# 2009 Quarterly Report

**MARCH 31, 2009**

To our Valued Customer-Owners:

We're pleased to report that – despite challenging conditions in the credit markets and global economy – CoBank recorded another period of strong financial performance in the first quarter of 2009.

Net earnings in the first three months of the year rose 7 percent to $159.9 million, compared with $149.6 million for the same period in 2008. Net interest income rose 16 percent in the first quarter of 2009 to $253.3 million, from $217.7 million the year before. Total loans and leases outstanding increased 3 percent to $45.7 billion at March 31, 2009, compared to $44.6 billion at year-end 2008.

As expected, credit quality declined moderately during the quarter, and we're anticipating continued modest deterioration in the months ahead. The severity of the recession has negatively impacted customers in a number of the industries we serve, including livestock/poultry, ethanol, dairy and communications. As a result of these credit challenges, we recorded a $20 million provision for credit losses in the first quarter of 2009. No provision was recorded in the same period last year.

Nonetheless, CoBank's overall credit quality remains in line with historical averages, with over 96 percent of loans and leases classified in the highest regulatory category. In addition, the bank maintains solid levels of reserves. Our reserve for credit exposure totaled $474.9 million at March 31, 2009, or 1.75 percent of non-guaranteed loans and leases outstanding when loans to Farm Credit associations are excluded.

Improved margins were a key driver of financial performance in the quarter compared to the same quarter last year, offsetting lower average loan volume in our business units that serve agribusiness. Agribusiness lending declined markedly due to the substantial drop in prices for grains and farm inputs from 2008's record levels. At the same time, the bank has experienced robust growth in U.S. government-guaranteed loans that support American agricultural exports, in loans to electric distribution and generation customers, and in loans and participations to affiliated associations and other partners across the Farm Credit System. The overall diversification of the bank's loan and lease portfolio continues to increase.

Capital and liquidity levels at the bank remain well in excess of regulatory minimums. At quarter-end, our liquidity reserve totaled approximately $15 billion in cash and investments. During the quarter, we averaged 264 days of liquidity, compared to the 90-day minimum set by our regulator and the 180-day operating target established by our board. We plan to maintain elevated levels of liquidity as long as the credit crisis persists, and until funding access and flexibility return to levels more consistent with historical norms.

As we have said previously, CoBank is not immune from the effects of the downturn playing out in the world economy, and the bank and its customers continue to face a number of important challenges. We benefited during the last quarter from a reduction in short-term market interest rates resulting from actions taken by the world's central banks to counter impacts of the credit crisis, which had a positive overall effect on our margins due to our balance sheet positioning. There is no guarantee, however, that those short-term rates will remain at historically low levels for the long term. Furthermore, our funding costs for longer-dated debt instruments have increased substantially and access to long-term funding remains reduced. Credit quality in our loan and investment portfolios is subject to potential further decline and will continue to require careful monitoring and management.

That said, we are proud of the financial results we recorded last quarter and remain committed to standing by our customers throughout this extraordinary period in our nation's economic history. We continue to believe that CoBank's value proposition – capacity, dependability, responsiveness, focus and ownership – is more compelling than ever for the customers we serve in vital industries across rural America.

As always, we are deeply grateful for the business of our customer-owners and the enormous trust they place in CoBank. We thank you for your ongoing support and look forward to reporting to you on our future progress.

| | |
|---|---|
| Everett Dobrinski<br>Chairman of the Board | Robert B. Engel<br>President and Chief Executive Officer |

May 8, 2009

# Financial Highlights
**CoBank, ACB**

*($ in Thousands)*

| | March 31, 2009 *(Unaudited)* | December 31, 2008 |
|---|---|---|
| Total Loans and Leases | **$ 45,732,851** | $ 44,550,121 |
| Less: Allowance for Credit Losses | **334,979** | 329,198 |
| Net Loans and Leases | **$ 45,397,872** | $ 44,220,923 |
| Total Assets | **$ 62,683,910** | $ 61,162,057 |
| Total Shareholders' Equity | **3,724,151** | 3,594,849 |

| For the Three Months Ended March 31, *(Unaudited)* | 2009 | 2008 |
|---|---|---|
| Net Interest Income | **$ 253,258** | $ 217,693 |
| Provision for Credit Losses | **20,000** | - |
| Net Fee Income | **19,239** | 14,102 |
| Net Income | **159,857** | 149,560 |
| Net Interest Margin | **1.80%** | 1.55% |
| Return on Average Assets | **1.05** | 1.05 |
| Return on Average Common Shareholders' Equity | **19.69** | 20.18 |
| Return on Average Total Shareholders' Equity | **17.58** | 18.21 |
| Average Loans and Leases | **$ 45,753,300** | $ 45,560,960 |
| Average Earning Assets | **57,141,281** | 56,535,746 |
| Average Assets | **61,984,363** | 57,434,780 |

# Management's Discussion and Analysis of Financial Condition and Results of Operations
**CoBank, ACB**

## Business Overview

CoBank, ACB (CoBank or the Bank) is an Agricultural Credit Bank and is one of the five banks of the Farm Credit System (System), a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. We are cooperatively owned by our U.S. customers, who consist of agricultural cooperatives, rural energy, communications and water companies, farmer-owned financial institutions, including Agricultural Credit Associations (Associations), and other businesses that serve rural America. We provide a diversified range of financial solutions domestically and internationally to vital industries through four operating segments: Agribusiness Banking Group, Strategic Relationships Division, Communications and Energy Banking Group, and Global Financial Services Group.

The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated quarterly financial statements and related notes and with our 2008 Annual Report to Shareholders.

## Consolidated Results of Operations

Despite challenging economic, credit and funding market conditions, CoBank posted strong financial results in the first quarter of 2009. Net income was $159.9 million for the three months ended March 31, 2009, a seven percent increase over net income of $149.6 million during the same period in 2008. Greater earnings were driven by a $35.6 million increase in net interest income largely resulting from a significant improvement in our overall net interest margin. Greater fee income of $5.1 million also contributed to increased earnings. The increase in net interest income and fees was partially offset by a $20.0 million provision for credit losses, increased income tax expense of $5.4 million related to higher overall earnings and increased noninterest expenses of $3.6 million.

Our net interest income increased to $253.3 million for the three months ended March 31, 2009, compared to $217.7 million for the same period in 2008. The significant growth in net interest income primarily resulted from a substantial increase in net interest margin. Our overall net interest margin for the three months ended March 31, 2009 increased to 1.80 percent from 1.55 percent during the same prior year period. As a result of our asset/liability position, our net interest income benefited from the reduction in short-term market interest rates that resulted from actions taken by central banks to counter the impacts of the credit crisis. Notwithstanding the reduction in short-term interest rates, rates for long-term debt have increased. Our net interest income and margin also benefited from a change in the fair value of derivatives, as more fully discussed in "Interest Rate Risk Management" on page 12. In addition, our lending spreads have increased in response to evolving credit risk and market conditions. The impact of the improvement in net interest margin was somewhat offset by a shift in the mix of average loans outstanding. This shift included a decrease in loans to agribusiness customers combined with an increase in loans to Associations and in U.S. government-guaranteed international loans. Loans to Associations and guaranteed international loans carry lower margins, commensurate with their lower risk profile and lower capital requirements.

Average loans and leases outstanding increased slightly to $45.8 billion for the first three months of 2009 compared to $45.6 billion for the same period in 2008. This increase is largely due to higher levels of loans to Associations, increased loans to energy and communications customers, and growth in guaranteed international loans, substantially offset by a reduction in loans to agribusiness customers. Increased lending to Association customers primarily resulted from growth at our two largest affiliated Associations and increased participations in the direct loans of other System banks to certain of their affiliated Associations. Growth in our energy and communications portfolios primarily resulted from increased financing requirements from our rural electric distribution, generation and transmission, and communications customers driven by lower levels of available credit in the broader debt capital markets as well as ongoing new customer marketing efforts, particularly in electric distribution. The global credit crisis also helped drive growth in international lending, as the tightening of global credit markets led to customers increasing their utilization of the U.S. government-sponsored export loan guarantee General Sales Manager (GSM) program, where borrowings are guaranteed by the U.S. government. The availability of the GSM program has also increased. The significant decrease in average agribusiness loans is the direct result of the decline in commodity prices, including grain and oilseed prices, and in the cost of agricultural inputs such as fuel and fertilizer. Such prices reached exceptional levels during the first eight months of 2008, but have decreased since that time due to the turmoil in financial markets and reduced demand resulting from the global recession.

We recorded a $20.0 million provision for credit losses in the first three months of 2009. No provision was recorded in the first three months of 2008. While our overall credit quality is in line with historical averages, credit quality has declined in recent months. Nonaccrual loans and leases increased to $290.2 million at March 31, 2009 from $217.8 million at December 31, 2008 and $90.7 million at March 31, 2008. Nonaccrual loans and leases increased primarily due to the challenges facing certain of our customers in the livestock/poultry, ethanol, dairy and communications industries. Net charge-offs for the quarter were $28.5 million compared to net charge-offs of $0.9 million for the same period in 2008. The charge-offs in 2009 were primarily related to a limited number of our communications and agribusiness customers.

Noninterest income increased to $22.4 million for the three months ended March 31, 2009, as compared to $18.7 million for the same period in 2008, and is composed primarily of net fee income, loan prepayment fee income and other gains and losses, reduced by losses on early extinguishments of debt. The increase in noninterest income resulted primarily from a $5.1 million increase in net fee income due to greater fees in our agribusiness and energy portfolios. The increase in net fee income was somewhat offset by impairment losses on operating leases and a lower level of customer derivative income during the first quarter of 2009.

Noninterest expenses increased to $50.6 million for the three months ended March 31, 2009, as compared to $47.0 million for the same period in 2008, and included a $2.1 million increase in statutory insurance fund premiums assessed by the Farm Credit System Insurance Corporation (Insurance Corporation). The basis upon which statutory insurance fund premiums are determined changed effective July 1, 2008 as a result of the enacted legislation described in "Insurance Premiums" on page 12. A $1.2 million increase in other expenses, including purchased services and general and administrative costs, also contributed to increased noninterest expenses in the first three months of 2009.

