,831	$ (6,109)	$ 698,278

District Capital Resources

Combined District shareholders' equity at June 30, 2015 totaled $15.8 billion, a net increase of $680.1 million as compared to December 31, 2014. The increase primarily resulted from District net income of $831.2 million, an increase in Association preferred stock of $30.8 million and a decrease in accumulated other comprehensive loss of $49.0 million, somewhat offset by accrued patronage of $208.6 million and preferred stock dividends of $33.3 million. The components of the District's accumulated other comprehensive loss are detailed in the following table.

($ in Thousands)

Accumulated Other Comprehensive Loss

	June 30, 2015	December 31, 2014
Unrealized Gains on Investment Securities	$ **131,790**	$ 94,454
Net Pension Adjustment	**(315,762)**	(327,259)
Unrealized Losses on Interest Rate Swaps and Other Financial Instruments	**(33,305)**	(33,460)
Accumulated Other Comprehensive Loss	$ **(217,278)**	$ (266,265)

The decrease in the District's total accumulated other comprehensive loss during the first six months of 2015 is primarily due to an increase in unrealized gains on investment securities at CoBank.

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

District Capital Ratios

	June 30, 2015			December 31, 2014		
	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio
CoBank	**15.68%**	**14.73%**	**10.67%**	15.70%	14.81%	10.47%
Associations	**13.12 - 35.17%**	**12.58 - 34.72%**	**12.43 - 29.69%**	13.40% - 35.69%	12.97% - 35.25%	12.88% - 30.09%
Regulatory Minimum	**7.00%**	**7.00%**	**3.50%**	7.00%	7.00%	3.50%

As depicted in the table above, at June 30, 2015, CoBank and all affiliated Associations exceeded the FCA's regulatory minimum capital ratios. Although aggregated in the District's condensed financial statements, capital for each District entity is particular to that institution. In addition, the provisions of joint and several liability for Systemwide Debt Securities are applicable only to System banks and do not include Associations. CoBank has no access to Association capital beyond their required investment in the Bank. There are no capital sharing agreements between CoBank and its affiliated Associations.

Association Mergers and Other

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

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

As previously described beginning on page 1, in February 2015, the board of directors of FCSSW and the board of directors of Farm Credit West, ACA, signed a letter of intent to merge, and in April 2015 the boards approved a formal plan of merger. The anticipated merger date is November 1, 2015. The merger will be subject to the approval of the stockholders of both Associations as well as the FCA.

Condensed Combined Statements of Income

(unaudited)

($ in Thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Interest Income				
Loans	**$ 766,234**	$ 736,964	**$ 1,529,016**	$ 1,464,313
Investment Securities	**88,050**	89,852	**176,603**	179,288
Total Interest Income	**854,284**	826,816	**1,705,619**	1,643,601
Interest Expense	**226,300**	211,836	**446,762**	424,218
Net Interest Income	**627,984**	614,980	**1,258,857**	1,219,383
Provision for Loan Losses/(Loan Loss Reversal)	**4,132**	(34,490)	**16,175**	(36,778)
Net Interest Income After Provision for Loan Losses/(Loan Loss Reversal)	**623,852**	649,470	**1,242,682**	1,256,161
Noninterest Income/ Expense				
Net Fee Income	**33,139**	34,606	**65,238**	63,902
Prepayment Income	**6,237**	3,885	**20,125**	9,078
Losses on Early Extinguishments of Debt	**(9,805)**	(22,427)	**(16,909)**	(29,270)
Gains on the Sale of Investment Securities	**21,808**	-	**21,808**	4,199
Total Other-Than-Temporary Impairment Losses in Investment Securities	**(11,100)**	-	**(11,100)**	-
Other, Net	**37,230**	40,203	**74,175**	72,048
Total Noninterest Income	**77,509**	56,267	**153,337**	119,957
Operating Expenses				
Employee Compensation	**131,147**	127,340	**262,492**	252,766
Insurance Fund Premium	**25,291**	22,306	**50,673**	44,520
Information Services	**15,221**	14,289	**28,928**	26,324
General and Administrative	**13,797**	15,695	**34,935**	30,891
Occupancy and Equipment	**11,211**	10,598	**22,346**	21,454
Farm Credit System Related	**6,531**	6,540	**13,424**	13,449
Purchased Services	**9,503**	9,390	**19,679**	19,251
Other	**22,059**	12,575	**34,360**	23,681
Total Operating Expenses	**234,760**	218,733	**466,837**	432,336
Income Before Income Taxes	**466,601**	487,004	**929,182**	943,782
Provision for Income Taxes	**50,123**	51,824	**97,965**	99,154
Net Income	**$ 416,478**	$ 435,180	**$ 831,217**	$ 844,628

Quarterly District Financial Information
CoBank, ACB and Affiliated Associations

Condensed Combined Balance Sheets
(unaudited)

($ in Thousands)

	June 30, 2015	December 31, 2014
Assets		
Total Loans	$ **91,272,753**	$ 89,132,415
Less: Allowance for Loan Losses	**739,795**	749,257
Net Loans	**90,532,958**	88,383,158
Cash	**1,495,467**	2,071,427
Investment Securities	**22,757,502**	24,529,619
Interest Rate Swaps and Other Financial Instruments	**376,545**	454,530
Accrued Interest Receivable and Other Assets	**1,775,070**	1,527,282
Total Assets	$ **116,937,542**	$ 116,966,016
Liabilities		
Bonds and Notes	$ **98,278,717**	$ 98,785,016
Subordinated Debt	**904,685**	904,685
Interest Rate Swaps and Other Financial Instruments	**97,263**	111,228
Reserve for Unfunded Commitments	**181,124**	154,058
Accrued Interest Payable and Other Liabilities	**1,656,468**	1,871,865
Total Liabilities	**101,118,257**	101,826,852
Shareholders' Equity		
Preferred Stock Issued by Bank	**1,125,000**	1,125,000
Preferred Stock Issued by Associations	**528,774**	498,020
Common Stock	**1,337,044**	1,325,998
Paid In Capital	**894,823**	894,823
Unallocated Retained Earnings	**12,150,922**	11,561,588
Accumulated Other Comprehensive Loss	**(217,278)**	(266,265)
Total Shareholders' Equity	**15,819,285**	15,139,164
Total Liabilities and Shareholders' Equity	$ **116,937,542**	$ 116,966,016