Our income tax expense increased to $45.2 million for the three months ended March 31, 2009, as compared to $39.8 million for the same prior year period. Our effective tax rate was 22 percent and 21 percent for the three months ended March 31, 2009 and 2008, respectively. The increase in the effective tax rate results from a modest decrease in the level of expected patronage distributions for 2009 as compared to 2008, due to lower anticipated agribusiness loan volume. Patronage payments are deductible for income tax purposes.

Notwithstanding the increase in our earnings, our annualized return on average common shareholders' equity decreased slightly to 19.69 percent for the three months ended March 31, 2009 from 20.18 percent for the same period in 2008. This decrease primarily resulted from the issuance of $200 million of preferred stock in July 2008. Our annualized return on average assets remained unchanged at 1.05 percent for the three months ended March 31, 2009 and 2008, respectively.

## Operating Segment Financial Review

As an Agricultural Credit Bank, we provide domestic and international financial solutions to farmer-owned cooperatives; farmer-owned financial institutions; energy, communications and water customers; and other related businesses that serve rural America. We conduct our lending and leasing operations through four operating segments: Agribusiness Banking Group (ABG), Strategic Relationships Division (SRD), Communications and Energy Banking Group (CEBG) and Global Financial Services Group (GFSG). Loans and leases outstanding, net of allowance for credit losses, by business segment at March 31, 2009 and 2008, are reported in Note 9 to the accompanying unaudited condensed consolidated financial statements.

Net interest income on investment securities, federal funds sold, securities purchased under resale agreements and other highly-liquid funds is allocated to all segments, whereas underlying investment assets are not allocated.

Net income by operating segment is summarized in the accompanying table and is more fully described in Note 9 to the accompanying unaudited condensed consolidated financial statements.

**Net Income by Operating Segment ($ in Thousands)**

| For the Three Months Ended March 31, | 2009 | 2008 |
|---|---|---|
| Operating Segment: | | |
| Agribusiness | **$ 44,155** | $ 83,252 |
| Strategic Relationships Division | **32,343** | 14,440 |
| Communications and Energy | **55,178** | 35,661 |
| Global Financial Services | **28,006** | 17,363 |
| Total Operating Segments | **159,682** | 150,716 |
| Corporate/Other | **175** | (1,156) |
| Total | **$ 159,857** | $ 149,560 |

### *Agribusiness Banking Group (ABG)*

ABG provides financial solutions to cooperatives and other businesses engaged in agricultural activities such as grain handling, farm supply, food processing, dairy, livestock/poultry, fruits, nuts, vegetables, cotton, biofuels and agricultural finance. ABG includes Farm Credit Leasing Services Corporation (FCL), which provides lease-related financial services to Association partners, agribusinesses, agricultural producers and rural utilities.

ABG loans and leases outstanding increased to $11.4 billion at March 31, 2009 from $10.6 billion at December 31, 2008. The increase in outstanding ABG loans and leases is largely due to seasonal increases in loans to agribusiness cooperatives whose borrowing requirements typically peak in the spring due to the financing of seasonal grain inventories. Average ABG loan and lease volume during the first three months of 2009 was $11.4 billion, a significant decline from the $17.7 billion in average loans and leases during the same period of 2008. The decrease in average ABG loans and leases resulted from a decline in commodity prices, including prices for grain and oilseeds, and in the cost of agricultural inputs such as fuel and fertilizer. During the first eight months of 2008, such prices reached exceptionally high levels leading to a significant increase in the borrowing requirements of ABG customers during that period. Prices for commodities and agricultural inputs have since declined as a result of turmoil in the financial markets and reduced demand due to the global economic recession. Generally, higher prices for commodities and agricultural inputs lead to increased financing requirements for our customers, who borrow to finance inventory purchases and receivables.

Nonaccrual loans and leases increased to $157.4 million from $82.4 million at December 31, 2008, largely due to credit concerns surrounding a limited number of ethanol and dairy customers. ABG recorded net charge-offs of $14.1 million for the three months ended March 31, 2009 compared to $2.0 million for the same period of 2008.

ABG net income decreased 47 percent in the first three months of 2009 to $44.2 million from $83.3 million for the same period in 2008. This decrease resulted from a $32.4 million decrease in net interest income due to the decline in average agribusiness loan volume, as described previously. The favorable impact of lower short-term market interest rates on our funding position and increased lending spreads somewhat offset the decline in ABG net interest income resulting from lower volume. As a result of the credit challenges noted previously, ABG recorded a $25.0 million provision for credit losses for the first three months of 2009. No provision for credit losses was recorded in the first three months of 2008. ABG's noninterest income increased $2.8 million primarily due to greater fee income resulting from higher levels of committed lines of credit.

### *Strategic Relationships Division (SRD)*

SRD manages the direct funding relationships with our affiliated Association customer-owners (Northwest Farm Credit Services, First Pioneer Farm Credit, Farm Credit of Western New York, Yankee Farm Credit and Farm Credit of Maine), as well as funding relationships with other System institutions. The SRD portfolio primarily consists of loans to our five affiliated Association customers as well as participations in loans made by other System banks to certain of their affiliated Associations.

SRD loans outstanding decreased to $14.7 billion at March 31, 2009 from $15.0 billion as of December 31, 2008, primarily due to a slight decrease in loans to affiliated Associations. Average SRD loans grew to $14.8 billion for the first three months of 2009 compared to $12.4 billion during the same period of 2008. The increase in average loan volume primarily reflects loan growth at our two largest affiliated Associations and increased participations in loans made by other System banks to certain of their affiliated Associations. The credit quality of the SRD loan portfolio is exceptionally high due to the financial and operating strength of the Associations and the quality and diversification of their loan portfolios. Lower margins in SRD are commensurate with this lower risk profile and lower capital requirements.

SRD net income more than doubled to $32.3 million for the first three months of 2009 from $14.4 million for the same prior year period. Improved SRD earnings are primarily the result of stronger net interest income, which grew $19.6 million due to the benefit of lower short-term market interest rates on our funding position and the $2.4 billion increase in average loan volume described above. SRD's operating expenses increased $1.6 million for the three months ended March 31, 2009 as compared to the same period of 2008 due to a change in the insurance fund premium assessment formula described on page 12.

### *Communications and Energy Banking Group (CEBG)*

CEBG provides financial solutions to companies in the energy, communications and water industries. Customers include rural electric generation and transmission cooperatives, electric distribution cooperatives, independent power producers, rural local exchange carriers, wireless providers, cable television systems, and water and waste water companies.

CEBG loans outstanding increased slightly to $11.1 billion at March 31, 2009 from $11.0 billion at December 31, 2008. Average CEBG loans increased to $11.1 billion for the first three months of 2009 from $8.9 billion for the same period in 2008. Growth in CEBG's average loan volume resulted from increased lending activity in the rural electric distribution, generation and transmission, and communications sectors driven by lower levels of available credit in the broader debt capital markets as well as ongoing new customer marketing efforts, particularly in the electric distribution sector.

CEBG credit quality remains strong as a result of our focus on lending to our core rural utility sectors. There were $28.2 million in CEBG nonaccrual loans at March 31, 2009, compared to $24.7 million December 31, 2008. CEBG nonaccrual loans primarily relate to a limited number of communications customers.

CEBG net income increased 55 percent to $55.2 million for the first three months of 2009 from $35.7 million for the same period in 2008. Improved earnings primarily resulted from stronger net interest income, which increased $32.3 million due to the aforementioned funding cost benefit related to lower short-term market interest rates, a $2.2 billion increase in average loan volume and increased lending spreads. Noninterest income improved $1.9 million primarily as a result of growth in fee income. Operating expenses increased $2.4 million, resulting principally from increased statutory insurance fund premiums related to higher average loan volume, higher premium rates and a change in the insurance fund premium assessment formula as more fully discussed on page 12.

### *Global Financial Services Group (GFSG)*

GFSG includes our Corporate Finance Division portfolio, consisting of loans to large food and agribusiness customers, and our International Division's lending portfolio. GFSG's International Division provides tailored short-term and medium-term trade financing services to support the export of U.S. agricultural products. The GSM program provides guarantees for a significant portion of the International Division's portfolio, resulting in a lower overall margin that is reflective of this lower risk portfolio. GFSG also provides capital markets and cash management products and services.

GFSG loans outstanding increased to $8.4 billion at March 31, 2009, compared to $7.9 billion at December 31, 2008. Our Corporate Finance Division portfolio balances increased to $4.0 billion at March 31, 2009 from $3.8 billion at December 31, 2008. International Division loans outstanding increased to $4.5 billion at March 31, 2009 from $4.1 billion at December 31, 2008 as the tightening of global credit markets led to customers increasing their usage of trade finance facilities with CoBank. In particular, loans granted under the GSM program have continued to increase due to greater usage and availability of the program. Such guaranteed loans represented 85 percent of International Division loans outstanding as of March 31, 2009 compared to 81 percent as of December 31, 2008. Average GFSG loans grew to $8.4 billion in the first three months of 2009 from $6.6 billion for the same period of 2008 due to the significant increase in International Division lending noted above.

Nonaccrual loans decreased slightly to $104.6 million at March 31, 2009 from $110.7 million at December 31, 2008. For both periods presented, the amount primarily relates to a Corporate Finance Division poultry customer experiencing financial challenges due to increased feed-ingredient costs and weak market pricing for its products.

GFSG net income increased 61 percent to $28.0 million for the three months ended 2009, compared to $17.4 million for the same period in 2008. The increase is primarily due to a $16.4 million increase in net interest income resulting from the benefit of lower short-term market interest rates on our funding position as noted previously, increased lending spreads and the growth in average International Division loan volume. GFSG net income also increased as a result of a $5.0 million reversal of the allowance for credit losses for the three months ended March 31, 2009 resulting from slightly improved credit quality, as compared to no provision for credit losses in the 2008 period.

## Credit Quality, Liquidity, Capital Resources and Other

### *Credit Quality*

Overall credit quality declined slightly in the first three months of 2009. Nonaccrual loans and leases increased to $290.2 million at March 31, 2009 from $217.8 million at December 31, 2008, primarily due to the aforementioned credit concerns affecting a limited number of our agribusiness and communications customers. We anticipate that the credit quality of our lending portfolio will decline modestly as a result of current economic conditions affecting certain customer segments.

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

**Asset Quality Ratios**

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| Acceptable | **96.47%** | 97.20% |
| Other Assets Especially Mentioned | **1.74** | 1.24 |
| Substandard | **1.73** | 1.50 |
| Doubtful | **0.06** | 0.06 |
| Loss | **-** | - |
| Total | **100.00%** | 100.00% |

We recorded a $20.0 million provision for credit losses for the three months ended March 31, 2009, primarily as a result of challenges facing certain agribusiness and communications customers. Net charge-offs for the first three months of 2009 totaled $28.5 million and were primarily associated with a limited number of our communications and agribusiness customers. Our customers, like most businesses, are likely to continue to be impacted by the general slowdown in the overall U.S. and global economies.

### *Liquidity and Investments*

Our liquidity management objectives are designed to meet maturing debt obligations, provide a reliable source of funding to borrowers, provide additional liquidity if market conditions deteriorate for a period of time, and fund our operations on a cost-effective basis. 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 agency market via the Federal Farm Credit Banks Funding Corporation. As a result of the ongoing credit crisis, the global level of credit availability and investor demand for unguaranteed debt securities issued by financial institutions has been substantially reduced. Traditional relationships between the various interest rate indices, widely used by financial institutions, remain volatile. Responses by the U.S. government, including actions to protect the housing government sponsored enterprises (GSEs), to capitalize and guarantee the liabilities of commercial banks, and purchase assets from commercial banks, have had the effect of increasing our funding costs. As a member of the Farm Credit System, an AAA-rated GSE, CoBank has continued to maintain adequate access to the debt-funding markets, however, the costs of longer-term debt have increased and demand for maturities beyond five years remains reduced.

We have taken actions to enhance our liquidity during the credit crisis, including issuing longer-term debt, when possible, and holding higher levels of liquid assets, including cash. As a result, cash on our consolidated balance sheet was $2.5 billion at March 31, 2009 and $3.1 billion at December 31, 2008, compared to $15.8 million at March 31, 2008. At March 31, 2009, our liquidity was 250 days, compared to 257 days at December 31, 2008 and 174 days at March 31, 2008. During the first three months of 2009, we averaged 264 days liquidity, compared to the regulatory minimum of 90 days. We expect to continue to maintain higher levels of liquidity as long as the credit crisis persists, and until funding access and flexibility return to more stable levels.

Investment securities, cash, federal funds sold, securities purchased under resale agreements and other highly-liquid funds are primarily held for the purpose of maintaining a liquidity reserve and managing short-term surplus funds. Investment securities totaled $12.6 billion at March 31, 2009 compared to $11.5 billion at December 31, 2008. The following table summarizes our investment securities and related unrealized gains/losses by asset class.

**Investment Securities ($ in Millions)**

| | As of March 31, 2009 | | | As of December 31, 2008 | | |
|---|---|---|---|---|---|---|
| | Book Value | Market Value | Unrealized Gains (Losses) | Book Value | Market Value | Unrealized Gains (Losses) |
| U.S. Agency Debt | **$ 2,756** | **$ 2,779** | **$ 23** | $ 1,500 | $ 1,541 | $ 41 |
| U.S. Agency Mortgage-Backed | **8,724** | **8,791** | **67** | 8,908 | 8,868 | (40) |
| Non-Agency Mortgage-Backed | **884** | **746** | **(138)** | 961 | 812 | (149) |
| Asset-Backed | **310** | **253** | **(57)** | 338 | 316 | (22) |
| | **$ 12,674** | **$ 12,569** | **$ (105)** | $ 11,707 | $ 11,537 | $ (170) |

Investment securities are reported at estimated fair value on the consolidated balance sheets and include unrealized losses, net of unrealized gains and deferred taxes, of $65.1 million at March 31, 2009, compared to $105.5 million at December 31, 2008. For securities in unrealized loss positions, we have the ability and intent to hold these securities until their value recovers. Therefore (with the exception of one security) we do not consider these investments to be other-than-temporarily impaired at March 31, 2009. Except for an other-than-temporary impairment recorded for one security in 2008, changes in the fair value of these investments are accounted for as a component of accumulated other comprehensive income (loss). For the three months ended March 31, 2009, we recorded unrealized gains, net of deferred taxes, of $39.8 million compared to unrealized losses, net of deferred taxes, of $45.3 million for the same prior year period. The unrealized gains in the first quarter of 2009 primarily relate to the impact of interest rate changes on the values of certain fixed-rate U.S. agency mortgage-backed securities, partially offset by unrealized losses on asset-backed securities.

Unrealized losses on non-agency mortgage-backed securities (Non-Agency Securities) are primarily due to decreased liquidity in the broader financial markets and widened credit spreads. While none of our Non-Agency Securities were other-than-temporarily impaired at March 31, 2009, continued deterioration of the U.S. economy and increasing levels of defaults and foreclosures on home mortgages may result in further downward adjustments to the fair value of our Non-Agency Securities and the need to record an other-than-temporary impairment loss.

The substantial majority of our asset-backed securities (ABS) are comprised of home equity asset-backed securities, not issued or guaranteed by the U.S. government. Unrealized losses on ABS investments relate to decreased liquidity and widened credit spreads. Our home equity asset-backed securities are supported by first- or second-lien mortgages with $206.5 million of them insured by bond insurance companies, principally MBIA Insurance Corporation (MBIA) and Ambac Assurance Corporation (Ambac). The market value and future realization of the book value of such securities is largely dependent upon the ability of the bond insurance companies to fulfill their obligations, if required. MBIA and Ambac have been under financial pressure for some time and their credit ratings, capital levels, and operating performance have declined. In February 2009, MBIA announced the restructuring of its financial guaranty insurance operations, which reduced the level of capital available to absorb losses in their structured finance exposures, including the ABS securities held by CoBank. This led to ratings downgrades of MBIA by the major rating agencies. To the extent these insurers' credit ratings are further downgraded, their capital levels further decline, and/or their operating performance continues to diminish to a level at which we believe their ability to meet their obligations is substantially reduced, we would be required to adjust the values of these securities and consider whether an other-than-temporary loss has occurred.

Farm Credit Administration (FCA) regulations require that mortgage- and asset-backed securities be AAA-rated by at least one major rating agency in order to be included as part of our liquidity reserve. The following table summarizes the securities which have been downgraded below AAA, including those that are rated AAA by one major rating agency but have been downgraded by another agency.

**Downgraded Investment Securities ($ in Millions)**

| As of March 31, 2009 | Number of Positions | Face Value | Market Value |
|---|---|---|---|
| **Asset-Backed Securities (Insured)** | | | |
| AAA/Aaa Split-Rated* | 1 | $ 9.9 | $ 5.9 |
| A/Baa | 3 | 117.8 | 94.7 |
| BBB/Ba | 1 | 40.0 | 31.3 |
| BBB/B | 4 | 94.2 | 68.2 |
| CC/Ca | 1 | 8.3 | 6.4 |
| **Non-Agency Securities (Insured)** | | | |
| A/Aa | 1 | 2.7 | 2.1 |
| **Non-Agency Securities (Uninsured)** | | | |
| AAA/Aaa Split-Rated* | 7 | 157.6 | 94.5 |
| AA/BBB | 1 | 18.2 | 15.3 |
| | 19 | $ 448.7 | $ 318.4 |

* Received AAA or Aaa credit rating from one rating agency but a lower rating from at least one other rating agency.

As of March 31, 2009, with the exception of two securities discussed below, we have received permission from the FCA to continue to hold all securities no longer rated AAA by at least one major rating agency, which have a total market value of $174.6 million at March 31, 2009. For two securities with a market value of $43.3 million as of March 31, 2009, which were downgraded from AAA in March 2009, we have requested permission from the FCA to continue to hold these securities in order to minimize or avoid a financial loss. We anticipate that we will receive permission to continue to hold such securities.

We perform other-than-temporary impairment assessments of our investment securities based on evaluations of both current and future market and credit conditions at each quarter-end. Subsequent changes in market or credit conditions could change these evaluations. As more fully discussed in "Recent Accounting Pronouncements" on page 13 and in Note 2 to the accompanying unaudited condensed consolidated financial statements, the Financial Accounting Standards Board (FASB) issued guidance in April 2009 that could reduce the amount of any future impairments recorded in earnings.

### *Capital Resources*

We are primarily capitalized by holders of our common stock and participation certificates (which include our Association customers), by our preferred stockholders, and by unallocated retained earnings. In March 2009, our voting shareholders approved changes to our bylaws to convert all existing classes of common equity into a single class of common equity – Class A common stock – and to afford voting rights to certain borrowers that are not organized as cooperatives. Class A shareholders that are directly eligible to borrow from CoBank, that borrow on a patronage basis and that are active borrowers will have voting rights. The number of voting shareholders increased by approximately 27 percent as a result of these bylaw changes, which were effective April 1, 2009.

We complied with all regulatory capital adequacy standards at March 31, 2009. Our permanent capital ratio (generally average shareholders' equity and subordinated debt, subject to certain limitations, as a percentage of average risk-adjusted assets for the most recent three months) was 14.15 percent at March 31, 2009, compared to 14.75 percent at December 31, 2008, both of which exceeded the 7.0 percent minimum regulatory requirement.

Our core surplus ratio (average unallocated retained earnings, a significant portion of our common stock and participation certificates, and non-cumulative preferred stock as a percentage of average risk-adjusted assets for the most recent three months) was 7.56 percent at March 31, 2009, compared to 7.98 percent at December 31, 2008, both of which exceeded the 3.5 percent minimum regulatory requirement. Effective January 1, 2008, the FCA determined that we may include a significant portion of our common stock and participation certificates as core surplus, subject to certain conditions, on a temporary basis that would likely continue until the earlier of December 31, 2012 or the point at which the FCA changes its capital regulations in a manner that would be inconsistent with this treatment. As part of its determination, the FCA requires that we continue to calculate our core surplus ratio excluding common stock and participation certificates and has established a 3.0 percent minimum for such ratio. As of March 31, 2009, our core surplus ratio excluding common stock and participation certificates was 5.64 percent.

Our net collateral ratio (generally loans and investments divided by total liabilities excluding subordinated debt and other items, subject to certain limitations) at March 31, 2009 was 107.56 percent, compared to 107.75 percent at December 31, 2008, both of which exceeded the regulatory minimum of 103.0 percent and the higher minimum of 104.0 percent required by our regulator during the period in which we have Series A preferred stock or subordinated debt outstanding.

### *Interest Rate Risk Management*

Interest rate risk is managed by adjusting the Bank's mix of interest-sensitive assets and liabilities through various interest rate risk management products, including interest rate swaps and other financial instruments (derivatives). 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. Changes in the fair value of derivatives recorded in the consolidated statements of income totaled gains of $9.0 million and $0.1 million in the first three months of 2009 and 2008, respectively. The drop in short-term market interest rates across year-end 2008 and into early 2009 created short-term losses on the fair values of certain hedging relationships in late 2008, followed by gains in early 2009 as rates on floating rate derivatives reset and interest rate levels stabilized. Changes in the fair value of derivatives recorded in other comprehensive income (loss) totaled a loss, net of deferred taxes, of $2.6 million in the first three months of 2009, as compared to a gain of $3.5 million, net of deferred taxes, for the first three months of 2008.

### *Insurance Premiums*

The Food, Conservation and Energy Act of 2008 was enacted in May 2008, and included changes authorizing the Insurance Corporation to increase premiums and expand the base upon which premiums are charged. Under the revised assessment formula, premiums of up to 20 basis points can be charged against Systemwide Debt Securities, as reduced by loans and investment securities guaranteed by the U.S. or state governments. Premiums of up to an additional 10 basis points can be charged for any nonaccrual loan volume or other-than-temporarily impaired investments. Prior to July 1, 2008, premiums were assessed only on loan volume (up to 15 basis points on accruing loans and up to 25 basis points on nonaccrual loans). Effective July 1, 2008, the Insurance Corporation modified the premium structure to the new Systemwide Debt Securities base. Premium rates were increased to the maximum 20 basis points effective January 1, 2009, with a premium surcharge of 10 basis points for nonaccrual loan volume and other-than-temporarily impaired investment securities.

## Recent Accounting Pronouncements

Effective January 1, 2009, we adopted Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 (FAS 161). FAS 161 enhances disclosures related to derivatives and hedging activities. The adoption of FAS 161 did not have any effect on our consolidated financial position, results of operations or cash flows; however, as a result of FAS 161, we have expanded our disclosures related to derivatives and hedging. See Notes 2 and 4 to the accompanying unaudited condensed consolidated financial statements for a description of FAS 161 and the effect of its adoption.

In April 2009, the FASB issued the following three Staff Positions which provide guidance on investment valuation, other-than-temporary impairment, and disclosure:

- Staff Position FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly;
- Staff Position FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2); and
- Staff Position FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments.

These FASB Staff Positions (FSPs) are effective prospectively for interim and annual periods ending after June 15, 2009, with early adoption permitted. We will adopt these three FSPs in the second quarter of 2009 and do not expect the adoption to have a material effect on our consolidated financial position, results of operations or cash flows. However, the adoption of FSP FAS 115-2 would likely impact the recognition and presentation of other-than-temporary impairments recorded in the future, if any. In addition, these FSPs will result in expanded disclosures of our investments and other financial instruments upon adoption and in future periods. See Note 2 to the accompanying unaudited condensed consolidated financial statements for additional discussion concerning these FSPs and the related effects of adoption.

## Business Outlook

We are committed to continuing our strong financial and operating performance, fulfilling our mission to serve rural America's vital industries and being the preferred provider of financial solutions to our customers to enhance their business success.

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

The events that have disrupted the global capital markets and the broader economy are expected to continue to impact our business in the following areas:

- Funding costs for longer-dated debt securities are elevated and could increase further, and our ability to issue such debt securities remains reduced;
- The credit quality of our lending portfolio for certain customer segments will likely experience modest deterioration as the overall global recession continues to impact our customers;
- The values of our non-agency mortgage-backed securities portfolio could experience losses due to increasing levels of defaults and foreclosures on home mortgages; and
- Portions of our investment portfolio could experience losses resulting from a further decline in the creditworthiness of bond insurers who insure certain of our investment securities.

In response to the conditions noted above, we have enhanced our capital and liquidity positions. We will continue to focus on our core customer segments and, where appropriate, adjust our pricing to reflect current credit risk and funding conditions. We will continue our enhanced credit analysis and monitoring activities, including the review of derivative counterparty credit risk. We will continue to closely monitor asset quality and emphasize effective enterprise-wide management of credit risk, interest rate risk, liquidity risk and operational risk. We will also continue to enhance our financial condition through prudent expense discipline and the retention of a portion of our earnings.

Despite the challenges described above, we believe CoBank continues to enjoy significant opportunities today across all the industries we serve. Under the guidance of our Board of Directors and through the focus of a proven executive management team, we look forward to continuing to deliver on our value proposition on behalf of our customers and to fulfilling our mission as a dependable and strategic source of credit and financial services to the nation's rural economy.

## Forward-Looking Statements

Certain of the statements contained in this unaudited quarterly report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. 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:

- Fluctuations in the agricultural, communications, energy and water, international, financing and leasing sectors;
- Weak U.S. and global economic conditions;
- Sovereign or regulatory actions;
- Macro-economic factors and political policies and developments in the U.S. and other countries in which we make loans;
- The level of interest rates;
- Changes in assumptions underlying the valuations of financial instruments;
- Changes in the bases for our estimates underlying the reserve for credit exposure;
- Economic conditions and credit performance of the loan and lease portfolios, portfolio growth and seasonal factors;
- Failure of our investment portfolio to perform as expected or deterioration in the credit quality of such investments, including the credit quality of insurers of such investments;
- The effect of banking and financial services reforms;
- Possible amendments to, and interpretations of, risk-based capital guidelines and reporting instructions;
- The ability of states to adopt more extensive consumer protections through legislation or regulation;
- The resolution of legal proceedings and related matters;
- Changes in the U.S. government's support of the agriculture industry;
- Weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- Environmental-related conditions or laws impacting our lending activities;
- Actions taken by the U.S. Congress relative to Government Sponsored Enterprises;
- Actions taken by the U.S. government to manage the credit crisis and economic downturn;
- Actions taken by the Federal Reserve to manage the monetary policy of the U.S.;
- Nonperformance by counterparties to our derivative positions; and
- Our ability to successfully integrate and profitably operate 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)*

| **For the Three Months Ended March 31,** *(Unaudited)* | **2009** | **2008** |
|---|---|---|
| **Interest Income** | | |
| Loans and Leases | **$ 384,299** | $ 615,844 |
| Investment Securities | **90,694** | 115,719 |
| Federal Funds Sold, Securities Purchased Under Resale Agreements and Other | **52** | 4,372 |
| Total Interest Income | **475,045** | 735,935 |
| **Interest Expense** | **221,787** | 518,242 |
| Net Interest Income | **253,258** | 217,693 |
| Provision for Credit Losses | **20,000** | - |
| Net Interest Income After Provision for Credit Losses | **233,258** | 217,693 |
| **Noninterest Income / Expense** | | |
| Net Fee Income | **19,239** | 14,102 |
| Prepayment Income | **2,195** | 5,787 |
| Losses on Early Extinguishments of Debt | **(1,630)** | (6,643) |
| Other, Net | **2,556** | 5,421 |
| Total Noninterest Income | **22,360** | 18,667 |
| **Noninterest Expenses** | | |
| Employee Compensation | **23,570** | 22,916 |
| Insurance Fund Premium | **13,999** | 11,864 |
| Information Services | **3,409** | 4,116 |
| Occupancy and Equipment | **1,731** | 1,716 |
| Farm Credit System Related | **1,710** | 1,435 |
| Other | **6,178** | 4,992 |
| Total Noninterest Expenses | **50,597** | 47,039 |
| Income Before Income Taxes | **205,021** | 189,321 |
| **Provision for Income Taxes** | **45,164** | 39,761 |
| **Net Income** | **$ 159,857** | $ 149,560 |

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

# Condensed Consolidated Balance Sheets
**CoBank, ACB**

*($ in Thousands)*

| | March 31, 2009 *(Unaudited)* | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Total Loans and Leases | **$ 45,732,851** | $ 44,550,121 |
| Less: Allowance for Credit Losses | **334,979** | 329,198 |
| Net Loans and Leases | **45,397,872** | 44,220,923 |
| Cash | **2,529,558** | 3,127,204 |
| Investment Securities | **12,568,720** | 11,536,848 |
| Federal Funds Sold, Securities Purchased Under Resale Agreements and Other | **5,000** | 5,000 |
| Interest Rate Swaps and Other Financial Instruments | **1,553,766** | 1,674,753 |
| Accrued Interest Receivable and Other Assets | **628,994** | 597,329 |
| **Total Assets** | **$ 62,683,910** | $ 61,162,057 |
| **Liabilities** | | |
| Bonds and Notes | **$ 56,888,042** | $ 55,365,422 |
| Subordinated Debt | **1,000,000** | 1,000,000 |
| Interest Rate Swaps and Other Financial Instruments | **123,401** | 140,948 |
| Accrued Interest Payable and Other Liabilities | **808,405** | 906,615 |
| Reserve for Unfunded Commitments | **139,911** | 154,223 |
| Total Liabilities | **58,959,759** | 57,567,208 |
| Commitments and Contingencies (Note 8) | | |
| **Shareholders' Equity** | | |
| Preferred Stock | **700,000** | 700,000 |
| Common Stock and Participation Certificates | **1,414,866** | 1,401,192 |
| Unallocated Retained Earnings | **1,716,871** | 1,638,596 |
| Accumulated Other Comprehensive Loss | **(107,586)** | (144,939) |
| Total Shareholders' Equity | **3,724,151** | 3,594,849 |
| **Total Liabilities and Shareholders' Equity** | **$ 62,683,910** | $ 61,162,057 |

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

# Condensed Consolidated Statements of Cash Flows

**CoBank, ACB**

*($ in Thousands)*

| **For the Three Months Ended March 31,** *(Unaudited)* | **2009** | **2008** |
|---|---|---|
| **Cash Flows Provided by Operating Activities** | | |
| Net Income | **$ 159,857** | $ 149,560 |
| Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities: | | |
| Provision for Credit Losses | **20,000** | - |
| Deferred Income Taxes | **8,182** | 28,557 |
| Depreciation and Amortization/Accretion, Net | **(3,357)** | 8,929 |
| (Increase) Decrease in Accrued Interest Receivable and Other Assets | **(61,923)** | 17,090 |
| Increase (Decrease) in Accrued Interest Payable and Other Liabilities | **16,018** | (95,297) |
| Net (Gains) Losses on Interest Rate Swaps and Other Financial Instruments | **(8,980)** | 684 |
| Other | **1,396** | - |
| Net Cash Provided by Operating Activities | **131,193** | 109,523 |
| **Cash Flows Used in Investing Activities** | | |
| Net Increase in Loans and Leases | **(1,214,491)** | (6,336,975) |
| Net Increase in Investment Securities | **(916,676)** | (52,667) |
| Net Increase in Federal Funds Sold, Securities Purchased Under Resale Agreements and Other | **-** | (99,600) |
| Net Cash Used in Investing Activities | **(2,131,167)** | (6,489,242) |
| **Cash Flows Provided by Financing Activities** | | |
| Net Issuance of Bonds and Notes | **1,634,238** | 6,560,050 |
| Net Retirements of Common Stock and Participation Certificates | **(7,492)** | (40,616) |
| Cash Patronage Distribution and Other | **(209,557)** | (155,013) |
| Preferred Stock Dividends | **(14,861)** | (9,360) |
| Net Cash Provided by Financing Activities | **1,402,328** | 6,355,061 |
| Net Decrease in Cash | **(597,646)** | (24,658) |
| Cash at Beginning of Period | **3,127,204** | 40,415 |
| Cash at End of Period | **$ 2,529,558** | $ 15,757 |
| **Supplemental Disclosures:** | | |
| **Schedule of Noncash Investing and Financing Activities** | | |
| Net Change in Accrued Purchases of Securities | **$ (50,016)** | $ (10,582) |
| Net Change in Unrealized Losses on Investment Securities, Before Taxes | **64,235** | (73,131) |
| Net Change in Unrealized Losses/Gains on Interest Rate Swaps and Other Financial Instruments, Before Taxes | **(4,422)** | 5,674 |
| Patronage in Common Stock and Participation Certificates | **21,166** | 31,953 |

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)*

| **For the Three Months Ended March 31, *(Unaudited)*** | **2009** | **2008** |
|---|---|---|
| Balance at Beginning of Period | **$ 3,594,849** | $ 3,233,424 |
| Adjustments for the Adoption of a New Accounting Pronouncement (Note 2) | **-** | (609) |
| Balance at Beginning of Period, as Adjusted | **3,594,849** | 3,232,815 |
| Comprehensive Income: | | |
| Net Income | **159,857** | 149,560 |
| Other Comprehensive Income, Net of Taxes: | | |
| Net Change in Unrealized Losses (Gains) on Investment Securities | **39,826** | (45,341) |
| Net Change in Unrealized Losses (Gains) on Interest Rate Swaps and Other Financial Instruments | **(2,622)** | 3,518 |
| Net Pension Adjustment | **149** | (2) |
| Comprehensive Income | **197,210** | 107,735 |
| Preferred Stock Dividends | **(14,861)** | (9,360) |
| Common Stock / Participation Certificates Issued | **29** | 29 |
| Common Stock / Participation Certificates Retired | **(7,521)** | (40,645) |
| Cash Patronage Distribution Payable and Other | **(45,555)** | (50,169) |
| **Balance at End of Period** | **$ 3,724,151** | $ 3,240,405 |

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 as Noted)*

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

The accompanying unaudited condensed consolidated financial statements include the accounts of CoBank, ACB and its wholly-owned subsidiary, 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. 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. Our results of operations for the three months ended March 31, 2009 are not necessarily indicative of results to be expected for the entire fiscal year.

The accompanying unaudited condensed consolidated financial statements exclude financial information of Northwest Farm Credit Services, ACA (Northwest) as well as the System Associations in the Northeastern region of the United States (Northeast Associations), which are collectively referred to as our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the "District." The supplemental information on pages 34 and 35 includes certain unaudited 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. Copies of financial reports of our affiliated Associations and the System are available on their respective websites, which can also be accessed through links on our CoBank website under "Farm Credit Partners."

These unaudited quarterly condensed consolidated financial statements should be read in conjunction with the 2008 Annual Report. A description of our organization and lending authority is contained in our 2008 Annual Report. Also included in the 2008 Annual Report is a summary of significant accounting policies as well as the financial condition and consolidated results of operations as of and for the year ended December 31, 2008. These unaudited quarterly condensed consolidated financial statements have been prepared in accordance with these same accounting policies. Certain reclassifications have been made to amounts reported in the prior period to conform to the current period presentation.

## Note 2 – Recently Issued or Adopted Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 (FAS 161). FAS 161 enhances the current disclosure framework of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133). It requires disclosure about how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under FAS 133; and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FAS 161 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We adopted FAS 161 effective January 1, 2009. The adoption did not have any effect on our consolidated financial position, results of operations or cash flows; however, we have expanded our disclosures related to derivatives. See additional discussion regarding the adoption of FAS 161 in Note 4.

In April 2009, the FASB issued Staff Position FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance on determining whether a market for a financial asset or liability is not active and whether a transaction is not orderly for fair value measurement purposes under Statement of Financial Accounting Standards No. 157, Fair Value Measurements. FSP FAS 157-4 is effective prospectively for interim and annual periods ending after June 15, 2009, however, early adoption is permitted. We will adopt FSP FAS 157-4 in the second quarter of 2009 and do not expect its adoption to have a material effect on our consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued Staff Position FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2). FSP FAS 115-2 provides other-than-temporary impairment guidance, which under certain circumstances, allows for recording the portion of an impairment related to credit losses in earnings and the portion of impairment related to all other factors in other comprehensive income (loss). To qualify for such treatment, management is required to assert that it does not have the intent to sell a security and that it is more likely than not that it will not have to sell such security before a full recovery of its cost basis occurs. FSP FAS 115-2 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted. This FSP will be applied to existing and new investments held as of the beginning of the interim period in which it is adopted. We will adopt FSP FAS 115-2 in the second quarter of 2009 and do not currently expect its adoption to have a material effect on our consolidated financial position, results of operations or cash flows; however, the adoption of FSP FAS 115-2 would likely impact the recognition and presentation of other-than-temporary impairments recorded in the future, if any.

In April 2009, the FASB issued Staff Position FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1). FSP FAS 107-1 requires entities to include disclosures about the fair value of its financial instruments whenever interim financial statements are issued during the fiscal year, whether recognized or not recognized in the statement of financial position, as required by Statement of Financial Accounting Standards No. 107, Disclosures about Fair Value of Financial Instruments. Entities must also disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. FSP FAS 107-1 is effective for interim periods ending after June 15, 2009, with early adoption permitted. We will adopt FSP FAS 107-1 in the second quarter of 2009. FSP FAS 107-1 will not have an effect on our consolidated financial position, results of operations or cash flows; however, it will result in expanded disclosures related to our financial instruments.

As previously disclosed in our 2008 Annual Report, effective January 1, 2008, we adopted the change in measurement date requirement of FASB Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefits (FAS 158). As a result, pension and postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 30, 2007 measurement date) of $1.0 million was recorded in retained earnings at January 1, 2008, which decreased retained earnings by $0.6 million, net of taxes, decreased other assets by $0.1 million and increased other liabilities by $0.5 million.

## Note 3 – Allowance for Credit Losses and Reserve for Unfunded Commitments

In the fourth quarter of 2008, we revised our methodology for determining the allowance for credit losses. The refined methodology takes into consideration potential losses related to unfunded commitments and, as a result, we established a separate reserve for unfunded commitments, which is reported as a liability on the Bank's condensed consolidated balance sheet. We refer to the combined amounts of the allowance for credit losses and the reserve for unfunded commitments as the "reserve for credit exposure." Following is a summary of changes in the allowance for credit losses and the reserve for unfunded commitments for the periods presented.

**Reserve for Credit Exposure**

| For the Three Months Ended March 31, | 2009 | 2008 |
|---|---|---|
| Allowance for Credit Losses, Beginning of Period | **$ 329,198** | $ 447,226 |
| Provision for Credit Losses | **20,000** | - |
| Charge-offs | **(29,144)** | (3,008) |
| Recoveries | **613** | 2,158 |
| Transfer to Allowance for Credit Losses from Reserve for Unfunded Commitments | **14,312** | - |
| Allowance for Credit Losses, End of Period | **334,979** | 446,376 |
| Reserve for Unfunded Commitments, Beginning of Period | **154,223** | - |
| Transfer from Reserve for Unfunded Commitments to Allowance for Credit Losses | **(14,312)** | - |
| Reserve for Unfunded Commitments, End of Period | **139,911** | - |
| Total Reserve for Credit Exposure | **$ 474,890** | $ 446,376 |

Impaired loans and leases are those loans and leases for which it is probable that all principal and interest will not be collected according to the contractual terms. Impaired loan and lease information is shown in the following table, including loans and leases past due 90 days or more and still accruing interest, which are adequately secured and in the process of collection.

**Impaired Loan and Lease Information**

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| Nonaccrual Loans and Leases | **$ 290,237** | $ 217,797 |
| Accruing Loans and Leases 90 Days or More Past Due | **5,056** | 3,844 |
| Restructured Loans | **116** | 160 |
| Total Impaired Loans and Leases | **$ 295,409** | $ 221,801 |
| Impaired Loans and Leases with Related Specific Allowance | **$ 89,260** | $ 92,735 |
| Impaired Loans and Leases without Related Specific Allowance | **206,149** | 129,066 |
| Total Impaired Loans and Leases | **$ 295,409** | $ 221,801 |
| Specific Allowance on Impaired Loans and Leases | **$ 23,428** | $ 25,337 |
| Other Property Owned | **3** | 3 |

| For the Three Months Ended March 31, | | 2009 | | 2008 |
|---|---|---|---|---|
| Average Impaired Loans and Leases | **$** | **225,313** | $ | 33,935 |
| Interest Income Recognized on Impaired Loans and Leases | | **89** | | 3,037 |

| **Reserve for Credit Exposure as a Percentage of:** | March 31, 2009 | December 31, 2008 |
|---|---|---|
| Total Loans and Leases | **1.04%** | 1.09% |
| Impaired Loans and Leases | **161** | 218 |
| Nonaccrual Loans and Leases | **164** | 222 |

## Note 4 – Derivative Financial Instruments and Hedging Activities

As discussed in Note 2, we adopted FAS 161 effective January 1, 2009, which enhances the current disclosure framework of FAS 133. These enhanced disclosures are presented in the following paragraphs and tables.

### *Risk Management Objectives and Strategies*

We maintain an overall interest rate risk management strategy that incorporates the use of derivative financial instruments 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 rate 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, lower funding costs and manage 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 approved counterparties.

The notional amounts and related activity of derivatives at March 31, 2009 are shown in the following table.

**Activity in the Notional Amounts of Derivative Financial Instruments**

| ($ in Millions) | Swaps | Caps | Spots and Forwards | Total |
|---|---|---|---|---|
| **December 31, 2008** | $ 26,452 | $ 1,911 | $ 354 | $ 28,717 |
| Additions /Accretion | 3,746 | - | 881 | 4,627 |
| Maturities /Amortization | (1,167) | (219) | (935) | (2,321) |
| Terminations | - | - | - | - |
| **March 31, 2009** | $ 29,031 | $ 1,692 | $ 300 | $ 31,023 |

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

We record derivatives as assets or liabilities at their fair value on the consolidated balance sheets. We record changes in the fair value of a derivative in current period earnings or accumulated other comprehensive income (loss), depending on the use of the derivative and whether it qualifies for hedge accounting. For fair-value hedge transactions that hedge changes in the fair value of assets or liabilities, changes in the fair value of the derivative will generally be offset in the income statement by changes in the hedged item's fair value attributable to the risk being hedged. For cash-flow hedge transactions, in which we hedge the variability of future cash flows related to a variable-rate asset or liability, changes in the fair value of the derivative are reported in accumulated other comprehensive income (loss). The gains and losses on the derivatives that we report in accumulated other comprehensive income (loss) will be reclassified as earnings in the periods in which earnings are impacted 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 change in fair value in current period earnings. We substantially offset this risk transference by concurrently entering into offsetting agreements with approved counterparties, with the change in fair value 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 contract interest rates and maturities. For the remaining fair value hedges, we enter into receive-fixed, pay-floating swaps to align our equity positioning strategy with our risk management strategy. For fair value hedges, the amount of hedge ineffectiveness is recognized as net interest income in current period earnings.

### *Cash Flow Hedges*

We purchase interest rate caps to hedge cap risk embedded within a portion of our floating-rate investment securities. The interest rate caps hedge floating-rate debt cash flows that fund the cash flows from floating-rate investment securities. If the strike rates in the purchased interest rate caps are exceeded, we receive cash flows on the derivative to hedge our floating-rate funding exposure above such strike levels. We also enter into foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon repricing or maturity date of the loan. For cash flow hedges, the amount of hedge ineffectiveness, the amount excluded from ineffectiveness assessment, and the amounts reclassified from accumulated other comprehensive income (loss) into current period earnings are all reflected in net interest income. At March 31, 2009, we expect that $0.9 million of expense will be reclassified from other comprehensive loss into the income statement in the next 12 months, based on the anticipated cash flows of existing financial instruments. The maximum term over which we are hedging our exposure to the variability of future cash flows for all forecasted transactions is approximately four years.

### *Derivatives Not Designated As Hedges*

Derivative agreements with our customers and the related offsetting derivative agreements with approved 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 activities includes the credit risk of dealing with counterparties and market risks related to movements in interest rates. Generally, when the fair value of a derivative contract is positive, the counterparty owes us, thus creating a performance risk. When the fair value of the derivative contract is negative, we owe the counterparty, and therefore, assume no performance risk.

To minimize the risk of credit losses on derivative transactions, we deal exclusively with counterparties that have an investment grade or better credit rating from a major credit rating agency, and we closely monitor the credit standing and levels of exposure to individual counterparties. In addition, all derivative transactions are governed by master swap agreements, which include netting agreements. Our master agreements mitigate credit risk by requiring the net settlement of covered contracts with the same counterparty in the event of default by the other party. The "net" mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty. The credit risk is further mitigated by setting limits on the amount of net exposure to each respective counterparty, requiring collateral to support certain credit exposures, and establishing collateral posting thresholds. The master swap agreements also include bilateral collateral arrangements, while derivative agreements with our customers are secured through our loan agreements. We record derivative exposures and related collateral balances at gross amounts in our consolidated balance sheets. As of March 31, 2009, our counterparties had posted $1.3 billion in cash and $93.4 million in securities as collateral with us. The maximum amount of losses we could be exposed to in the event of nonperformance by the non-customer counterparties to our derivative positions was $148.9 million at March 31, 2009.

A summary of the fair value of our derivative financial instruments included in our consolidated balance sheet at March 31, 2009 is shown below.

**Fair Value of Derivative Financial Instruments**

| | Fair Value of Derivative Assets (1) | Fair Value of Derivative Liabilities (2) |
|---|---|---|
| **Derivatives Designated as Hedging Instruments Under FAS 133** | | |
| Interest Rate Contracts | $ 1,433,033 | $ 7,989 |
| Foreign Exchange Contracts | 582 | 5,136 |
| Total Derivatives Designated as Hedging Instruments Under FAS 133 | $ 1,433,615 | $ 13,125 |
| **Derivatives Not Designated as Hedging Instruments Under FAS 133** | | |
| Interest Rate Contracts | $ 115,064 | $ 105,454 |
| Foreign Exchange Contracts | 5,087 | 4,822 |
| Total Derivatives Not Designated as Hedging Instruments Under FAS 133 | $ 120,151 | $ 110,276 |
| **Total Derivatives** | $ 1,553,766 | $ 123,401 |

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

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

A summary of the effect of derivative financial instruments on our consolidated statement of income for the three months ended March 31, 2009 is shown below.

**Derivative Financial Instruments in Fair Value Hedging Relationships Under FAS 133**

| | Net Amount of Gain or (Loss) Recognized in Income on Derivative and Hedged Item (1) |
|---|---|
| Interest Rate Contracts | $ 8,488 |
| **Total** | $ 8,488 |

(1) Located in Interest Expense in the accompanying condensed consolidated statement of income for the three months ended March 31, 2009

## Derivative Financial Instruments in Cash Flow Hedging Relationships Under FAS 133

| | | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) | | Amount of Gain or (Loss) Reclassified from OCI to Income on Derivative (Effective Portion) | | Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Assessment) |
|---|---|---|---|---|---|---|
| Interest Rate Contracts | $ | (2,445) | $ | (149) [1] | $ | - |
| Foreign Exchange Contracts | | (292) | | 1,834 [2] | | (525) [2] |
| **Total** | $ | (2,737) | $ | 1,685 | $ | (525) |

(1) Located in Interest Expense in the accompanying condensed consolidated statement of income for the three months ended March 31, 2009

(2) Located in Interest Income – Loans and Leases in the accompanying condensed consolidated statement of income for the three months ended March 31, 2009

## Derivative Financial Instruments not Designated as Hedging Relationships Under FAS 133

| | | Net Amount of Gain or (Loss) Recognized in Income On Derivative [1] |
|---|---|---|
| Interest Rate Contracts | $ | 624 |
| Foreign Exchange Contracts | | 36 |
| **Total** | $ | 660 |

(1) Located in Other Noninterest Income / Expense in the accompanying condensed consolidated statement of income for the three months ended March 31, 2009

## Note 5 – Fair Value Measurements

Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157) establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of our financial instruments within the fair value hierarchy are as follows:

***Level 1***

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. Level 1 assets and liabilities include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter markets. Our Level 1 assets at March 31, 2009 consist of assets held in a trust fund related to deferred compensation, our supplemental executive retirement plan and our executive retirement plan. 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 to the valuation methodology 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. Level 2 assets and liabilities include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

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

The fair value of our derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer or extinguish a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models. These models incorporate benchmark interest rate curves, volatilities 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.

Our Level 2 assets and liabilities at March 31, 2009 include our derivative contracts and investment securities issued or guaranteed by the U.S. government or its agencies as well as non-agency mortgage-backed securities, all of which have unadjusted values from third-party or internal pricing models. Our Level 2 assets also include federal funds sold, securities purchased under resale agreements and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments is generally their face value, plus accrued interest, as these instruments are highly-liquid, readily convertible to cash and short-term in nature. Additionally, our Level 2 assets and liabilities include collateral balances, which are required under collateral support and master agreements associated with our derivative contracts. The market value of collateral assets and liabilities is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

### *Level 3*

Level 3 inputs to the valuation methodology are unobservable and supported by limited or no market activity. Level 3 assets and liabilities include investments and derivative contracts whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, and other instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets and liabilities also include investments and derivative contracts whose price has been adjusted based on dealer quoted pricing that is different from third-party valuation or internal model pricing.

Our Level 3 assets at March 31, 2009 include our asset-backed investment securities which are not issued or guaranteed by the U.S. government or its agencies. Based on the lack of active trading in this market, we classified this portfolio as Level 3 assets. Market values for such asset-backed securities are calculated internally using third-party models, with certain adjustments made in consideration of outside pricing service models. Inputs into these 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 observable market inputs. Our Level 3 liabilities at March 31, 2009 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

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

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at March 31, 2009 for each of the fair value hierarchy levels.

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

| As of March 31, 2009 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Investment Securities | $ - | $ 12,316,155 | $ 252,565 | $ 12,568,720 |
| Federal Funds Sold, Securities Purchased Under Resale Agreements and Other | - | 5,000 | - | 5,000 |
| Interest Rate Swaps and Other Financial Instruments | - | 1,553,766 | - | 1,553,766 |
| Assets Held in Trust (included in Other Assets) | 20,992 | - | - | 20,992 |
| **Total Assets** | $ 20,992 | $ 13,874,921 | $ 252,565 | $ 14,148,478 |
| **Liabilities** | | | | |
| Interest Rate Swaps and Other Financial Instruments | $ - | $ 123,401 | $ - | $ 123,401 |
| Collateral Liabilities (included in Bonds and Notes) | - | 1,269,240 | - | 1,269,240 |
| Standby Letters of Credit (included in Other Liabilities) | - | - | 9,297 | 9,297 |
| **Total Liabilities** | $ - | $ 1,392,641 | $ 9,297 | $ 1,401,938 |

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**

| | Asset-Backed Investment Securities | Standby Letters of Credit |
|---|---|---|
| **Balance at December 31, 2008** | $ 316,000 | $ 6,529 |
| Total Gains or Losses (Realized/Unrealized): | | |
| Included in Other Noninterest Expense | - | - |
| Included in Other Comprehensive Loss | (35,997) | - |
| Purchases, Sales, Issuances and Settlements, Net | (17,343) | 2,768 |
| Transfers Out of Level 3 into Level 2 | (10,095) | - |
| **Balance at March 31, 2009** | $ 252,565 | $ 9,297 |

Certain loans and leases measured at cost, which were written down to fair value as a result of impairment, are not included in the tables above. These primarily include certain impaired loans and leases for which we provide a specific allowance at March 31, 2009 based on the value of the underlying collateral. At March 31, 2009, we had $55.5 million in impaired loans and leases measured at fair value on a non-recurring basis. We have classified this entire balance as Level 3 in the fair value hierarchy.

## Note 6 – 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 have an employee savings plan pursuant to which we match a certain percentage of employees' elective contributions. Under this plan, employees hired on or after January 1, 2007 receive a fixed percentage of their eligible wages in their retirement account and a higher level of matching contributions than employees hired prior to that date. We also have a noncontributory, unfunded non-qualified supplemental executive retirement plan (SERP) that covers a limited number of our executives and senior managers, as well as an unfunded non-qualified executive retirement plan (ERP) designed to provide enhanced retirement benefits to certain of our most senior executives. In addition, we have other postretirement benefit plans that cover substantially all of our employees. These other postretirement benefit plans are unfunded contributory plans with participant contributions adjusted annually. Substantially all participants pay the full premiums associated with these plans.

We contributed $5.0 million to our funded qualified defined benefit pension plans during the three months ended March 31, 2009 and anticipate that we will contribute an additional $8.6 million to such plans during the remainder of 2009. We expect to contribute a total of $0.3 million, net of collected retiree premiums, to our other postretirement benefit plans during 2009. During 2009, we expect to transfer approximately $2.5 million into our trust funds related to our SERP and ERP. Given the continued volatility of financial markets, our actual contributions could change from the estimates provided above.

## Note 7 – Common Stock

In March 2009, our voting shareholders approved changes to our bylaws to convert all existing classes of common equity into a single class of common equity – Class A common stock – and to afford voting rights to certain borrowers that are not organized as cooperatives. Class A shareholders that are directly eligible to borrow from CoBank, that borrow on a patronage basis and that are active borrowers will have voting rights. The number of voting shareholders increased by approximately 27 percent as a result of these bylaw changes, which were effective April 1, 2009.

## Note 8 – Commitments and Contingencies

Under the Farm Credit Act of 1971, as amended, CoBank is primarily liable for its portion of Systemwide debt securities. Additionally, we are contingently liable for the Systemwide debt securities of the other System banks. Total Systemwide debt securities of the System were $179.2 billion at March 31, 2009.

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

- The statutory requirement for System banks to maintain eligible assets at a level at least equal in value to the total amount of debt for which each System bank is primarily liable;
- Maintenance of certain financial criteria by contract which, if not met, could limit or ultimately deny a troubled System bank's access to and participation in System debt issuances; and
- The Farm Credit Insurance Fund, a statutorily created insurance fund to assist in the timely payment of principal and interest on Systemwide debt securities in the event of a default by a System bank to the extent that net assets are available in the insurance fund. At March 31, 2009, the assets of the insurance fund aggregated $3.0 billion.

At March 31, 2009, various lawsuits were pending or threatened against the Bank in which claims for monetary damages have been or may be asserted. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions will not have a material adverse impact on our consolidated results of operations or financial position.

## Note 9 – Segment Financial Information

We conduct our lending and leasing operations through four operating segments: Agribusiness Banking Group (ABG), Strategic Relationships Division (SRD), Communications and Energy Banking Group (CEBG) and Global Financial Services Group (GFSG).

The accompanying tables present condensed disaggregated information for the segments. Allocation of resources and corporate items, as well as measurement of financial performance, is made at these operating segment levels. We also allocate net interest income on investment securities, federal funds sold, securities purchased under resale agreements and other highly-liquid funds to our segments. 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. Our international loans are U.S. dollar-denominated and the majority of these loans are guaranteed by a U.S. government-sponsored loan guarantee program.

For the three months ended March 31, 2009 and 2008, interest earned from an affiliated Association, Northwest, represented ten percent and nine percent, respectively, of our gross interest income and less than ten percent of our net interest income for both periods. No other customer made up ten percent or more of our gross or net interest income for the periods presented.

# Condensed Segment Financial Information

**CoBank, ACB**

## For the Three Months Ended March 31, 2009

| | ABG | SRD | CEBG | GFSG | Subtotal | Other | Total CoBank |
|---|---|---|---|---|---|---|---|
| **Results of Operations ($ in Thousands):** | | | | | | | |
| Net Interest Income | $ 98,233 | $ 36,387 | $ 79,668 | $ 39,545 | $ 253,833 | $ (575) | $ 253,258 |
| Provision (Reversal) for Credit Losses | 25,000 | - | - | (5,000) | 20,000 | - | 20,000 |
| Noninterest Income | 7,066 | 199 | 8,565 | 5,685 | 21,515 | 845 | 22,360 |
| Noninterest Expense | 23,192 | 4,243 | 13,939 | 8,850 | 50,224 | 373 | 50,597 |
| Provision for Income Taxes | 12,952 | - | 19,116 | 13,374 | 45,442 | (278) | 45,164 |
| **Net Income** | $ 44,155 | $ 32,343 | $ 55,178 | $ 28,006 | $ 159,682 | $ 175 | $ 159,857 |
| **Selected Financial Information ($ in Millions):** | | | | | | | |
| Loans and Leases, Net of Allowance | | | | | | | |
| for Credit Losses at March 31, 2009 | $ 11,269 | $ 14,736 | $ 11,029 | $ 8,364 | $ 45,398 | $ - | $ 45,398 |
| Assets at March 31, 2009 | $ 11,371 | $ 14,793 | $ 11,088 | $ 8,414 | $ 45,666 | $ 17,018* | $ 62,684 |
| *Other assets are composed of: | | | | | | | |
| Investment Securities | | | | | | | $ 12,569 |
| Federal Funds Sold, Securities Purchased Under Resale Agreements and Other | | | | | | | 5 |
| Other Assets | | | | | | | 4,444 |

## For the Three Months Ended March 31, 2008

| | ABG | SRD | CEBG | GFSG | Subtotal | Other | Total CoBank |
|---|---|---|---|---|---|---|---|
| **Results of Operations ($ in Thousands):** | | | | | | | |
| Net Interest Income | $ 130,675 | $ 16,788 | $ 47,363 | $ 23,163 | $ 217,989 | $ (296) | $ 217,693 |
| Provision (Reversal) for Credit Losses | - | - | - | - | - | - | - |
| Noninterest Income** | 4,306 | 250 | 6,636 | 6,576 | 17,768 | 899 | 18,667 |
| Noninterest Expense | 22,771 | 2,598 | 11,534 | 8,079 | 44,982 | 2,057 | 47,039 |
| Provision for Income Taxes | 28,958 | - | 6,804 | 4,297 | 40,059 | (298) | 39,761 |
| Net Income | $ 83,252 | $ 14,440 | $ 35,661 | $ 17,363 | $ 150,716 | $ (1,156) | $ 149,560 |
| **Selected Financial Information ($ in Millions):** | | | | | | | |
| Loans and Leases, Net of Allowance | | | | | | | |
| for Credit Losses at March 31, 2008 | $ 17,548 | $ 12,821 | $ 9,192 | $ 6,834 | $ 46,395 | $ - | $ 46,395 |
| Assets at March 31, 2008 | $ 17,682 | $ 12,901 | $ 9,255 | $ 6,882 | $ 46,720 | $ 12,435* | $ 59,155 |
| * Other assets are composed of: | | | | | | | |
| Investment Securities | | | | | | | $ 10,425 |
| Federal Funds Sold, Securities Purchased Under Resale Agreements and Other | | | | | | | 747 |
| Other Assets | | | | | | | 1,263 |

** We have reclassified 2008 noninterest income amounts to conform to our current year presentation.

# Supplemental District Financial Information

**CoBank, ACB and Affiliated Associations**

Our affiliated Associations operate independently and maintain an arms-length relationship with us, except to the limited extent that the Farm Credit Act requires us, as the funding bank, to monitor and approve certain activities of affiliated Associations. Accordingly, the financial information of affiliated Associations is not included in our consolidated financial statements. However, because of the interdependent manner in which CoBank and its affiliated Associations operate, we believe that presenting combined Bank and Association financial information is meaningful for purposes of additional analysis.

The following condensed Combining Balance Sheets and Combining Statements of Income, together with ratios and other financial information, present condensed combined financial information of CoBank and its affiliated Associations, which are collectively referred to as the District. As part of the combining process, all significant transactions between CoBank and its affiliated 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.

## Combining Balance Sheets (Condensed)

*($ in Millions) (Unaudited)*

| As of March 31, 2009 | CoBank | Combined Affiliated Associations | Eliminations | Combined CoBank District |
|---|---|---|---|---|
| Investments, Federal Funds Sold and Other Highly-Liquid Assets | **$ 12,574** | **$ -** | **$ -** | **$ 12,574** |
| Loans and Leases | **45,733** | **12,246** | **(10,690)** | **47,289** |
| Less: Allowance for Credit Losses | **(335)** | **(101)** | **-** | **(436)** |
| Net Loans and Leases | **45,398** | **12,145** | **(10,690)** | **46,853** |
| Other Assets | **4,712** | **672** | **(508)** | **4,876** |
| **Total Assets** | **$ 62,684** | **$ 12,817** | **$ (11,198)** | **$ 64,303** |
| Bonds and Notes | **$ 57,888** | **$ 10,791** | **$ (10,745)** | **$ 57,934** |
| Reserve for Unfunded Commitments | **140** | **8** | **-** | **148** |
| Other Liabilities | **932** | **76** | **(24)** | **984** |
| **Total Liabilities** | **58,960** | **10,875** | **(10,769)** | **59,066** |
| **Total Shareholders' Equity** | **3,724** | **1,942** | **(429)** | **5,237** |
| **Total Liabilities and Shareholders' Equity** | **$ 62,684** | **$ 12,817** | **$ (11,198)** | **$ 64,303** |

| As of December 31, 2008 | CoBank | Combined Affiliated Associations | Eliminations | Combined CoBank District |
|---|---|---|---|---|
| Investments, Federal Funds Sold and Other Highly-Liquid Assets | $ 11,542 | $ - | $ - | $ 11,542 |
| Loans and Leases | 44,550 | 12,401 | (10,879) | 46,072 |
| Less: Allowance for Credit Losses | (329) | (89) | - | (418) |
| Net Loans and Leases | 44,221 | 12,312 | (10,879) | 45,654 |
| Other Assets | 5,399 | 754 | (565) | 5,588 |
| **Total Assets** | $ 61,162 | $ 13,066 | $ (11,444) | $ 62,784 |
| Bonds and Notes | $ 56,365 | $ 11,015 | $ (10,944) | $ 56,436 |
| Reserve for Unfunded Commitments | 154 | 7 | - | 161 |
| Other Liabilities | 1,048 | 132 | (72) | 1,108 |
| **Total Liabilities** | 57,567 | 11,154 | (11,016) | 57,705 |
| **Total Shareholders' Equity** | 3,595 | 1,912 | (428) | 5,079 |
| **Total Liabilities and Shareholders' Equity** | $ 61,162 | $ 13,066 | $ (11,444) | $ 62,784 |

# Supplemental District Financial Information
**CoBank, ACB and Affiliated Associations**

## Combining Statements of Income (Condensed)
*($ in Millions) (Unaudited)*

| For the Three Months Ended March 31, | CoBank | Combined Affiliated Associations | Eliminations | Combined CoBank District |
|---|---|---|---|---|
| **2009** | | | | |
| Net Interest Income | **$ 253** | **$ 86** | **$ -** | **$ 339** |
| Provision for Credit Losses | **20** | **28** | **-** | **48** |
| Noninterest Income | **22** | **27** | **(16)** | **33** |
| Noninterest Expense | **50** | **44** | **-** | **94** |
| Provision for Income Taxes | **45** | **(3)** | **-** | **42** |
| **Net Income** | **$ 160** | **$ 44** | **$ (16)** | **$ 188** |
| **2008** | | | | |
| Net Interest Income | $ 218 | $ 73 | $ - | $ 291 |
| Provision for Credit Losses | - | 2 | - | 2 |
| Noninterest Income | 19 | 23 | (11) | 31 |
| Noninterest Expense | 47 | 37 | - | 84 |
| Provision for Income Taxes | 40 | 2 | - | 42 |
| **Net Income** | $ 150 | $ 55 | $ (11) | $ 194 |

## Key Financial Ratios – Combined CoBank District
*(Unaudited)*

| For the Three Months Ended March 31, | 2009 | 2008 |
|---|---|---|
| Return on Average Assets | **1.18 %** | 1.31% |
| Return on Average Capital | **14.43** | 16.25 |
| Net Interest Margin | **2.31** | 2.01 |
| Operating Expense as a Percent of Net Interest Income and Noninterest Income | **25.38** | 26.19 |
| Net Charge-offs as a Percent of Average Loans and Leases | **.37** | .03 |

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| Capital as a Percent of Total Assets | **8.14 %** | 8.09% |
| Risk Funds as a Percent of Loans and Leases | **12.31** | 12.28 |
| Reserve for Credit Exposure as a Percent of Loans and Leases | **1.23** | 1.26 |
| Debt to Capital (:1) | **11.28** | 11.36 |

## Asset Quality Ratios – Combined CoBank District
*(Unaudited)*

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| Acceptable | **94.68 %** | 95.87% |
| Other Assets Especially Mentioned | **2.68** | 1.80 |
| Substandard | **2.53** | 2.26 |
| Doubtful | **.11** | .07 |
| Loss | **-** | - |
| **Total** | **100.00 %** | 100.00% |

# Controls and Procedures

**CoBank, ACB**

We maintain a system of disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information disclosed by us in our quarterly and annual reports is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions to be made regarding disclosure. The President and Chief Executive Officer and the Chief Financial and Administrative Officer have evaluated our disclosure controls and procedures as of the end of and for 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 Section 319, means a process - effected by the board of directors, management and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in reliability of financial reporting, the effectiveness and efficiency of operations and 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 8th day of May, 2009.

/s/ EVERETT DOBRINSKI

Everett Dobrinski
*Chairman of the Board*

/s/ ROBERT B. ENGEL

Robert B. Engel
*President and Chief Executive Officer*

/s/ BRIAN P. JACKSON

Brian P. Jackson
*Executive Vice President and Chief Financial and Administrative Officer*

CERTIFICATION

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

(1) I have reviewed this 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

Robert B. Engel
*President and Chief Executive Officer*

Dated: May 8, 2009

CERTIFICATION

I, Brian P. Jackson, Executive Vice President and Chief Financial and Administrative 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/ BRIAN P. JACKSON

Brian P. Jackson
*Executive Vice President and Chief Financial and Administrative Officer*

Dated: May 8, 2009

# Leadership

**CoBank, ACB**

***Executive Office***

**Robert B. Engel,** President and Chief Executive Officer
**John Svisco,** Human Resources Division

***Corporate Services Group***

**Brian P. Jackson,** Executive Vice President and Chief Financial and Administrative Officer
**James R. Bernsten,** Chief Information Officer
**David P. Burlage,** Finance Division
**George P. Delaune,** Administrative Services Division
**Arthur C. Hodges, Jr.,** Corporate Communications Division
**Stephen F. Staley,** Senior Vice President
**Todd E. Wilson**, Operations Division

***Legal, Government and Board Relations***

**Mark W. Yonkman**, Executive Vice President and General Counsel
**Allan S. Kantrowitz,** Senior Vice President
**Susan D. McPhillips,** Legal Division
**L. Todd VanHoose**, Legislative and Regulatory Affairs

***Agribusiness Banking Group****

**Philip S. DiPofi,** Executive Vice President
**Robert E. Egerton,** Agribusiness Division – East
**Amy H. Gales,** Agribusiness Division – Central
**Dean W. Moreau,** Agribusiness Division – West
**Russell D. Nelson,** Farm Credit Leasing Services Corporation

***Communications and Energy Banking Group***

**Mary E. McBride,** Executive Vice President
**Jennifer G. Goss,** Electric Distribution Division
**Aivars (Jake) Udris,** Power Supply, Energy Services and Water Division
**Robert F. West,** Communications Division

***Global Financial Services Group***

**John C. Holsey,** Executive Vice President
**Antony M. Bahr,** Capital Markets Division
**Manuel Fernandez-Quevedo,** International Division
**Candace A. Roper**, Applied Strategic Knowledge Division
**Richard A. Scholz,** Non-Credit Services Division
**Scott S. Trauth,** Corporate Finance Division

***Credit and Risk Management Group***

**Douglas E. Wilhelm,** Executive Vice President and Chief Credit and Risk Officer
**Rodney A. Brown,** Asset Review, Collateral and Compliance Division
**Gary M. Fitzgerald,** Internal Audit Division
**Lori L. O'Flaherty,** Credit Approval and Administration Division

* The Strategic Relationships Division is included within the Agribusiness Banking Group.

# Office Locations

**CoBank, ACB**

***CoBank National Office and Denver Banking Center *****
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) 879-0846

## U.S. Regional Offices

***Ames Banking Center***
2515 University Boulevard, Suite 104
Ames, IA 50010
(515) 292-8828

***Arizona Farm Credit Leasing Office****
3003 South Fair Lane
Tempe, AZ 85282
(602) 438-9811

***Atlanta Banking Center *****
900 Circle 75 Parkway, Suite 1400
Atlanta, GA 30339-5946
(770) 618-3200
(800) 255-7429
FCL: (770) 618-3226

***California Farm Credit Leasing Office ****
2345 East Earhart Avenue
Stockton, CA 95206
P.O. Box 31990
Stockton, CA 95213
(209) 944-7478

***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 Boulevard, Suite 203
Royal Palm Beach, FL 33411
(561) 965-9001

***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) 785-3978

***Maryland Farm Credit Leasing Office ****
6546 MidAtlantic Lane
Salisbury, MD 21804
(800) 225-8325

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

***North Carolina Farm Credit Leasing Office****
146 Victory Lane
Statesville, NC 28625
(443) 452-8666

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

***Pennsylvania Farm Credit Leasing Office****
900 Bent Creek Boulevard
Mechanicsburg, PA 17050
(717) 620-2601

***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

***Springfield Banking Center *****
67 Hunt Street, Suite 3
Agawam, MA 01001
(413) 821-0200
(800) 876-3227
FCL: (413) 821-0214

***St. Louis Banking Center *****
1630 Des Peres Road, Suite 210
St. Louis, MO 63131
(314) 835-4200
(800) 806-4144
FCL: (800) 853-5480

***Texas Farm Credit Leasing Offices ****
5701 I40 West
Amarillo, TX 79106
(806) 352-6310

403 N. Sunset Strip, Highway 181
Kenedy, TX 78119
(830) 583-0000

***Wichita Banking Center *****
245 North Waco, Suite 230
Wichita, KS 67202
P.O. Box 2940
Wichita, KS 67201-2940
(316) 290-2000
(800) 322-3654
FCL: (800) 322-6558

## International Office

***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 2009 Quarterly and Annual Reports to Shareholders are available free of charge on request by calling or visiting one of our banking center locations and through our website at www.cobank.com on approximately May 8, 2009, August 7, 2009, November 9, 2009, and March 1, 2010 (Annual Report).*